THE FEDERAL REGULATORS' RESPONSE TO RECENT BANK FAILURES

HEARING

BEFORE THE

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C O N T E N T S

WITNESSES

Wednesday, March 29, 2023

APPENDIX

Additional Material Submitted for the Record

THE FEDERAL REGULATORS' RESPONSE TO RECENT BANK FAILURES

Wednesday, March 29, 2023

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. Patrick McHenry [chairman of the committee] presiding.

Members present: Representatives McHenry, Lucas, Sessions, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Emmer, Loudermilk, Mooney, Davidson, Rose, Steil, Timmons, Norman, Meuser, Fitzgerald, Garbarino, Kim, Donalds, Flood, Lawler, Nunn, De La Cruz, Houchin, Ogles; Waters, Velazquez, Sherman, Meeks, Scott, Lynch, Green, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez, Casten, Pressley, Horsford, Tlaib, Torres, Garcia, Williams of Georgia, Nickel, and Pettersen.

Chairman MCHENRY. The Financial Services Committee will come to order.

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

Today's hearing is entitled, "The Federal Regulators' Response to Recent Bank Failures."

I now recognize myself for 4 minutes to give an opening statement.

Today, let us put aside the pre-baked narratives that have dominated the political discourse. We are here because the American people deserve answers. Before we draw conclusions on regulations or changes to law, we need to establish the related facts. In the run-up to its failure, Silicon Valley Bank (SVB) experienced rapid growth, relying on an undiversified deposit base and investments made risky by a high-inflation environment. We know the bank was mismanaged. That much is clear. Now, we need insight into the decisions and decision-making processes of the financial regulators related to the 2nd- and 3rd-largest U.S. bank failures. We need insight into those key days in March when an idiosyncratic bank became a systemic risk, spawning a large-scale financial intervention that is still ongoing.

Vice Chair for Supervision Barr, you have been on the job at the Federal Reserve for less than a year. You came to the job well-qualified. However, you made time to start a review of climate risks in banking and a review of capital standards for larger banks with no mention of changes to bank supervision or liquidity provisions, two matters at issue with this bank failure. In fact, I have

never heard you say to Congress that you didn't have the tools to do your job. In fairness, though, neither the Dodd-Frank Act nor the technical corrections law, S. 2155, dealt with the issues presented in March with a digital bank run, the speed and volume of which had never been seen before.

This committee would like to understand your thinking in the key hours of that first week in March where your decisions had a mighty impact. Was there adequate planning for a large-scale bank run? Did the chief supervisor follow the playbook to ensure the bank did not fail? How did the chief supervisor and examiners miss the hole in the bank's balance sheet? These are related questions.

Additionally, the committee has no insight into the decision-making or the actions of the FDIC Chair on Friday the 10th through Sunday of that week when that systemic risk exception was announced. Again, did the FDIC Chair use all of the tools at his disposal to resolve the banks that weekend? Was there a viable private-sector solution?

There are reports that multiple banks were interested and ran the traps internally to purchase Silicon Valley Bank that weekend. You confirmed as much yesterday, Chairman Gruenberg. But as we all know, Silicon Valley Bank was not purchased until late Sunday, March 26th, at an estimated $20 billion in losses to the Deposit Insurance Fund. Why wasn't a potential buyer accepted sooner? Was there an ideological lens that prevented the FDIC from pursuing a private-sector solution that could have staved off the uncertainty of the last 2 weeks?

We know that on Sunday, March 12th, another bank was shuttered and placed into FDIC receivership, and together, this is deemed a systemic risk event. That evening, the Financial Stability Oversight Council (FSOC) met in executive session, with no meeting minutes, and no transparency for the public, just an announcement after the fact. That lack of transparency has a negative effect on the public view of the safety of the financial arena. Congress needs visibility into how and why this determination was made by the FDIC, the Fed, the Treasury Secretary, the FSOC Chair, and the President.

I will finish with this: We need competent financial supervisors, but Congress can't legislate competence. Today, this committee wants to understand your thinking in those key moments and that decision-making in a moment of stress in our banking system. Thank you for being here, and for your willingness to give answers to our questions, at least that is the hope.

With that, I now recognize the ranking member of the committee, Ms. Waters, for 4 minutes.

Ms. WATERS. Good morning. I would like to thank Chairman McHenry for working with me in a bipartisan way on investigating the failures of Silicon Valley Bank and Signature Bank. Today's hearing is the first of what I expect to be several hearings on this important topic.

Chair Gruenberg, Vice Chair Barr, and Under Secretary Liang, the collapses of SVB and Signature Bank earlier this month marked the 2nd- and 3rd-largest bank failures in U.S. history. In fact, SVB customers withdrew a staggering $42 billion in less than a day, making it the largest bank run ever, and threatening to

snowball into a full-blown banking crisis. But 2023 is not 2008. Because of the Dodd-Frank reforms that Democrats on this committee passed, as well as the bold and swift response by President Biden, Treasury Secretary Yellen, and our banking regulators, a crisis was averted and our banking system remained strong.

However, these events are a wake-up call. We must uncover how management, regulatory, and supervisory failures contributed to these events, and explore solutions to strengthen the safety and soundness of our banks. Small-business owners should not be expected to serve as a financial regulator when paying their employees, and community banks and Minority Depository Institutions (MDIs) should not have to pay for the failures of bank mismanagement at SVB or Signature Bank.

Since day one of SVB's collapse, committed Democrats have been on the case. In fact, under my leadership as ranking member, we quickly organized several bipartisan briefings with our nation's regulators to better understand what happened, share what we were hearing from constituents, and urge regulators to act. Since then, we have sent letters demanding answers from our regulators, and in response to President Biden's call to Congress, I and my colleagues are working on legislation to, for example, enhance clawbacks and other penalties.

We also need answers from the CEOs who not only ran these banks into the ground but enriched themselves. It is also important to know how we got here: deregulation. Former and disgraced President Trump said he would do a, "big number on Dodd-Frank," and his appointed regulators did just that. At that time, I sounded the alarm on the dangers of weakening capital and liquidity rules for banks like SVB. The light touch cautions from the Fed to SVB management are clearly not what Congress intended for bank supervision. I hope Republicans will join Democrats in strengthening compliance with bank rules and transparency over this process.

Before I close, I want to address the extreme MAGA Republican narrative about the bank failures. Let me be very, very clear: Silicon Valley Bank collapsed because of management failures and possible regulatory weaknesses, not because there was one Black man on the board. We saw the same racist playbook during the 2008 financial crisis, when some Republicans blamed the Community Reinvestment Act (CRA) and loans made to people of color. Rest assured, Democrats will not stand for this blatant racism. With that, Mr. Chairman, I yield back the balance of my time.

Chairman MCHENRY. The Chair now recognizes the Vice Chair of the committee, Mr. Hill, for 1 minute.

Mr. HILL. Thank you, Mr. Chairman. Today, we are confronted with the results of 10 years of too-loose monetary policy and recent wildly-excessive spending. Some bank management teams have forgotten their prudential obligations to their depositors and their shareholders, and clearly, many customers forgot their own prudence and their own financial responsibility. But as our committee comes together, the chairman, the ranking member, and the members are concerned about the supervisory failures by the regulators who are supposed to keep a watchful eye.

Some lawmakers have been quick to use this crisis to push their preferred policy outcomes, but that is premature. We need to first

understand what happened, when, and why, both leading up to the bank failures as well as the decisions made by your agencies represented on our panel today. Only then can we design the proper path forward. That is why Republicans are conducting a comprehensive review, starting with oversight letters to the Federal Reserve, the San Francisco Fed, the FDIC, the FSOC, and the California and New York State regulators. We expect your full cooperation in this matter, and make no mistake, today's hearing is just a first step in that process. I thank the Chair for the hearing, and I yield back.

Chairman MCHENRY. The Chair now recognizes the gentleman from Illinois, Mr. Foster, who is also the ranking member of our Subcommittee on Financial Institutions and Monetary Policy, for 1 minute.

Mr. FOSTER. Thank you, Chairman McHenry and Ranking Member Waters, for convening this hearing at this crucial time, and thanks to our esteemed witnesses for being here today. I remain proud of what we did almost 13 years ago with the Dodd-Frank Act. Although COVID presented novel and considerable challenges to our banking system, the system held, and these recent events represent the first real stress events since the 2008 crisis when banks dealt with run risk and serious liquidity concerns.

What we have learned is that we now have to reinforce our banking system against bank runs that can occur at the speed of the internet. This will require stronger emergency liquidity provisions to banks under attack, and it has to be available 24 hours a day, 7 days a week. This will then require liquidity providers to have a clear and simple means of knowing that they are loaning to an entity which will ultimately remain solvent.

I also believe that we have a lot to learn by the two side by side bank failures—Silicon Valley Bank, with total assets of less than 1 percent of GDP, and Credit Suisse, with total assets greater than 100 percent of Swiss GDP—and the difference, I believe, is contingent capital. Had we followed Congress' direction to include contingent capital in the stacks of U.S. large banks, we would have been able to resolve the SVB without hitting the Deposit Insurance Fund, and I will be bringing that up in my questions. And I yield back.

Chairman MCHENRY. Today, we will hear testimony from the Honorable Michael S. Barr, Vice Chair for Supervision at the Federal Reserve Board of Governors; the Honorable Martin J. Gruenberg, Chairman of the Federal Deposit Insurance Corporation; and the Honorable Nellie Liang, Under Secretary for Domestic Finance at the U.S. Department of the Treasury.

We thank each of you for your time, and you are going to be recognized for 5 minutes for an oral presentation of your written testimony. We will begin with you, Mr. Michael Barr.

STATEMENT OF THE HONORABLE MICHAEL S. BARR, VICE CHAIR FOR SUPERVISION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. MICHAEL BARR. Chairman McHenry, Ranking Member Waters, and members of the committee, thank you for the oppor-

tunity to testify today on the Federal Reserve's supervisory and regulatory oversight of Silicon Valley Bank.

Our banking system is sound and resilient, with strong capital and liquidity. The Federal Reserve, working with the Treasury Department and the FDIC, took decisive action to protect the U.S. economy and to strengthen public confidence in our banking system. These actions demonstrate that we are committed to ensuring that all deposits are safe. We will continue to closely monitor conditions in the banking system and are prepared to use all of our tools for any size institution as necessary.

We will continue to closely monitor conditions in the banking system and are prepared to use all of our tools for any sized institution as needed to keep the system safe and sound. At the same time, the events of the last few weeks raise questions about what more can be done and should be done so that isolated banking problems do not undermine confidence in healthy banks and threaten the stability of the banking system as a whole.

At the forefront of my mind is the importance of maintaining the strength and diversity of banks of all sizes that serve communities across the country. SVB failed because the bank's management did not effectively manage its interest rate and liquidity risk, and the bank then suffered a devastating and unexpected run by its uninsured depositors in a period of less than 24 hours.

Immediately following SVB's failure, Chair Powell and I agreed that I should oversee a review of the circumstances leading up to SVB's failure. In this review, we are looking at SVB's growth and management, our own supervisory engagement with the bank, and the regulatory requirements that applied to the bank.

The picture that has emerged thus far shows that SVB had inadequate risk management and internal controls which struggled to keep pace with the growth of the bank. Supervisors began delivering supervisory warnings near the end of 2021. Our review will consider whether these supervisory warnings were sufficient and whether supervisors had sufficient tools to escalate them. We are also focusing on whether the Federal Reserve's supervision was appropriate for the rapid growth and vulnerabilities of the bank. While the Federal Reserve framework focuses on size thresholds, size is not always a good proxy for risk, particularly when a bank has a non-traditional business model.

Turning to regulation, we are evaluating whether application of more stringent standards would have prompted the bank to better manage the risk that led to its failure. We are also assessing whether SVB would have had higher levels of capital and liquidity under higher standards, and whether such higher levels of capital and liquidity could have forestalled the bank's failure or provided further resilience to the bank. We need to move forward with our work to improve the resilience of the banking system, including the Basel III Endgame reforms, a long-term debt requirement for large banks, and enhancements to stress testing with multiple scenarios so that it captures a wider range of risk and uncovers channels for a contagion like those we saw in the recent series of events. We must also explore changes to our liquidity rules and other reforms to improve the resiliency of the financial system.

In addition, recent events have shown that we must evolve our understanding of banking in light of changing technologies and emerging risks. Part of the Federal Reserve's core mission is to promote the safety and soundness of the banks we supervise, as well as the stability of the financial system, to help ensure that the system supports a healthy economy for U.S. households, businesses, and communities. Deeply interrogating SVB's failure and probing its broader implications is critical to our responsibility for upholding that mission. Thank you, and I look forward to your questions.

[The prepared statement of Vice Chair Barr can be found on page 92 of the appendix.]

Chairman MCHENRY. The Chair now recognizes Chairman Gruenberg of the FDIC..

STATEMENT OF THE HONORABLE MARTIN J. GRUENBERG, CHAIRMAN, FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

Mr. GRUENBERG. Thank you, Mr. Chairman. Chairman McHenry, Ranking Member Waters, and members of the committee, thank you very much for the opportunity to appear before you today to address the Federal regulators' response to the recent bank failures.

On March 10th, just over 2 weeks ago, Silicon Valley Bank, or SVB as it is known, with $209 billion in assets at year-end 2022, was closed by the California Department of Financial Protection and Innovation, which then appointed the FDIC as receiver. The failure of SVB, following the March 8th announcement by Silvergate Bank that it would voluntarily liquidate, signaled the possibility of a contagion effect on other banks. On Sunday, March 12th, just 2 days after the failure of SVB, another institution, Signature Bank of New York, with $110 billion in assets at year-end 2022, was closed by the New York State Department of Financial Services, which also appointed the FDIC as receiver.

With other institutions experiencing stress, serious concerns arose about a broader economic spillover from these failures. After careful analysis and deliberation, the boards of the FDIC and the Federal Reserve voted unanimously to recommend, and the Treasury Secretary, in consultation with the President, determined that the FDIC could use, emergency systemic risk authorities under the Federal Deposit Insurance Act to fully protect all depositors in winding down SVB and Signature Bank.

It is worth noting that these two institutions were allowed to fail. Shareholders lost their investments, unsecured creditors took losses, and the boards and the most senior executives were removed. The FDIC has the authority to investigate and hold accountable the directors and officers of the banks for the losses they caused to the banks and for any misconduct in the management of the banks, and the FDIC has already commenced those investigations. Further, any losses to the FDIC's Deposit Insurance Fund as a result of uninsured deposit insurance coverage will be repaid by a special assessment on banks, as required by law. The FDIC has now completed the sale of both bridge banks to acquiring institutions.

My written testimony today describes the events leading up to the failures of SVB and Signature Bank and the facts and circumstances that prompted the decision to utilize the authority in the Federal Deposit Insurance Act to protect all depositors in those banks following those failures. It further describes the management and disposition of the bridge institutions that were established. It also discusses the FDIC's assessment of the current state of the U.S. financial system, which remains sound despite these events. And in addition, it shares some preliminary lessons learned as we look back on the immediate aftermath of this episode.

In that regard, the FDIC will undertake a comprehensive review of the deposit insurance system and will release a report by May 1st that will include policy options for consideration related to deposit insurance coverage levels, excess deposit insurance, and the implications for risk-based pricing and Deposit Insurance Fund adequacy. In addition, the FDIC's Chief Risk Officer will undertake a review of the FDIC's supervision of Signature Bank and will also release a report by May 1st. Further, in May the FDIC will issue a proposed rulemaking for the special assessment for public comment.

The bank failures demonstrate the implications that banks with assets over $100 billion can have for financial stability. The prudential regulation of these institutions merits serious attention, particularly for capital liquidity, and interest rate risk, and also the consideration of a long-term debt requirement to facilitate orderly resolution. Recent efforts to stabilize the banking system and stem potential contagion from these failures have ensured that depositors will continue to have access to their savings, and small businesses and other employers can continue to make payrolls, and that other banks—small, medium, and large—can continue to extend credit to borrowers and serve as a source of support.

The FDIC continues to monitor developments and is prepared to use all of its authorities as needed. The FDIC is committed to working cooperatively with our counterparts at the other Federal regulators as well as with policymakers in the Congress to better understand what brought these institutions to failure and what measures can be taken to prevent similar failures in the future.

Mr. Chairman, that concludes my statement. I would be glad to respond to questions.

[The prepared statement of Chairman Gruenberg can be found on page 103 of the appendix.]

Chairman MCHENRY. Thank you. And Under Secretary Liang, you are now recognized.

STATEMENT OF THE HONORABLE NELLIE LIANG, UNDER SECRETARY FOR DOMESTIC FINANCE, U.S. DEPARTMENT OF THE TREASURY

Ms. LIANG. Chairman McHenry, Ranking Member Waters, and members of the committee, thank you for inviting me to testify today and for the opportunity to speak several times in recent weeks to share updates from Treasury regarding current events. The American economy relies on a healthy and diverse banking system, one that includes large, small, and mid-sized banks, and provides for the financial needs of families, businesses, and local

communities. Nearly 3 weeks ago, problems emerged at two banks with the potential for immediate and significant impacts on the broader banking system and the economy. The situation demanded a swift response. In the days that followed, the Federal Government took decisive actions to strengthen public confidence in the U.S. banking system and to protect the American economy.

On March 9th, depositors of Silicon Valley Bank withdrew $42 billion in deposits in a period of just a few hours. After concluding that significant deposit withdrawals would continue the next day, the California State regulator closed SVB and appointed the FDIC as receiver. Two days later, the New York State financial regulator closed Signature Bank, which also had experienced a depositor run, and appointed the FDIC as receiver.

Treasury worked to assess the effects of these failures on the broader banking system, consulting regularly with the Federal Reserve and the FDIC. On Sunday evening, recognizing the urgency of reducing uncertainty for Monday morning, Treasury, the Federal Reserve, and the FDIC announced a number of actions to stem uninsured depositor runs and to prevent significant disruptions to households and businesses.

First, the boards of the FDIC and the Federal Reserve recommended unanimously, and Secretary Yellen approved after consulting with the President, two actions that would enable the FDIC to complete its resolution of the two banks in a manner that fully protects all of their depositors. These actions ensured that businesses could continue to make payroll and that families could access their funds. Depositors were protected by the Deposit Insurance Fund. Equity holders and bondholders of the banks were not covered.

Second, the Federal Reserve created the Bank Term Funding Program, a new facility to provide term funding to all insured depository institutions eligible for primary credit at the discount window based on their holdings of Treasury and agency debt securities. This program, along with the pre-existing discount window, has helped banks to meet depositor demands and bolster liquidity in the banking system. This two-pronged targeted approach was necessary to reassure depositors at all banks and to protect the U.S. banking system and the economy. These actions have helped to stabilize deposits throughout the country, and have provided depositors with confidence that their funds were safe.

In addition to these actions, on March 16th, 11 banks deposited $30 billion into First Republic Bank. The actions of these large and mid-sized banks represent a vote of confidence in the banking system and demonstrate the importance of banks of all sizes working to keep our economy strong. Moreover, on March 20th, the deposits and certain assets of Signature Bridge Bank were acquired from the FDIC, and on March 26th, the deposits and certain assets of Silicon Valley Bridge bank were acquired from the FDIC.

We continue to closely monitor developments across the banking and financial system and coordinate with Federal and State regulators. As Secretary Yellen has said, we have used important tools to act quickly to prevent contagion, and there are tools we would use again to ensure that American deposits are safe. Looking forward, while we do not yet have all of the details about the failures

of the two banks, we do know that the recent developments are very different from those of the global financial crisis. Back then, many financial institutions came under stress because they held low credit quality assets. This was not at all the catalyst for the recent events. Our financial system is significantly stronger than it was 15 years ago. This is in large part due to the post-crisis reforms for stronger capital and liquidity.

As you know, the Federal Reserve announced a review of the failure of SVB, and the FDIC announced a review of Signature Bank. I fully support these reviews and look forward to learning more in order to inform any regulatory and supervisory responses. We must ensure that our bank regulatory policies and supervision are appropriate for the risks, old and new, that banks face today.

Thank you to the committee for its leadership on these important issues and for inviting me here to testify today. I look forward to your questions.

[The prepared statement of Under Secretary Liang can be found on page 126 of the appendix.]

Chairman MCHENRY. I now recognize myself for 5 minutes for questions.

Under Secretary Liang, when did you become aware of the severe financial distress of Silicon Valley Bank? Date and time would be helpful.

Ms. LIANG. I became aware of issues at Silicon Valley Bank on Wednesday or Thursday.

Chairman MCHENRY. Wednesday or Thursday. I would like to have a written response to when you became aware of it. You can search your email. That would be helpful.

Vice Chair Barr, when did you become aware of it?

Mr. MICHAEL BARR. Thank you, Mr. Chairman.

Chairman MCHENRY. When did you become aware of SVB's financial distress?

Mr. MICHAEL BARR. I was going to answer that Thursday morning, I received an email from staff indicating that Wednesday evening the bank had difficult—

Chairman MCHENRY. Thursday morning. When did you become aware, Chairman Gruenberg?

Mr. GRUENBERG. I believe it was Thursday evening. The staff came into a meeting in which I was taking part.

Chairman MCHENRY. Thursday evening, for Silicon Valley Bank? Okay. And you had a staff presentation in February which included Silicon Valley Bank and the distress, because of rising interest rates, on their portfolio. What did you do between that February staff presentation to you and the week of March 6th about Silicon Valley Bank?

Mr. MICHAEL BARR. Staff presented on the interest rate risk—

Chairman MCHENRY. Yes, that is what I said. That was a February presentation. What did you do as Vice Chair of Supervision between that time and the week of the bank failure?

Mr. MICHAEL BARR. Staff indicated that they were completing their review of the bank and of this broader horizontal review at that time, and I was waiting for the results of that review.

Chairman MCHENRY. Were you aware of Silicon Valley Bank raising capital the week of March 6th?

Mr. MICHAEL BARR. I believe I became aware of that in this email that I described to you—

Chairman MCHENRY. On Thursday morning.

Mr. MICHAEL BARR. —on Thursday morning.

Chairman MCHENRY. That they had successfully raised the capital, but they were facing financial distress.

Mr. MICHAEL BARR. I was not aware Thursday morning that there were deposit outflows. I was trying to finish the answer to that question. I was aware of the difficulty Wednesday night in raising capital, but the bank was reporting to supervisors Thursday morning that deposits were stable.

Chairman MCHENRY. When did you become aware of the deposit outflows on Thursday?

Mr. MICHAEL BARR. Thursday afternoon, late afternoon, I became aware of deposit outflows, and Thursday evening, that there was essentially a bank run.

Chairman MCHENRY. So Thursday afternoon, which could be mid-morning in California? Is that what you are suggesting?

Mr. MICHAEL BARR. I believe it was around noon in California and for me, around 3:00 in—

Chairman MCHENRY. Okay. And did you make provisions for the discount window or pledgeable assets at the time you heard of their distress?

Mr. MICHAEL BARR. My understanding from the staff is they were in discussions with the bank itself beginning Thursday afternoon to try and move plegable collateral over to the discount window. That work continued Thursday afternoon, into Thursday evening, and actually overnight.

Chairman MCHENRY. Did you make provisions to keep the discount window open so they could provision collateral to avoid a bank collapse?

Mr. MICHAEL BARR. The discount window opening decision is sort of a standard thing. It normally closes—

Chairman MCHENRY. A standard thing, except that in a moment of crisis, it can be kept open. I think the Vice Chair for Supervision should be able to make that phone call. Did you provision for that, or did you think you needed to provision for that?

Mr. MICHAEL BARR. Mr. Chairman, at the time, my understanding was that the difficulty wasn't sending funds. The difficulty was actually evaluating the collateral and getting it pledged to the discount window. And staff were working with Silicon Valley Bank basically all afternoon and evening and through the morning the next day to pledge as much collateral as humanly possible to the discount—

Chairman MCHENRY. On Friday morning, Chair Gruenberg, you were appointed receiver. When did you become aware that the FDIC was going to have to take this measure or was going to receive this bank?

Mr. GRUENBERG. I think when we were informed Thursday evening—

Chairman MCHENRY. I mean you; were you informed Thursday?

Mr. GRUENBERG. Yes, I was informed Thursday evening by staff that—

Chairman McHENRY. Which meant you had Friday morning conference calls to make a decision. Was that part of it?

Mr. GRUENBERG. I think we knew Thursday evening that the bank was going to fail and that we needed to make provisions to take over the institution.

Chairman McHENRY. Did you pick up the phone and call the Vice Chair of Supervision at the Fed and ask, how can we provision to keep this institution open for Friday?

Mr. GRUENBERG. I can't recall that. My recollection is, Mr. Chairman, that the institution was experiencing a liquidity failure and that it was going to fail, and—

Chairman McHENRY. It was going to fail on Friday morning or Friday evening? Were you provisioning for this for the weekend decision?

Mr. GRUENBERG. No, I think the expectation and the experience was that the institution was going to be closed in the morning.

Chairman McHENRY. At what point did you open an auction for Silicon Valley Bank?

Mr. GRUENBERG. I believe it was Saturday, March 11th, with bids due Sunday afternoon. We just—

Chairman McHENRY. Sunday afternoon, you opened for auction. We only heard the announcement of Congress receiving this information at 11:20 on Friday morning. There was an idiosyncratic bank, and Sunday afternoon was the next pronouncement from any of you three on the panel, and it was a systemic risk designation. That is what has shaken the market for the last 2 weeks. That is the reason why we have had these extraordinary interventions in the financial system, and I want to know the key details of that weekend. I hope we can drill into those questions.

Mr. GRUENBERG. Sure.

Chairman McHENRY. With that, I will recognize the ranking member, Ms. Waters, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman. Chair Gruenberg, we know that SVB banked nearly half of all U.S. venture-backed startups, potentially tens of thousands of companies, which clearly posed a concentration risk to the bank. While most of the bank's depositors were small and mid-sized businesses, they also had large customers, too, with the top 10 accounts holding more than $13 billion in combined deposits.

Chair Gruenberg, and Vice Chair Barr, I am concerned that depositors' decisions to run or stay were not necessarily made on their own, but by the strong encouragement of their venture capital backers who sit on the boards and hold equity in their companies. Were a handful of large venture capital depositors able to influence the withdrawal of $42 billion all at once through their control over their portfolio companies?

Mr. GRUENBERG. Congresswoman, I think that is something we will need to look at in terms of the post-failure review of these institutions. I couldn't tell you today with certainty what occurred there. I know both the Fed, in regard to SVB, and the FDIC, in regard to Signature, are going to do a careful review of the events that occurred.

Ms. WATERS. Thank you very much, and I agree with you. I think we really need to know the role that venture capitalists

played in this bank. Going further, Vice Chair Barr, you said yesterday that SVB received a 3 for its management rating, which is considered deficient, but was considered sufficiently-capitalized given the bank's unique customer base, an extremely large share of uninsured deposits, and an underwater asset portfolio. Liquidity management was also a key issue. The liquidity rating for a bank should account for interest rate risk and the bank's asset liability management. What was the bank's rating on liquidity?

Mr. MICHAEL BARR. Thank you, Representative Waters. My understanding is in the summer of 2022, although the composite rating was a 3, which is not well-managed, the liquidity rating was a 2, which would have been satisfactory. And one of the things we are looking at in the review is how that synced up with the supervisory matters requiring attention and matters requiring immediate attention with respect to liquidity that had previously been issued. So, we are looking at whether those standards were sufficiently stringent, whether the firm should have been downgraded further, and whether further supervisory steps should have been taken.

Ms. WATERS. Whose responsibility was it to understand the deficient rating and to do something?

Mr. MICHAEL BARR. The Federal Reserve is responsible for supervising this institution.

Ms. WATERS. Did the Federal Reserve fail on that?

Mr. MICHAEL BARR. I think that anytime you have a bank failure like this, bank management clearly failed, supervisors failed, and our regulatory system failed, so we are looking at all of that.

Ms. WATERS. Thank you. Vice Chair Barr, you said yesterday that SVB received a 3 for its management rating. And you just responded in a way that says, yes, that is true, and perhaps something should have been done, and you are going to look further at that. Are you perhaps suggesting legislation to deal with that?

Mr. MICHAEL BARR. We are focusing in our review on our own supervision, ways that we could have done better as supervisors at the Federal Reserve, and ways that our own regulatory structure might have played a role with respect to the failure of this firm. So, we are looking inward. It is a self-assessment, a prudent thing, I think, for us to do. It is what we tell banks to do. It is sort of the first thing you have to do to understand risk within your own institution, and that is why we are doing it.

Ms. WATERS. Vice Chair Barr, I wonder what it would take to receive a 3, 4, or 5 from a Federal examiner? I know the idea is to keep exam ratings confidential in order to prevent bank runs, but doing so also prevents this committee from understanding how well the Fed and other regulators are doing in rating banks. In the same way the stress testing results are public, are there ways we can make the supervisory process more transparent to promote discipline and accountability?

Mr. MICHAEL BARR. Thank you, Representative Waters. I think one of the things we are trying to do here today is to provide that accountability, and we will do that in our report, which we will do on May 1st. It will include confidential supervisory information. We normally do not provide that information, but given the fact that

this bank failed and triggered a systemic risk exception, we are including that information, including exam reports.

Ms. WATERS. Thank you very much. This is a very important issue.

Chair Gruenberg, Silicon Valley Bank was purchased over the weekend by First Citizens Bank & Trust Company. As you know, I wrote to you on March 18th about the former SVB's community benefits plan, which was intended to provide $11 billion in small businesses, housing, and community development support to communities both in my home State of California and in Massachusetts. I understand that $2 billion in affordable housing and other projects may be lost or delayed in California because of the failure. Will Citizens Bank & Trust continue implementation of the former bank's community benefits plan?

Mr. GRUENBERG. The agreement between the community organizations and Silicon Valley in regard to the community benefits agreement was an agreement between those two parties. First Citizens will now be taking over Silicon Valley. There will be an opportunity for the community organizations to engage with First Citizens. I know First Citizens has a community benefits agreement with community organizations where it is currently doing business, so there will be an opportunity for the groups in California to engage with First Citizens. And I would note that First Citizens is also subject to supervision under the Community Reinvestment Act (CRA), and so we will be able to evaluate the degree to which First Citizens is serving its communities pursuant to the CRA.

Chairman MCHENRY. The gentlelady's time has expired. I will now recognize the Vice Chair of the committee, Mr. Hill of Arkansas, for 5 minutes.

Mr. HILL. I thank the chairman and the ranking member for this prompt hearing after these weeks of tumult, and I thank the panelists for being here as well. Mr. Barr, when were you nominated for your job?

Mr. MICHAEL BARR. I apologize. I don't have the date in my head. It was in the spring of last year.

Mr. HILL. And do you know when you were confirmed for your job?

Mr. MICHAEL BARR. Yes, I took my post up in July of last year, July 2022.

Mr. HILL. July of 2022. Between January 20, 2021, and July of 2022, who was in charge as Vice Chair for Supervision at the Federal Reserve?

Mr. MICHAEL BARR. There was no Vice Chair for Supervision during that time period.

Mr. HILL. When that happens, what is the Fed's process for delegating that authority to another member of the Board of Governors or a staffer, or how does that work?

Mr. MICHAEL BARR. I apologize. I don't know the technical answer to that question. We will have to get back to you with a written response—

Mr. HILL. Yes, if you could get back to me, because what we are saying to my colleagues here is that from the turn of Administration, we did not have a Vice Chair for Supervision from January 2021 until July of 2022. And that is precisely the timeframe, col-

leagues, when this bank's business strategy went awry and was under this supervisory concern by the San Francisco Fed. So, I just want to have that on the record. And when I look at the results of this bank in the Uniform Bank Performance Report (UBPR), the call report data, and looking at your good testimony about the timeline that you have disclosed, it appears to me that we have a lack of supervisory urgency here.

You outlined that the trends in 2021 are what triggered concern by the Federal Reserve examiners, and, I assume, the State of California. We haven't heard from the State of California. We would like to, but there was an exam in the summer of 2021. It took until the 4th quarter of 2021 to tell the bank, "We have some specific serious concerns." You met with the board then—not you, but the supervisors—and then the downgrades didn't come, and those tough visits didn't come until the summer of 2022. So really, there were 12 months of discussion between the Board and the State of California and the San Francisco Fed. That doesn't sound like a very urgent supervisory process. Do you consider it urgent to take a full 12 months in that process?

Mr. MICHAEL BARR. Mr. Hill, I think you raise an absolutely essential question. It is one of the things we are going to be asking in our review. Obviously, these events occurred before I arrived at the Board. I am going back and looking at what steps were taken and not taken. I think it is a completely fair question. Could the supervisors or should the supervisors really have been much more aggressive in the way that they responded to the risks that they saw and they were noting? We are going to look carefully at that. I think it is—

Mr. HILL. Yes. I was just shocked with the business plan way out of line with peer. You have matters requiring attention, which is a very low level, the lowest level editorial comment by a bank regulator. There was no proposal for a Board resolution that I saw in your note. So, I look forward to the results of your comments.

On this issue of Dodd-Frank versus S. 2155, in my reading of bank law, those things are almost not important compared to 12 U.S.C. 1818 on cease and desist where the FDIC, the primary bank regulator, can do whatever they want to a bank that is not operating in a safe and sound manner. Isn't that right, Mr. Barr?

Mr. MICHAEL BARR. The bank regulators have substantial discretion to use those authorities when banks are operating in an unsafe and unsound manner. I agree with that.

Mr. HILL. And I thought Senator Crapo's comment yesterday was very, very important, that in the rule of construction, that final bit of information in S. 2155, the bipartisan, bicameral bill signed by President Trump, it says, "Nothing in this bill shall be construed to limit the supervisory authorities for safety and soundness in any way." Isn't that what that rule of construction says?

Mr. MICHAEL BARR. Yes, I agree with that. I think we have substantial authority under existing law to regulate firms and supervise firms in a way that is appropriate for their risk and size and complexity.

Mr. HILL. Thank you very much.

Chairman Gruenberg, talking about the resolution process, are you open to a full investigation not only of the deposit insurance

and not only of the supervisory process, but also to look carefully at the resolution process itself?

Mr. GRUENBERG. Yes, Congressman.

Mr. HILL. And are you going to conduct that yourself, or would you work with us on that?

Mr. GRUENBERG. We would certainly be prepared to undertake that review and be transparent with you in regard to it.

Mr. HILL. Something I want to see considered, and I argued this back in 2008 as a private citizen and a banker, is in the resolution process, to consider non-bank buyers for these assets. Do you agree that is important, and we should consider that?

Mr. GRUENBERG. Yes, it is Congressman.

Mr. HILL. Thank you. I yield back.

Chairman MCHENRY. The Chair now recognizes Ms. Velazquez of New York for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Mr. Barr, the rescue of depositors in Silicon Valley Bank demonstrates that regulators think banks like Silicon Valley pose a systemic risk to the system just like Global Systemically Important Banks (G-SIBs) do. Mr. Barr, don't you think Category III and IV banks should face the same rules as the megabanks?

Mr. MICHAEL BARR. Thank you very much for that question. We are looking at capital and liquidity standards for all large banks, including firms at $100 billion and above. I still think a tiering approach makes some sense. It doesn't have to be the same rules for all banks, but we do need stronger rules for firms of this size. Stronger rules on capital and liquidity, I think, are going to be really important.

Ms. VELAZQUEZ. Mr. Barr, in my view, the decision to insure all depositors was a necessary and correct step. However, I am frustrated that time and time again, we fail to regulate them like one, and as a result, we find ourselves in situations like the one that we are currently in. Without proper regulations that account for the systemic risk profile of a bank, we are incentivizing bankers to search for yield and inviting moral hazard.

Mr. Barr, the sudden and immediate collapse of Silicon Valley Bank demonstrates the vulnerability of banks and the broader system to interest rate rises. Yet under our current capital rules, most banks are not required to recognize this risk, only G-SIBs. Will the Fed rewrite this rule to require all banks to account for interest rate risk?

Mr. MICHAEL BARR. You raise an absolutely essential point, and one that we are looking at very carefully. We anticipate engaging in a notice-and-comment rulemaking process on capital rules with appropriate transitions, and that is one of the areas that I think would be important for us to consider in that rulemaking process.

Ms. VELAZQUEZ. Do you think that the rules passed under S. 2155 and written by the Trump Administration need to be rewritten?

Mr. MICHAEL BARR. As part of our review, we are going to look at not only our supervisory issues, but also at the regulatory structure that the Federal Reserve put in place in 2019, and see whether the size thresholds we used, the standard we decided to put in

place—all of that is on the table. We are reviewing that. We are going to come back and provide an assessment of that on May 1st.

Ms. VELAZQUEZ. Thank you. And, Mr. Barr, the Fed has been raising interest rates more rapidly than it has in decades in an effort to lower inflation. It appears that many banks were unprepared for this. Can you explain how the Fed's bank supervision staff coordinates with its monetary policy-focused staff to ensure that banks are properly prepared for well-telegraphed shifts in monetary policy? Does the Fed see regulation and supervision as separate from monetary policy?

Mr. MICHAEL BARR. The whole of the Federal Reserve staff communicate very well together. As you noted, the monetary policy decisions were very well-telegraphed. The decisions were essential to meet our congressional mandate of price stability and maximum employment, and we need to make sure that we continue to pursue that. We have separate tools that we use, of course, and as I said in other contexts, interest rate risk management is a core bread-and-butter issue in banking. It is not an esoteric issue, an exotic issue, or a complicated issue. It is a straightforward issue, and the bank management failed to do that here.

Ms. VELAZQUEZ. Thank you. During his news conference last week, Chairman Powell said that the Federal Open Market Committee (FOMC) considered a pause in the interest rate increases in light of the recent banking failures but, ultimately, unanimously approved the decision to raise rates due to intermediate data on inflation and the strength of the labor market. How will the Fed balance its supervisory role with its monetary policy role as it considers future interest rate increases?

Mr. MICHAEL BARR. We really have all of the tools that we need on the macroprudential and microprudential side to assess financial stability and bank safety issues. And as I said, the banking system overall is sound and resilient, and deposits are safe. On the monetary policy side, we are going to be looking at incoming data, we are going to be looking at changing financial conditions, and we will make a judgement on a meeting by meeting basis about that decision.

Ms. VELAZQUEZ. Thank you. Mr. Chairman, I yield back.

Chairman MCHENRY. I will now recognize Mr. Sessions for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much, and thank you to the witnesses for being here today. I think you see that this committee will work together, has questions, and would wish to hold you accountable. But I must confess to you after hearing the questions that have taken place, I have heard none of you three accept real responsibility for your role in this endeavor. I have heard that you were aware of it the week of, I have heard that the notice was given of oversight back in 2021, that a frailty was noticed. I have heard you say that we used all of our tools. I have heard you say things like the FDIC will use all of its authorities, but I have not heard any of you three talk about a systemic failure, or letting the bosses know what is happening. I have heard you say, well, this got staffed and that got staffed and staff did this.

I think this is a wake-up call to all three of you. I hope it is a wake-up call to your organizations, that evidently, they could see

these bread-and-butter failures back in 2021, but evidently, nothing realistic ever occurred to avoid what seemingly anybody who is a professional banker could see. I have seen excessive regulatory oversight by this Administration across-the-board. I have seen a lot of what I would call inattention by decision-makers.

So, I would specifically tell you that we will drill down on the need to know more about the recommendation for systemic exception that was invoked, in other words, that was invoked by presumptively the people at this table. And yet, it took all this time to filter up before you were even aware. Failure occurred, was occurring, and then you were given notice. So, I would hope myself that there would be some inward thinking about your actual roles. Instead of staffing everything and waiting for it to bubble up to you, there should be hooks in place.

I spent 16 years in the private sector, ran a large organization, over 700 employees. I had more than a fiduciary responsibility. I had a managerial responsibility to report up the things that we saw to a very large organization, and I believe, by and large, those people welcomed my feedback and set ourself up for that. So, take the remaining minute and 50 seconds and give me some inward thinking because I heard no one say we were part of the problem. We need to look at us being part of the problem, and we need to be a part of the solution, because as was noted, this will be paid by all banks across the country of the FDIC. Please, Mr. Barr?

Mr. MICHAEL BARR. Thank you very much, Mr. Sessions. I agree with you. I think we need to take a good, hard look inside at the Federal Reserve, at our supervision, at our regulation. I think we need to be humble about that, and I think we are going to be unflinching in our review about—

Mr. SESSIONS. Does that include your role?

Mr. MICHAEL BARR. Absolutely. And I am here today to be accountable to you for that purpose.

Mr. SESSIONS. Accountable is one thing, but coming back and actually admitting that you were part of the systemic failure is an entirely different process. People say, well, we will hold accountability, but actually, it is banks that are across the country that play by these rules and offer this money are the backstop. And while I don't want to argue against that, I do want to say I believe there is lots of room to say someone should have caught this as early as and done something back in early 2002. Chairman?

Mr. GRUENBERG. Congressman, I really don't mean to shirk responsibility here. I think we share responsibility. I think bank management had responsibility. I think we as the regulators of the institution had responsibility. I think we are going to conduct reviews to get the facts as to what occurred and a measure of internal as well as external accountability. My own sense here in terms of the supervision of these institutions, from my perspective, is that both agencies, and I would include ourselves, were aware that there were issues at these institutions and trying to address them through the supervisory process. It is also my judgment, and we are going to conduct a review to get all the facts here.

Chairman MCHENRY. The gentleman can answer the rest for the record.

With that, I will now recognize Mr. Sherman of California for 5 minutes.

Mr. SHERMAN. Due to Dodd-Frank, our banking system is strong. Our regulators avoided a crisis by quick action this month, but the solution was not free. Some $22 billion of special assessments will be imposed on banks that will lead to lower rates on certificates of deposit, perhaps a quarter percent, perhaps an eighth of a percent, and our entire economy has been hurt. It has been rattled by what happened this month. Our bank regulatory system has some real flaws. It is an undemocratic system in which the Financial Accounting Standards Board (FASB) writes the accounting rules and doesn't even claim to be part of a democratic government. In the Federal Reserve Boards, and the regional banks, it is not one person, one vote, it is one bank, one vote. The bankers vote on who is on the regional board, and the bankers of my State elected the CEO of Silicon Valley Bank.

Banks get to pick their regulators, State or Federal, holding company or no holding company, Fed or OCC. They can use regulatory arbitrage, and every regulatory agency knows that if it gets a reputation of being too tough, the banks can flee and go to one of their regulatory competitors. Our accounting system for banks is absolutely perverse. If you make a Main Street loan, you are penalized under the Current Expected Credit Losses (CECL) system, and you will always list that loan on your balance sheet as being worth less than you paid for the note.

If you instead go to Wall Street and buy long-term bonds, you are rewarded. If the bond goes up in value, you can sell it or classify it as available for sale, and recognize a profit, and justify a bonus. If the bond goes down in value, you can hide it by listing it as held for maturity and listed at the original purchase price on your balance sheet, even though you know it is worth 20 percent or 30 percent less.

The crypto billionaires fanned the flames because they understood that if they can besmirch our banking and dollar system, crypto goes up and they have made tens of billions of dollars. Silicon Valley Bank could have saved itself in 2022 by hedging its risk or selling its long-term bonds, but they knew that would cut profits and bonuses, so they decided to take the risk, and here we are. And of course, our clawback provisions are inadequate.

There are $600 billion worth of unrecognized losses on the balance sheets of American banks. That needs to be juxtaposed with the $2.2 trillion of capital American banks have. So, we are overstating the capital of our banking system by perhaps a quarter.

Mr. Barr, I watched your Senate testimony in which you basically said it was bank mismanagement for them to ignore the good advice your people gave them. It is also misregulation to let banks ignore that advice. You are not running a consulting operation. You are running a regulatory operation which can force banks to follow that advice.

Interest rates go up, and interest rates go down. Certainly the Fed, in auditing banks, ought to know that, especially when this is not an 100-year event. Interest rates go up, interest rates go down, 2023 has its peculiarities. But it is particularly ironic that it is the Fed that is raising the interest rates, and then the Fed

that is not examining banks to see if they can survive if interest rates go up. The concern we all have is, are there other banks that could go under because they invest in long-term bonds that aren't worth as much as they paid for them?

So, I will ask Mr. Gruenberg, and perhaps, Mr. Michael Barr. Are there any banks out there, and roughly how many, that have capital of under 5 percent if you subtract from their stated capital, their unhedged, unrealized losses on long-term debt?

Mr. GRUENBERG. Congressman, that is a fair question and a factual question. If I may, let us get back to you on that. We will get the numbers and share them with you very quickly.

Mr. SHERMAN. And please don't give me the names.

Mr. Barr, do you have any other answer?

Mr. MICHAEL BARR. No, sir.

Mr. SHERMAN. Mr. Gruenberg, I know that you are going to be giving us a report about possibly expanding FDIC insurance this spring. I look forward to it, and I hope that you would consider $3 million of coverage, but only of non-interest-bearing accounts, because when a bank is used as a utility for a checking account, we need that coverage. If people are making investments, we ought to be able to be more careful. And I yield back.

Chairman MCHENRY. The gentleman's time has expired. We will now go to the gentleman from Missouri, Mr. Luetkemeyer, who is also the Chair of our Subcommittee on National Security, Illicit Finance, and International Financial Institutions, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. Vice Chair Barr, for more than a year now, financial news has focused on the Fed raising rates. There isn't a person in the financial services sector of the country who hasn't heard about it on a seemingly everyday basis since the beginning of 2022. It has been the fastest rate increase in the country's history, which I believe is probably too fast. Chairman Powell has made his intentions very clear: No bank should have been caught off guard by rate increases. In fact, the Federal Reserve is in the same position themselves.

Chairman Powell was here a couple of weeks ago, and acknowledged that his bond holdings and the interest rates situation that they have is actually losing money as a result of this. So, it is even more surprising that $100-billion banks are not considering effective rate increases. In fact, according to your testimony, the Fed staff hasn't presented to the Board of Governors with its impacts on rising rates until February of 2023, this last month. So are you telling me that every time the Fed raises rates or drops rates, there is no economic analysis done on the impact on our economy?

Mr. MICHAEL BARR. Mr. Luetkemeyer, I was referencing that particular meeting because the staff—

Mr. LUETKEMEYER. No, that is not my question. My question is, does the Fed, before it raises rates or lowers rates, have an economic study done by its economists? They have a team of economists there. Do you have an economic analysis done of the impact of that?

Mr. MICHAEL BARR. Yes, we evaluate all of the economic conditions—

Mr. LUETKEMEYER. You get a report from your economists. Did the Fed—

Mr. MICHAEL BARR. —and financial conditions when making any interest rate—

Mr. LUETKEMEYER. Does the Fed Board get a report from their economists saying what the impact of their rates will be on the economy? Yes or no?

Mr. MICHAEL BARR. Yes, we get staff forecasts that forecast the expected impact on the economy of rate decisions.

Mr. LUETKEMEYER. Okay. Why did you make a specific mention of this in your February report then? Why did you specify that the rate impact—

Mr. MICHAEL BARR. That is what I was trying to explain earlier. I mentioned that because the report specifically called out Silicon Valley Bank. We regularly discuss interest rate problems.

Mr. LUETKEMEYER. Okay.

Mr. MICHAEL BARR. Interest rate risk is an important part of supervision and a bread-and-butter issue.

Mr. LUETKEMEYER. Okay. A bank this size, normally you will have an examiner or two or a team that goes in on a daily basis. Was there an examiner or team of examiners in Silicon Valley Bank on a daily basis?

Mr. MICHAEL BARR. The team consisted of about 20 full-time equivalent staff at the San Francisco Federal Reserve Bank.

Mr. LUETKEMEYER. They were not in Silicon Valley then?

Mr. MICHAEL BARR. I don't know precisely the extent of their in-person meetings versus their remote analytic work.

Mr. LUETKEMEYER. Okay. That is another problem that we have to talk about, having all this work offsite, when they need to be onsite, to be able to have access to the daily data. But as a result of this, I will follow up with some of the questions that have been asked before, but ask them in a little bit different way.

You knew that we had an interest rate risk problem and a liquidity problem. You acknowledged it all the way through from 2021. It has been established this morning. You have examiners in the bank who are watching it on a daily basis, and you know that you have had some reports that say we need to take some action. Why was no action requested or not forced on the bank?

Mr. MICHAEL BARR. There was action requested of the bank in the matters requiring immediate attention.

Mr. LUETKEMEYER. Why were they not enforced?

Mr. MICHAEL BARR. I think that is a question for our review. I don't yet know the answer. Could the staff have escalated more? Should they have escalated more? What were the interactions with the bank? That is all part of the supervisory record that will be in the May 1st report.

Mr. LUETKEMEYER. That begs the question then, Mr. Barr, if you think you need more rules and you are not even enforcing the existing ones, why do you need more rules? I don't think we need to look at more rules until we figure out which rules are not being enforced, what messages were not being delivered to the bank to be able to do your job. At that point, then, we can take a look and see if we need to do something else, but for you to make the statement that we need more rules and regulations, how about enforcing the existing ones first?

Mr. MICHAEL BARR. We are going to be looking, as I said, at our own supervision under the existing framework, ways in which existing rules—

Mr. LUETKEMEYER. Okay. I have one more quick question for you here. This situation points out a very unique situation because of the new social media of the world of instantaneously being able to do some things. I have grave concerns because within less than a 2-day period, $42 billion rolled off the books here, basically as a result of a Tweet, a little informational thing. Mr. Barr, it opens up the possibility that whenever you have a bunch of specifically-distressed banks, there could be a short sell on some of these things that could be out there. We need to be talking about that. Are you thinking about that at all yet?

Mr. MICHAEL BARR. Yes, I think you are raising absolutely important and critical questions about the role of social media, the role of networks, depositors with each other, and the potential risk.

Mr. LUETKEMEYER. You are working on a real-time payment system. This is going to be—

Chairman MCHENRY. The gentleman's time—

Mr. LUETKEMEYER. —ripe for a problem like this with Twitter if we don't fix it beforehand.

Chairman MCHENRY. The gentleman's time has expired.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Chairman MCHENRY. You can answer it for the record.

We will now go to Mr. Scott of Georgia for 5 minutes.

Mr. SCOTT. Thank you very much. Vice Chair Barr, we know that this was basically the fault of the management, but what we want to know is, where did the Fed go wrong? Where did the Fed go wrong, and specifically, did the Fed miss red flags or ignore warning signs that were brought to you by your staff months or even years before the collapse?

Mr. MICHAEL BARR. Thank you very much for the question. We do have in the supervisory record staff reaching out to the bank highlighting these problems. As you noted in the first instance, it is bank management's responsibility to fix those problems. They didn't do so.

Mr. SCOTT. Vice Chair Barr, is it true that the San Francisco Fed, which supervised Silicon Valley Bank, sent multiple warnings to the bank's management about the risks it was taking, including its substantial holdings of Treasuries and other bonds that were steadily losing money as the interest rates rose?

Mr. MICHAEL BARR. Yes, the supervisor pointed out to the banks that they were exposed to interest rate risk and liquidity risks, and that they didn't have the risk management in place to address those. The bank failed to fix those problems.

Mr. SCOTT. And how often did Fed staff share with the Board of Governors that rising interest rates were threatening the finances of some banks, particularly the risk-taking at Silicon Valley Bank?

Mr. MICHAEL BARR. My understanding is that the particular issue with Silicon Valley Bank did not rise to the level of the Board of Governors until mid-February of this year.

Mr. SCOTT. Why do you think that the full extent of the bank's vulnerability did not become apparent until it was too late, especially when the FDIC data was showing that SVB was doubling in

size in 2020 and 2021, doubling in size within 12 months. Was that not a red flag?

Mr. MICHAEL BARR. I think that one of the things we are looking at is that the way the Federal Reserve's regulations set up the structure for approach to supervision, treated firms in the $50 billion to $100 billion range with lower levels of requirements and had a phase-in period for firms that got above the $100-billion line. That meant that their transition into those higher standards took a long time. So by the time the group was actually looked at in an intense way by the group in the large and foreign banking organizations team, a lot of that growth and a lot of that activity had happened. So in a sense, it was very late in the process, and that is one of the things we are looking at in our review.

Mr. SCOTT. Good. And I want you to know that I appreciate your recent announcement that there will be a formal review into whether the Fed failed. It is good to admit failure. That is the first step in correcting the problem. And that a review of whether the Fed failed to properly oversee Silicon Valley Bank will take place, and more importantly, it will be shared with us in the public. Is that true?

Mr. MICHAEL BARR. Yes, that is absolutely right. We thought that it is really important as a first principle of risk management for us to do our own self-assessment. We have a team of people working on that self-assessment who are not involved in the supervision of Silicon Valley Bank. We are going to make all of those findings and recommendations public on May 1st. And let me also say that we welcome other outside reviews as this body is doing today, and others will as well.

Mr. SCOTT. Thank you very much, Vice Chair Barr.

Chairman MCHENRY. The gentleman from Michigan, Mr. Huizenga, who is also the Chair of our Oversight and Investigations Subcommittee, is now recognized.

Mr. HUIZENGA. Thank you, Mr. Chairman. I am going to quickly move ahead here. A loss in confidence in the banking system is a loss of confidence in regulators, in many of our minds. And regulators seem to have had the tools at their disposal to prevent these failures from happening, but they seem to have missed that. We are going to be exploring that. As Chair of the Oversight and Investigations Subcommittee, I find it necessary to reiterate how important congressional oversight is, and that it is a constitutional authority that we have and, frankly, an obligation that we have to maintain the well-being of our system of government.

Mr. Barr, you just said that it was appropriate for outsiders to do their independent reviews. That is what we are trying to do here today. You were authorized on March 13th to do your report, correct? Who authorized that?

Mr. MICHAEL BARR. Chair Powell and I made—

Mr. HUIZENGA. Okay. That is all I need to know. Chair Powell authorized you?

Mr. MICHAEL BARR. Chair Powell and I jointly made the decision.

Mr. HUIZENGA. Okay.

Mr. MICHAEL BARR. We made a proceeding with this.

Mr. HUIZENGA. Great. Is it your understanding as well that under Dodd-Frank, anytime Section 13(3) is invoked and utilized that the GAO is also supposed to do a report?

Mr. MICHAEL BARR. I am not familiar with that precise provision, but it makes sense to me that GAO should do a review.

Mr. HUIZENGA. Okay. And do you know when GAO is going to be starting their report or investigation?

Mr. MICHAEL BARR. I respect the independence of the GAO and suggest that—

Mr. HUIZENGA. Okay. Great. On page 2 of your testimony, you said that the May report will include confidential supervisory information (CSI). Will you be providing that CSI to the GAO?

Mr. MICHAEL BARR. Yes, consistent with normal practice.

Mr. HUIZENGA. Okay. Great. We might have to unpack that a little bit. Will you also commit to me, and to this committee, and to the chairman that you will provide this committee with all of the confidential supervisory information needed to appropriately assess on our end what happened?

Mr. MICHAEL BARR. Yes, the same information in the May 1st report will be available.

Mr. HUIZENGA. No, no, not in the report. If you are giving that supervisory information for the GAO to do their review, not before you review it yourself and decide what is appropriate and not appropriate. I thought you just said that you would be providing GAO with all of that data and information that you will be using to make your report. Is that correct?

Mr. MICHAEL BARR. We will make the information that we are using for the report available to you and to the GAO.

Mr. HUIZENGA. Okay. So, we have your commitment that you are going to be providing us with all of that raw, confidential supervisory information so that we can do our job?

Mr. MICHAEL BARR. The same information that we would use for the GAO and for the public report.

Mr. HUIZENGA. I am not looking for the report, though. I want to make sure we have the information. I am trying to make sure that our semantics aren't getting—

Mr. MICHAEL BARR. I am just trying to be careful. We follow our rules.

Mr. HUIZENGA. Okay. I will accept the answer that you are going to give us the exact same information in a timely fashion that you are using for your report, fair?

Mr. MICHAEL BARR. Yes.

Mr. HUIZENGA. Okay. Mr. Gruenberg, I want to touch on the FDIC's commitment to look at what was going on there. The same question to you, will you commit to providing the committee with all related confidential supervisory information that is needed for us to assess what is going on?

Mr. GRUENBERG. Yes, Congressman. One, I think you have the authority to compel that information. We will be responsive to you.

Mr. HUIZENGA. Okay. "Timely manner," is the key phrase here. Between myself and Chairman McHenry, we have a number of requests to all of you.

Ms. Liang, I want to touch on this to obtain the information. FSOC was convened on March 10th, March 12th, and March 24th. Has FSOC met since March 24th?

Ms. LIANG. They have not met since March 24th.

Mr. HUIZENGA. They have not. Okay. It was reported that Secretary Yellen convened these officials via video conference. Is that correct?

Ms. LIANG. Yes, I believe there were two—

Mr. HUIZENGA. And you were part of that?

Ms. LIANG. —FSOC meetings.

Mr. HUIZENGA. Okay. And you were part of that?

Ms. LIANG. I was part of the second one. I was not part of the first one.

Mr. HUIZENGA. You were not part of the 10th? Okay.

Ms. LIANG. I was not. That was the evening, I believe, we announced. I was not part of the March 12th meeting.

Mr. HUIZENGA. Okay. Were minutes taken at those meetings?

Ms. LIANG. By normal process, minutes would have been taken.

Mr. HUIZENGA. And will we have access to those minutes?

Ms. LIANG. Yes, they are released, according to—

Mr. HUIZENGA. Before they are released, because we only have minutes from December 22nd. There is nothing that has been released publicly since December 22nd.

Ms. LIANG. That is correct. I believe the process is that minutes are released following the next formally-scheduled FSOC meeting.

Mr. HUIZENGA. Only if formally scheduled.

Ms. LIANG. We can come back to you on that, on when they will be released.

Mr. HUIZENGA. So, we have to wait until the next formally-scheduled time to get those minutes?

Ms. LIANG. I understand—

Chairman MCHENRY. The gentleman's time has expired.

Ms. LIANG. —that is the process, but we can—

Mr. HUIZENGA. We will be following up in writing. Thank you.

Ms. LIANG. Yes.

Chairman MCHENRY. We will expect a written response for that, Under Secretary Liang.

The Chair now recognizes Mr. Lynch of Massachusetts for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman, and thank you, Ranking Member Waters, for holding this hearing.

I want to follow up on Ranking Member Waters' line of questioning. Prior to its collapse, Silicon Valley Bank was a major lender and investor in low- and moderate-income housing in Massachusetts, in my district, in large part because it acquired the Boston Private Bank & Trust Company back in 2021. And that includes not only deposits, but construction financing, permanent financing, mortgage lending for low- and moderate-income home buyers, equity investments, and direct purchase of tax-exempt bonds for affordable housing development.

Right now, I have 18 affordable housing developments in my district, and on the outskirts of my district, currently under construction in Massachusetts, and they depend on the fulfillment of outstanding debt and equity commitments that were made by Silicon

Valley Bank. And this is the back of the envelope, I am sure there are more, but I have 754 homes, including 702 affordable homes for residents with low incomes, and 118 homes for residents with extremely low incomes, as well as workforce housing.

Here's the thing: While the vast majority of high-net-worth investors and depositors at Silicon Valley Bank have been held harmless, they have been rescued. The First Citizens assumption agreement is completely silent on the status of these low-income victims, and that is a problem that flies in the face of your mission and mine.

I appreciate all three of you. You worked quickly once you saw the problem, and I find great fault with the reckless management on the part of Silicon Valley Bank in that they concentrated so much risk and there was an absence of meaningful risk management. But we have a problem, and while the bank crisis might be over, it is not over in my district with all of these families, all of these low-income families who are struggling. I have Cities like Brockton, Massachusetts, we have a great mayor there, who is doing a wonderful job, and they are really going in the right direction, as well as Boston and Quincy and others, but we need help. We need to resolve this.

Mr. Gruenberg, I need a commitment from you, sir, that you will come to Brockton, in my district, and we need to work this through so that we provide the kind of protection for low-income families, a lot of them families of color, many of whom are first-generation immigrants, and they need help. And I think you and I need to be there, and I will get my mayors together and these 18 affordable housing development managers, and we will try to get this done. But can I get your commitment? Any thoughts on that?

Mr. GRUENBERG. Yes, Congressman, I would be glad to do that, and follow up with you. As First Citizens takes over, it is in a position to continue to serve the customers of the former institution, and work with you in regard to the community issues you just described.

Mr. LYNCH. That is great. I am very happy to hear that. There is something new and different though in this collapse. There was a concentration of risk on the part of Silicon Valley Bank. They catered to early-stage startups, which have a high rate of failure in the first place. They are very skittish, so those aren't core deposits that are going to stay through any period of unsettled economy. And then, on top of that, you have panic that is driven by social media. In many cases, you had venture capitalist firms telling their clients at that bank to get the heck out.

And the speed at which this happened was a matter of hours. Again, I commend you on the speed at which you acted, but is there something more that we need to be doing now because of the velocity of money, people can move their money out like that, and are we equipped? The FDIC has a long and strong history, but is something new and different needed to protect us from that phenomenon?

Mr. GRUENBERG. Congressman, I think that is an important question to ask. I think we are dealing with a different environment and the point you raise in terms of how quickly money can move out, what the technology enables now that exceeds what has

occurred in the past, is a new risk factor that we have to think about.

Chairman MCHENRY. I would ask the panel to respond to the gentleman in written form about that very, very important subject.

The Chair now recognizes Mrs. Wagner of Missouri for 5 minutes.

Mrs. WAGNER. Thank you, Mr. Chairman. Vice Chair Barr, we are going to go very quickly here, so I would like some succinct, brief answers, if you could.

Vice Chair Barr, referring specifically to Federal Reserve supervisors, do you know how many citations, specifically the matters requiring attention, (MRAs) and matters requiring immediate attention (MRIAs) that were issued to Silicon Valley Bank regarding its management of liquidity risk Do you know how many?

Mr. MICHAEL BARR. In November 2021, there were six MRAs and MRIAs on liquidity. In the fall of 2022, there was an additional MRA on interest rate risk modeling. I think I inadvertently misidentified it yesterday as an MRIA, but it is an MRA.

Mrs. WAGNER. That is fine. I don't need to go through all of them. We have six, maybe seven of these citations that were given. Yesterday, you were asked about an MRA that was issued in the fall of 2022. You stated that the MRA was issued, "based on the inaccuracies of their interest rate risk modeling. Essentially, the risk model was not aligned with reality." Is that your quote?

Mr. MICHAEL BARR. Yes.

Mrs. WAGNER. Did the supervisors provide the bank a timeline to remediate this misalignment, since changing an interest rate risk assessment model seems to be something that could be done very quickly?

Mr. MICHAEL BARR. Yes, my understanding is that there were time limits associated with each of these MRAs and MRIAs, but I don't have the information to be precise at the time.

Mrs. WAGNER. Really? Okay. Well, clearly, those alerts were ignored at the bank. Why didn't the Fed consider escalating any of these issues into a cease-and-desist order or other formal enforcement action against the bank to require senior management and the board of directors to remediate these serious deficiencies?

Mr. MICHAEL BARR. I think you raise a fair point, and we will be looking into that.

Mrs. WAGNER. I certainly hope so. Vice Chair Barr, in your testimony you stated, "The failure of SVB illustrates the need to move forward with our work to improve the resilience of the banking system. For example, it is critical that we propose and implement the Basel III Endgame reforms, which will better reflect trading and operational risks in our measure of a bank's capital requirements needs." Sir, I strongly disagree. These reforms will result in additional costs to consumers, to businesses, and to investors. I am going to go quickly here. Was trading risk the reason SVB had almost 94 percent of its deposits uninsured?

Mr. MICHAEL BARR. No.

Mrs. WAGNER. Was trading risk the reason SVB did not have a risk officer for nearly 9 months last year?

Mr. MICHAEL BARR. I do not believe that was the focus of why there was not a credit risk officer.

Mrs. WAGNER. So no, trading risk was not the reason. Was trading risk the reason SVB had 51 percent of its deposits in the tech industry? Yes or no?

Mr. MICHAEL BARR. Not to my knowledge.

Mrs. WAGNER. I fail to see how SVB illustrates the need to implement Basel III Endgame reforms, particularly as it relates to trading risks. Can you show how trading risks directly resulted in SVB failure, or, sir, are you just looking for any reason, correlated or not, to justify increasing capital requirements for banks?

Mr. MICHAEL BARR. I think it is really quite important that we strengthen capital and liquidity requirements in the system. It is something I have been working on since arriving at the board in July. And I think that the work that we are going to do, that we will propose to notice-and-comment rulemaking, will make the financial system safer and sounder and reduce risks that firms, such as SVB, in the—

Mrs. WAGNER. You stated yesterday that our banks are well-capitalized, did you not?

Mr. MICHAEL BARR. Yes. I have been consistent in saying both that the system is strong and that we also need to think about stronger capital rules. And I think that is appropriate given the risks—

Mrs. WAGNER. We are going to have a hearty give and take on this. I want to say this in closing: Despite U.S. regulators having clear knowledge of insufficient risk management, it seems that the examiners and your supervisors were asleep at the wheel while signs that Silicon Valley Bank was heading towards a collapse were staring them right in the face for many, many months.

Vice Chair Barr, I look forward to the release of your review of the supervision and regulations of Silicon Valley Bank so that we can dig in some more on May 1st, and I hope that it provides more clarity to the events leading up to these bank failures. I thank you, and I yield back the balance of my time, Mr. Chairman.

Chairman MCHENRY. The Chair now recognizes Mr. Green of Texas for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman. And I thank the ranking member, and I thank the witnesses for appearing. Witnesses, you have all made the case for mismanagement at Silicon Valley Bank. If you disagree with that statement, please extend a hand into the air.

[Hands raised.]

Mr. GREEN. Let the record reflect that all witnesses agree that mismanagement was occurring. I have before me a news article from what is perceived by many to be a reliable source, CNBC. The style of the article is—that would be the title—"Silicon Valley Bank Employees Received Bonuses Hours Before Government Takeover." Hours before government takeover, bonuses. It is also alleged by other sources that these bonuses could exceed $100,000.

Mr. Gruenberg, is it true that hours before the takeover of the bank, before it was seized, that bonuses were accorded to employees?

Mr. GRUENBERG. Congressman, since we weren't the supervisor, I would not have that direct information. I am sure we can get it for you or the Federal Reserve could provide it.

Mr. GREEN. I welcome the intelligence from the Federal Reserve.

Mr. GRUENBERG. But if I could just make an additional point, the FDIC is under a legal obligation, after the failure of Silicon Valley, to conduct an investigation of the conduct of the board and the management of the institution. And if misconduct occurred, we do have the authority to impose civil penalties, including civil monetary penalties and restitution, and to bar individuals from the business of banking.

Mr. GREEN. Thank you.

Mr. GRUENBERG. So, we do have some significant authorities and responsibilities.

Mr. GREEN. Vice Chair Barr?

Mr. MICHAEL BARR. Thank you very much, Representative Green. The Board also has the authority—

Mr. GREEN. Without the authority, right now, just tell me, were there bonuses given out hours before the bank was seized?

Mr. MICHAEL BARR. I have seen reporting of that, but I am still trying to chase down the facts. Our Enforcement team has the ability to go after actions against individuals.

Mr. GREEN. So you are saying you do not know, but you have heard that this is the case?

Mr. MICHAEL BARR. Yes. I do not have the supervisory record of that to know, but I have seen reporting of that, and we are looking into it.

Mr. GREEN. Okay. For the moment, let us just assume that bank X hands out bonuses. Management has failed to do its job. Do you have the inherent or accorded or statutory power to claw back those bonuses?

Mr. MICHAEL BARR. We have the ability to pursue actions for the individuals who violated the law.

Mr. GREEN. May I kindly ask about clawback of bonuses? Can you claw back those bonuses?

Mr. MICHAEL BARR. Under our authority, if there are violations of the law or unsafe or unsound practices or any breach of fiduciary duty, we can get restitution, we can get civil money penalties, and we can have—

Mr. GREEN. So, should I assume that your answer is no, you do not have the authority to claw back those bonuses?

Mr. MICHAEL BARR. We do not have generalized clawback authority.

Mr. GREEN. You do not. Okay. I see a hand raised. Mr. Gruenberg, please?

Mr. GRUENBERG. Just to try to respond directly to the question, the FDIC does not have explicit clawback authority under the Federal Deposit Insurance Act. We have that authority under the Dodd-Frank Act in regard to failures under Title II, but we do not have that under the Federal Deposit Insurance Act. So, we are considering additional authorities that Congress might provide. That might be something worth considering.

Mr. GREEN. Thank you, Mr. Gruenberg, because that is exactly where I am going. We live in a world where it is not enough for things to be right. They must also look right, and it just does not look right that hours before the bank is seized, bonuses are ac-

corded to employees. And some of these bonuses totaled more than $100,000.

Chairman MCHENRY. The gentleman's time has expired.

Mr. GREEN. Thank you.

Chairman MCHENRY. We will now recognize the gentleman from Kentucky, Mr. Andy Barr, who is also the Chair of our Subcommittee on Financial Institutions and Monetary Policy.

Mr. BARR OF KENTUCKY. Thank you, Chairman McHenry, and Ranking Member Waters, for holding this important hearing. Vice Chairman Barr, true or false, Silicon Valley Bank experienced rapid asset growth in a short period of time?

Mr. MICHAEL BARR. Yes, that is correct.

Mr. BARR OF KENTUCKY. Silicon Valley's rapid growth was fueled by an extremely high concentration of deposits from a single sector?

Mr. MICHAEL BARR. Yes, that is correct.

Mr. BARR OF KENTUCKY. Silicon Valley Bank became overly dependent on an extremely high percentage of uninsured deposits?

Mr. MICHAEL BARR. Yes, that is correct.

Mr. BARR OF KENTUCKY. Silicon Valley Bank failed to hedge the risk of holding long-duration securities in a rising interest rate environment?

Mr. MICHAEL BARR. My understanding is at one point they had hedges and those were not in place at the time they failed.

Mr. BARR OF KENTUCKY. And that was apparent to the Fed?

Mr. MICHAEL BARR. Yes, it was apparent to the Federal Reserve.

Mr. BARR OF KENTUCKY. Silicon Valley Bank had no chief risk officer for 8 months before its collapse?

Mr. MICHAEL BARR. Yes, that is correct.

Mr. BARR OF KENTUCKY. Was the San Francisco Fed unaware of any of these basic facts in the months leading up to its failure on March 9th?

Mr. MICHAEL BARR. Not to my knowledge.

Mr. BARR OF KENTUCKY. So, nothing in the existing regulatory framework concealed these basic facts from the San Francisco Fed, which had the responsibility of supervising this bank?

Mr. MICHAEL BARR. The regulatory structure does not conceal facts. It may have an effect on how supervisors act with respect to those facts.

Mr. BARR OF KENTUCKY. True or false, Silicon Valley Bank was subject to enhanced prudential standards under Dodd-Frank, as amended by the 2018 Bipartisan Regulatory Relief Law.

Mr. MICHAEL BARR. The Federal Reserve supervisory structure did not apply most enhanced prudential standards to the firm. It did have some enhanced prudential standards. Once it became subject to those standards after it passed the rolling average at the $100-billion level.

Mr. BARR OF KENTUCKY. But before it passed that $200-billion threshold, when it passed the $100-billion threshold, it was under 2155, the Bipartisan Regulatory Relief Law, under Section 401 (a)(1)(c) of that law. The Fed could have applied enhanced prudential standards to Silicon Valley Bank, isn't that correct?

Mr. MICHAEL BARR. Under the 2019 rules that the Federal Reserve put in place, most enhanced prudential standards did not apply to the firm.

Mr. BARR OF KENTUCKY. Wait a minute. I don't know about that, because under Section 401(a)(1)(C) of that law, the Fed, by order or rule, could apply enhanced prudential standards to banks, not above $200 billion, but above $100 billion in assets on a one-off basis?

Mr. MICHAEL BARR. Yes, the legislation provided the Federal Reserve with ample discretion. The way that discretion was implemented in 2019 was with a rule and that rule provided—

Mr. BARR OF KENTUCKY. Reclaiming my time Vice Chair Barr, by order, the Fed could have applied enhanced prudential standards before the bank reached the size it did by February of 2023. My point is, it does not seem appropriate to change the tailoring rules for all banks to account for a lapse in supervision by the Fed and the inability of the Fed to deploy enhanced prudential standards to firms when it is currently able to do so under existing law.

And, Vice Chair Barr, as you and I have discussed and as we agree, we need to preserve the diversity of the financial ecosystem here. The Fed had all of the existing tools it needed to supervise this bank and apply those enhanced prudential standards. I think pushing a one-size-fits-all or reimposing a one-size-fits-all regulatory regime on community and regional banks, especially regional banks under distress right now, would result in fewer of those institutions, more consolidation, and less competition for too-big-to-fail banks.

Chair Gruenberg, the vast majority of community banks in my district are well-managed, and they actually understand how to manage interest rate risk in a rising interest rate environment. And since the failure of Silicon Valley Bank, those Kentucky banks and their customers have been asking me why they should have to pay an assessment for your rescue of Silicon Valley Bank with 100 percent guarantee of deposits of largely wealthy, sophisticated depositors at Silicon Valley Bank, some of whom apparently cared more about the bank's commitment to environmental sustainability than their capability to be good stewards of their deposits. I think this is a legitimate question.

And I also think it is a good question whether invoking the systemic risk exception to the least cost resolution mandate under the Act was, in fact, the least cost solution. After all, your decision to cover all of the uninsured deposits cost the Deposit Insurance Fund an estimated $20 billion. Will you commit to using your authority under 12 U.S.C. 1817 to establish separate risk-based assessment systems for large and small members of the Deposit Insurance Fund so that these well-managed banks do not have to bail out Silicon Valley Bank?

Mr. GRUENBERG. I'm certainly willing to consider that, Congressman. And as I indicated, we are going to be preparing a comprehensive review of the deposit insurance system, so we will come back to you and I will happy to engage with you.

Chairman MCHENRY. The gentleman's time has expired.

Mr. BARR OF KENTUCKY. Thank you. I yield back.

Chairman MCHENRY. The Chair now recognizes Mr. Himes of Connecticut for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman. It is interesting to me to listen to my friends on the other side of the aisle who ordinarily spend all of their time trying to defund, destroy, and denigrate your organizations, now hold you entirely responsible for where we find ourselves today, despite activities within the bank that I think we all agree, and, Mr. Barr, you have said were on the verge of outrageous.

So, I would like to begin by thanking all of you and your organizations for the intense and sleepless actions you took beginning on March 9th. I do not know if you acted perfectly, and you do not know if you acted perfectly, but we all know that today, the financial system appears to be stabilized. And we certainly know that Congress is not lighting itself on fire crafting a massive publicly-funded bailout as it was in the fall of 2008.

I hope that we have dispensed with the absurdity that it was Silicon Valley's woke activities that drove this failure. And while I do not necessarily agree, Mr. Barr, with your predecessor's statement blaming the Bipartisan 2018 Reform Law; it is so nonsensical, it is not even wrong. The truth is that Silicon Valley Bank was crawling with supervisors and regulators who had been raising the alarm for a long time.

And that is what is interesting to me about this whole episode. It was not a surprise. It was not a surprise to the regulators and supervisors who had been raising those alarms for years. It should not have been a surprise to the management team who had been the target of those alarms.

By the way, just as a side note, it was a surprise to the Wall Street research analysts who were paid very good money to evaluate Silicon Valley Bank: 24 Wall Street analysts cover Silicon Valley Bank, 11 had buy ratings on it, 11 had hold ratings on it, and only one analyst rated it a sell. More seriously, the credit rating agency, S&P Global, rated Silicon Valley investment grade right up until March 10th when it announced that it expected a bankruptcy. There is an uncomfortable echo of 2008.

By the way, Mr. Chairman, I would like to insert for the record, with unanimous consent, a remarkable article by Professor Rajgopal of the Columbia Business School, which elaborates many of these points that I am making.

Chairman MCHENRY. Without objection, it is so ordered.

Mr. HIMES. The facts have been put out there pretty comprehensively. In 2021, 2 years ago, the Fed review resulted in the finding of serious weaknesses, the issuance of six matters requiring attention, and one matter requiring immediate attention. In July of 2022, the full supervision review rated the bank, deficient. That was 7 to 8 months before March's meltdown. In early 2023, there was a horizontal review. Again, the word, "deficient," and by the way, that is complicated for most people to understand.

Here is something that is not complicated for people to understand. As far as I can tell, Silicon Valley Bank had precisely one individual who was a banker on their board, Mr. Thomas King. The risk committee of this bank, which tripled in size in 2 years, had

not one banker. There was no one on the risk committee with any significant banking experience.

So Mr. Barr, I am going to put you in an uncomfortable position and say, clearly what we have here is a gap of time and a failure of action between the deficiency rating in July of 2022 and the meltdown in March. That is a long period of time. I am going to ask you for ideas, not necessarily good ideas. I understand that you are going to be uncomfortable about making recommendations. But clearly, we need to tighten up the process by which good things happen after a finding of deficiency. So, should that be left in your regulator's discretion, or should we act in such a way as to make actions mandatory subsequent to a deficiency rating?

Mr. MICHAEL BARR. It is a great question you raise and one that, I think, is appropriate for reviewing both by you and by us. I think that we need to put in place risk mitigants and incentives that are much stronger, and faster in the supervisory process. That is one of the things that we will be looking at in the review. But I do think that in instances like this where it is such a fundamental issue, we need to have risk mitigants in place that are ordered by the supervisors quickly.

Mr. HIMES. I am just going to make this observation as I run out of time. As we all saw, one of the problems here and one of the new things here were the chat rooms and the speed by which deposits could be withdrawn, and billions of dollars went out the door because of these devices. So, I am not convinced that giving humans who operate in human time additional authority is going to do the trick here. I think we need to think about automatic mechanisms, and that may require statutory change, automatic mechanisms that when a finding of deficiency or other adverse observations have been made, kick in automatically, perhaps after some cure period. But this was a meltdown that happened at the speed of light, and humans with discretion are not going to solve it in the future.

Chairman MCHENRY. The gentleman's time has expired. The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman. I am going to repeat a little bit of what you have heard today, but when I talk to community banks in my district—and full disclosure, I am a car dealer, and I talk to them a lot and owe them a lot of money—one of their top worries right now is being left to foot the bill for the failures of Silicon Valley Bank and Signature Bank. Community banks, which most of us live by, should not be liable to pay for the rescue of larger banks that gambled and made a risky bet. Community banks are relied upon by Main Street America to be a lifeline and provide crucial banking services to small businesses. These smaller banks, which we all need to have, are some of the most-trusted institutions in the financial industry.

Mr. Gruenberg, you talked about it before, but could you elaborate on if smaller community banks in Texas, where I am from, will be left responsible for bailing out the failed banks in California and New York?

Mr. GRUENBERG. Thank you, Congressman. I am keenly sensitive to the concern. Let me just say that under the law, the FDIC is required to impose a special assessment on the banking industry

to recover any cost to the Deposit Insurance Fund from covering these uninsured deposits. And we have to do that by a notice-and-comment public rulemaking, which we are going to do in May. And just to be clear, the law gives the FDIC the authority to consider the types of entities that benefit from any action taken or assistance provided so that the FDIC does have discretion. And let me just say without forecasting how our Board is going to vote, we are going to be keenly sensitive to the impact on community banks.

Mr. WILLIAMS OF TEXAS. Take a look at it, because we all know that what they will do is pass the cost on to someone like me. The Federal Reserve was supposed to be the primary supervisor over Silicon Valley Bank, but from all we have seen and heard today, they failed to do their job, and it has been reported that Silicon Valley Bank's risk practices were on the Federal Reserve's radar. We have talked about that for over a year. In 2022 alone, Fed supervisors issued three findings on SVB's ineffective board oversight, weakness in their risk management, and flaws with the bank's internal audit function. So, it should raise major concerns that the Federal Reserve, which is tasked with regulating and overseeing banks, knew about Silicon Valley's risky practices for more than a year and failed to take any corrective action.

Mr. Barr, what actions, if any, did the Federal Reserve take, and you talked a little bit about this after issuing those risk findings, and how did the Federal Reserve become so complacent? It is on a supervisory role and missed these warning signs, and I think that is what people across America really want to know.

Mr. MICHAEL BARR. Thank you very much for the question. My understanding is that the supervisors identified the issues. They brought them to management's attention, but the response clearly was not an effective response. Bank managers failed to manage the firm in an appropriate way. They did not manage their interest rate risk and their liquidity risk well, even though it was pointed out by the regulators. And I do think it calls for a heightened need for more-aggressive supervisory action to take care of these problems.

Mr. WILLIAMS OF TEXAS. But you all missed it, too.

Mr. MICHAEL BARR. I'm sorry?

Mr. WILLIAMS OF TEXAS. You missed it, too.

Mr. MICHAEL BARR. The supervisory staff were aware of the underlying issues. I think all of us were caught incredibly off-guard by the massive bank run that occurred when it did on March 9th and 10th, the scale and speed of that $42 billion going out the door Thursday afternoon, and it was expected by the bank that $100 billion more would go out the next day. That is just an extraordinary scale and speed of a run unlike anything I had ever seen before.

Mr. WILLIAMS OF TEXAS. Okay. Out of all of the banking supervisors, I would expect the Federal Reserve, and most of us would, to be the most aware of the impacts that increased rate hikes would have on the value of security for banks. However, the Fed has stress tests, which we talked about, which are conducted to determine how large domestic banks would perform under hypothetical and stable economic scenarios, currently do not test for the problems that caused Silicon Valley Bank to fail. SVB failed because of inflation, rapid increase in interest rates, and loss of value

of government bonds. So even if SVB had been subject to testing, it would not have led to the changes that could have prevented their failure, because the Federal Reserve is asking the wrong questions and not running the scenarios that ultimately led to SVB's downfall.

Quickly, Mr. Barr, how can the American people trust the Federal Reserve if you are not testing for all scenarios? How was the Federal Reserve so far off? That is a question that everyone asks.

Mr. MICHAEL BARR. I think that the Federal Reserve should use multiple scenarios. That is one of the reasons why I proposed that this year's test include a rising interest rate environment for the trading book. I think multiple scenarios makes a ton of sense and should be done.

Mr. WILLIAMS OF TEXAS. You know that saying, they can get it right 100 times. You have to get it right once, so you get one crack at it. Thank you very much.

Chairman MCHENRY. The gentleman's time has expired. I will now recognize the gentleman from Illinois, Mr. Foster, who is also the ranking member of our Subcommittee on Digital Assets, Financial Technology and Inclusion, for 5 minutes.

Mr. FOSTER. Thank you. As you know, 12 years ago, during Dodd-Frank, a number of us put a lot of effort into specifically authorizing U.S. bank regulators to put contingent capital requirements into the capital stack of large banks. These were conservatively thought of as sort of privately-funded insurance policies that large banks are forced to carry, that pay out if a bank gets into trouble and automatically injects capital into a struggling, but not-yet-failed bank. For the last 12 years, U.S. bank regulators have completely ignored this authorization from Congress, which I have complained about in numerous hearings. But in the last 12 years, European bank regulators and others have used contingent capital successfully.

I believe that we have a lot to learn about two side-by-side bank failures: Silicon Valley Bank, a large bank by some measure, but with total assets less than 1 percent of U.S. GDP; and Credit Suisse, with total assets greater than 100 percent of Swiss GDP, too-big-to-fail by any metric. A couple of weekends back, the U.S. banking regulators tried to find someone to buy SVB, but they failed. The result was potential systemic risk and emergency intervention by regulators, which risked abandonment of a lot of market discipline and market chaos, and the Deposit Insurance Fund and eventually banks and their customers must take the hit. But when Swiss regulators tried to find a partner to buy out Credit Suisse, they succeeded.

And at this point, it seems likely that the Swiss taxpayer will be off the hook for this giant bank's failure. The difference was contingent capital, because when Credit Suisse got into serious trouble, their contingent capital triggered and injected $17 billion of equity into Credit Suisse. This was absolutely essential to finding a buyer for Credit Suisse since, as you know, Credit Suisse was bought for about $3 billion, but only after the $17 billion of capital injection by their contingent capital instruments.

So, the Swiss contingent capital succeeded at its two design objectives: first, to prevent contagion; and second, to keep the Swiss

taxpayer off the hook for the failure of a truly giant bank. Now, if Silicon Valley Bank had been forced to carry an appropriate amount of contingent capital, then capital would have been automatically injected, probably by Friday at the latest. And it is very likely that a buyer could have been found over the weekend as well, and we would not be having this hearing today.

In fact, it is possible that they would not have gotten in trouble in the first place since Silicon Valley Bank would have had to answer not only to the regulators, but to the bond markets for their risky practices. When they went through their gigantic growth spurt, they would have had to issue a lot of contingent capital instruments. And I am pretty confident that one of the wizards in the bond market would have said, "This is interesting. This bank has very flighty deposits and essentially no risk management in place. Maybe we should charge a pretty big risk premium," and the markets might have detected that.

My question is, Vice Chair Barr, as part of your holistic review of bank capital requirements, will you commit to finally seriously considering contingent capital requirements in the capital stacks of large banks?

Mr. MICHAEL BARR. Thank you very much for your question, and I very much appreciate it. Both the Fed and the FDIC have had conversations over the years on this very question of contingent capital instruments, and we have issued an Advance Notice of Proposed Rulemaking (ANPRM) of a different type of contingent instrument, an ongoing concern capital instrument that would be required for large banks. But I think it does make sense to consider alternative options, and I would be happy to continue the conversations with you about that.

Mr. FOSTER. Okay. And I would specifically appreciate it if your analysis included a counter-factual analysis of how much better off we would have been if regulators had listened to Congress and included contingent capital requirements into the capital stacks of these banks, because I think there is a lot to be learned from just the counterfactual analysis.

I would like to just close out by finishing up a little bit with questions about the nonresponsiveness of SVB management to the early warnings they got. Is there leverage that we can provide you? An obvious one is to say all of these matters requiring immediate attention and so on are private. For example, if they had to become public after 60 days if they were not resolved, would that have lit a fire under the management? Are there other things? For example, you could say any management that had an ongoing appending MRIA, matters requiring immediate attention, we simply put all the bonuses in escrow. That would almost certainly get their attention.

Chairman MCHENRY. The gentleman's time has expired.

Mr. FOSTER. So if you could include these sort of ideas, I would appreciate it.

Chairman MCHENRY. The gentleman's time has expired. Please submit your responses for the record, Mr. Barr.

The Chair now recognizes Mr. Emmer of Minnesota for 5 minutes.

Mr. EMMER. Thank you, Chairman McHenry. Thanks for holding this important hearing today. The collapse of three regional banks over the course of 2 weeks is directly related to failed Democrat policies. Record inflation as a result of reckless government spending led to historic interest rates the banks were not ready to manage. It appears financial regulators were not appropriately communicating financial risks of the high-rate economy with banks in their supervisory capacity. And this Administration's political attack, quite frankly, from the highest levels of our government on the digital asset industry, which, by the way, had nothing to do with causing the runs, sparked fear, leading to bank runs—it is Silvergate, Silicon Valley Bank, and apparently Signature—bringing these core issues plaguing our economy and the broader banking sector to the surface.

Let us not be fooled. Providing financial services to legal businesses in the U.S. should not be risky, but this past month has proven that the mismanagement of our monetary policy has apparently made it risky to put dollars in a bank.

Mr. Gruenberg, will the FDIC sell off Signature's deposits from digital asset businesses? Yes or no?

Mr. GRUENBERG. We are returning those deposits to the depositors, Congressman.

Mr. EMMER. Okay. Does the FDIC plan to sell the intellectual property for Signet?

Mr. GRUENBERG. I believe that has already been sold out of the bridge institution, Congressman.

Mr. EMMER. Okay. We would like to see that information. Will you commit that a bank that buys Signet will be able to use it to facilitate 24/7 access to the banking system for digital asset companies?

Mr. GRUENBERG. I am happy to look into that. I don't know who the buyer was, but I would be glad to look into it and follow up with you.

Mr. EMMER. You are not going to block the buyer from doing 24/7 banking for digital asset companies. Is that correct?

Mr. GRUENBERG. If that is the nature of the acquisition, yes.

Mr. EMMER. And will you commit that the bank that buys Signet, or the bank that did, will be able to onboard new digital asset customers?

Mr. GRUENBERG. Again, I would like to look into the transaction, but I would be glad to follow up with you in regard to it.

Mr. EMMER. When the FDIC sold off Silicon Valley Bank's deposits to First Citizens, did that include deposits from any digital asset firms or VCs in the digital asset space?

Mr. GRUENBERG. I believe all of the deposits from the failed Silicon Valley Bank were transferred to First Citizens in that.

Mr. EMMER. Including the digital?

Mr. GRUENBERG. All of them. Yes.

Mr. EMMER. Were all of SVB's deposits from digital asset businesses, again, transferred to Citizens? Is that what you are saying?

Mr. GRUENBERG. Yes. My understanding was Citizens assumed all the deposits of the—

Mr. EMMER. Has the FDIC ever communicated implicitly or explicitly, sir, to any banks that their supervision will be more oner-

ous in any way if they take on new or maintain existing digital asset clients?

Mr. GRUENBERG. No.

Mr. EMMER. Thank you. The FDIC estimates that resolving Signature Bank is going to lead to a $2.5-billion loss to the Deposit Insurance Fund, and resolving Silicon Valley Bank will lead to a $20-billion loss to the Deposit Insurance Fund. When the FDIC sold Signature, it had the effect of closing Signet, which is an innovative payment system that facilitated 24/7 access to banking services, frankly, a private-sector innovation that apparently will be rivaled by the Fed now. Signet is intellectual property that has significant value, so I do want to see that sale.

Chairman Gruenberg, when managing the resolution of any failed bank, the FDIC is statutorily required to do so using the least-costly resolution option, thereby minimizing losses to the Deposit Insurance Fund, which is replenished by the banks through fees that are indirectly passed on to everyday Americans with bank accounts. I am concerned that the FDIC has deviated from its statutory requirement to minimize costs here and, instead, has opted to pursue a lazy and destructive regulatory campaign to, in fact, oust digital asset opportunities from the United States. No bank is designed to survive manufactured bank runs. And in analyzing what caused this fiasco in the first place, many signs point right back to you and the FDIC, this Administration, and certain reckless Democrat Senators.

I want to thank you again for coming today, and I would appreciate a response to my March 15th letter, because to me, it is still clear that we have a lot of questions that need answers. And with that, Mr. Chairman, I yield back.

Chairman MCHENRY. The gentleman yields back. The ranking member of our National Security, Illicit Finance, and International Financial Institutions Subcommittee, Mrs. Beatty, is now recognized for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and thank you, Ranking Member Waters. Mr. Gruenberg, we know that both SVB and Signature had very high proportions of uninsured deposits, somewhere between 90 and 95 percent. Can you share with us or explain to us what the typical ratio is for your average bank and how this factor played into the bank run that we witnessed on March 9th?

Mr. GRUENBERG. Thank you, Congresswoman. It is an important question. I think it's fair to say these two institutions were outliers in terms of their exceptional concentration of uninsured deposits, both around 90 percent. In the regional bank space, between $100 billion, and $500 or $600 billion—I think it is generally in the 40-percent category. So, these two institutions were outliers, and it was a significant part of the liquidity risk on their balance sheet.

Mrs. BEATTY. And would you say that this half a portion of uninsured deposits left the bank more susceptible to this run?

Mr. GRUENBERG. Yes.

Mrs. BEATTY. Let me also have a follow-up question to you. We have heard many ideas proposed about modifying the $250,000. And we know in, I think it was 2008 with the Emergency Economic Stabilization Act, we went from $100,000 to $250,000. For example,

what about temporarily insuring all deposits, increasing the limit to $500,000 or a million, insuring all deposits for small and mid-sized firms or limiting it for the largest financial institutions? What are your thoughts on some of these proposals?

Mr. GRUENBERG. As you understand, Congresswoman, the coverage for deposit insurance is statutorily set at $250,000 per account, so to adjust it would require legislative change. And as I indicated earlier, the FDIC is undertaking a comprehensive review of our deposit insurance system, and we will come back with a report that we will release publicly outlining policy considerations for—

Mrs. BEATTY. Is this one of them? And you can weigh in also, Mr. Barr, or Ms. Liang. You are experts. You are testifying here on your opinion. I understand that it is statutory and requires it to come back here, and certainly, as you know, we have changed many things over the years in rooms like this. So to the public, I don't want you to think that this may be far-fetched. We had large banks when we had too-big-to-fail, and we are certainly more than $50 billion now as we hit legislative ways to change it. What are your thoughts on increasing that? That is one of the number-one things I am getting from my constituents. In 2008, it was $100,000. We made the change then through an Emergency Act. What now?

Ms. LIANG. Congresswoman, the FDIC, as Chairman Gruenberg mentioned, is doing a review of the deposit—

Mrs. BEATTY. Would you support an increase?

Ms. LIANG. I would support a study and proposals for reform if needed. The rise in uninsured deposits—it has been increasing over the years.

Mrs. BEATTY. Okay. Mr. Barr? Only because my time is running out, and the next question is going to be for you.

Mr. MICHAEL BARR. We would be happy to work with you on thinking through that. I think taking a step back, the important thing is that our banking system is sound and resilient.

Mrs. BEATTY. Okay.

Mr. MICHAEL BARR. The actions the regulators took demonstrate that deposits are safe, and we would love to continue the conversation with you.

Mrs. BEATTY. Okay. I am glad you said, "sound and resilient." In your opening testimony, you said the same thing, that you thought banking was sound. You also used words like, "strengthening the public confidence," or paraphrasing it. I am from Ohio, and the public pension funds nationwide, as you know, lost millions of dollars that were invested in SVB and Signature. In my home State of Ohio, the State Teachers Retirement System took the biggest hit, with some $27 million that was invested in SVB, representing I know maybe only 3 or 4 percent of the fund's total portfolio. But I am concerned about reports that the CEO of SVB unloaded millions of stocks in the days and weeks leading to the collapse. I know that we are expecting a report on the Fed's investigation of SVB in May. But is there anything you can share today regarding the bank's executive management?

Mr. MICHAEL BARR. [Inaudible.]

Mrs. BEATTY. Okay. Thank you, and thank you, Mr. Chairman.

Chairman MCHENRY. Thank you. We ask the panel to respond in writing to Mrs. Beatty.

We will now recognize the gentleman from Oklahoma, Mr. Lucas, for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman, for holding this important hearing. And, Chairman Gruenberg, I would like to discuss—and I know my colleague, Congressman Williams, who is also the Chair of the House Small Business Committee, has focused on this a little bit—the special assessment fee that will be used to cover the losses from the uninsured deposits. You have explained the proposed rulemaking for the special assessment will occur in May of this year. And while you are thinking about that, be thinking about a discussion of the flexibility the FDIC has during the rulemaking to ensure that our small community banks don't disproportionately carry the burden.

Being one of the older members of this committee, I have been around long enough to have observed firsthand several banking crises. In 1982, I was getting ready for my final semester at Oklahoma State when an institution in Oklahoma City called Penn Square Bank went down, and took Continental Illinois of Chicago down with it, a bank from, what, the 1840s or 1850s. They took Seattle-First National Bank down with them too.

Now, FDIC and the regulators responded in the appropriate fashion and addressed that, but it was a combination of a collapse in the oil and gas industry and in production agriculture. And the chain reaction in my great State was the slaughter of community banks, a slaughter. There was no quarter given to those folks. They were locked up, chopped up, sold out. The legislature met in the middle of the night to authorize not just one town, one physical location, one charter banking, but we went to branch banking because it was all falling down on us.

The people whom I represent were brand-new, young banking men and women 40 years ago, when they saw how community banks were handled in my State. They weren't Penn Square, they weren't Continental Illinois; they were Seafirst. They are now my most-senior bankers 40 years later, and they are looking at this situation and they are saying to me, we have been the least problematic of any sector in the financial services industry for decades to the regulators and the FDIC, but yet, in every crisis since then, we have been kind of the orphans. And this time, they are saying, we were wiped out as an industry 40 years ago, but now we are going to get a special assessment to pay for the mistakes of the most-sophisticated institutions, the biggest institutions.

Can you tell me how it is possible, when this special assessment fee process is completed, that my community bankers aren't going to wind up disproportionately paying for the mistakes and the folderol of the biggest institutions in the country, or should they just be prepared to be the scapegoat one more time?

Mr. GRUENBERG. That's a critically-important question, Congressman, and we are keenly sensitive to it. We have discretion under the law. We have to act pursuant to a notice-and-comment rulemaking. Anything we put out will be subject to public comment. We have discretion, as I indicated earlier, and will repeat, we will be keenly sensitive to the impact on communities. I do not want to front-run my Board. We are going to have to do a notice-

and-comment rulemaking, but I hear you and I'm keenly sensitive to the point you raised.

Mr. LUCAS. I would just offer, once again, the observation, the perspective of my community bankers is, if you are big enough, we have now given you an emphatic protection. It appears with what we have done in the last few months, if you are in that intermediate range, we are going to protect you. But if you are the little bankers, the little guys and ladies out there meeting the day-to-day capital needs, you are going to be the one to pick up the bill. And I kind of appreciate their point, having lived through 40 years of these experiences in my great State.

Shifting to another question, as has been discussed today, Treasury approved the systemic risk designation on March 12th, upon the recommendation of the Federal Reserve and the FDIC. I want to discuss for a little bit the process leading up to this. I think it is important that we have a clearer picture of how the regulators made this designation, not just in theory, but in practice.

Vice Chair Barr, could you provide insight into which regulator acted first in proposing that uninsured deposits be protected? These are the kinds of questions I am getting back home. And while you are thinking about that, were there discussions between the FDIC and the Fed prior to the respective board meetings?

I see my time has expired. But I am happy to follow up with you—

Chairman MCHENRY. You can go ahead and answer—

Mr. LUCAS. I bet somebody is looking at the time—

Chairman MCHENRY. —right now, that is interesting, plus we are close to getting a little break here.

Mr. MICHAEL BARR. I am happy to do so.

Mr. LUCAS. Please. Thank you.

Mr. MICHAEL BARR. We were in conversations, all three agencies, over the course of that weekend trying to think through what the potential ramifications might be in the financial system. It was a very difficult judgment to make and involves, of course, information we are getting from around the system hearing from community bank—

Chairman MCHENRY. We ask the gentleman to provide a timeline of those conversations between the two agencies and the two principals of the FDIC in writing for the record.

The gentleman's time has expired. We will now go to Mr. Vargas of California for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman, and Ranking Member Waters. I guess I am looking at this a little bit differently, and that is, we could have been here today looking at the collapse of hundreds of banks. We could have been here today trying to figure out how to stop the contagion, but instead, we are here looking at significant banks with significant problems. I think that is important, but I think what is more important is that everyone work together. We certainly have our ideological differences, and they are significant. I heard right away that it was President Biden's fault, from several Members, and I could easily say, no, it was President Trump's fault. But the truth of the matter is that we are out of our ideological silos and trying to figure out practical solutions.

I want to thank the Chair. I think the Chair worked very, very hard on this. And I think that he probably was a little uncomfortable with his ideologues on his side maybe, but I think he did a fabulous job, and I want to thank him publicly. I think the ranking member did the same. I think they worked very, very closely together to try to figure out what we can do as a legislature to make sure that there is not contagion. I want to thank all of you who have acted very honorably, nobly, as you should have, to try to figure out what is the solution here, and, again, I appreciate that deeply. Again, we could be here talking about a disaster, an unmitigated disaster. I was worried about that. I worry about these things, and we are not. Instead, we are looking at these important issues. So now that we are, I got that off my chest.

I do want to ask you, Mr. Barr, you were quoted quite extensively for saying that—and let me get it correct here; I don't want to put words in your mouth—"SVB's failure is a textbook case of mismanagement." Was that a correct quote?

Mr. MICHAEL BARR. Yes.

Mr. VARGAS. Then, the natural question is, to begin, why wasn't that a textbook case of enforcement?

Mr. MICHAEL BARR. I think that is a good question, one we are exploring very much. The supervisors looking at the bank identified the problems with the bank, and the question is, did they identify them with enough level of urgency? Did they escalate appropriately? And I think that is an incredibly fair question that we are looking at carefully. I expect that we are going to find that we need to have more of an emphasis on supervisors using the tools they have more promptly and putting mitigants in place more promptly when they see problems at banks that they are supervising.

Mr. VARGAS. Yes. In fact, they had a number of MRAs, and MRIAs, I guess, and it didn't seem like you did anything other than write a letter. It didn't seem like there was any enforcement. Where was the stick?

Mr. MICHAEL BARR. Yes, sir. I think that is exactly the right question. Normally in the supervisory process, when a supervisor issues an MRA or an MRIA, the bank promptly takes care of those matters. In this case, obviously, it did not take care of them in such a way that it prevented its sudden failure—

Mr. VARGAS. It seems like they blew you off. It seems like they blew you guys off, and you didn't do anything. That is what it seems like from reading all of this information, I can tell you. Maybe I am wrong, but that is what it sounds like.

Mr. MICHAEL BARR. Yes, I think that, again, we are looking at the whole supervisory record. I share your concern very much. I think it is something we are going to have to explore both in terms of the way the bank responded and the bank's responsibility for its failure, but also, should regulators have used tools to escalate more promptly and quickly? I think that is a completely fair question.

Mr. VARGAS. Okay. Chairman Gruenberg, in your hearing before the Senate Banking Committee, you testified that the collapses of SVB and Signature Bank demonstrate the implications that banks with assets over $100 billion can have financial stability issues. I think that is what you stated. Additionally, you stated that the prudential regulation of these institutions merits serious attention,

particularly for capital liquidity and interest rates hikes. Can you please elaborate more about what prudential regulations need to be reviewed? What steps can we take to mitigate the potential for similar bank failures?

Mr. GRUENBERG. Thank you, Congressman. I think we should start with supervision and how we supervise liquidity risk. And two big things in this episode were liquidity risk from concentration of uninsured deposits and the accumulation of unrealized losses on the balance sheets of our institutions, both of which could have fundamental management of interest rate risk, which is—

Mr. VARGAS. But I am talking about the size of the bank. I think that is significant.

Mr. GRUENBERG. No, and I think it applies to all institutions. I think in the past, we have looked at these regional banks and smaller regional banks, and in terms of their prudential regulation have treated them somewhat more lightly than the larger institutions.

Mr. VARGAS. My time has expired.

Mr. GRUENBERG. In light of this episode, we need to take a close look at that.

Mr. VARGAS. Thank you. I yield back.

Mr. GRUENBERG. That was the point I was trying to make.

Chairman MCHENRY. After the windup that Mr. Vargas gave, I just want to give him, like, 10 more minutes, so thank you.

With that, we will now recognize Mr. Loudermilk of Georgia for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman. And thank you all for being here. I know you have been spending a good bit of time on Capitol Hill, but we appreciate you being here. One of the concerns that I have received from a lot of my smaller institutions, smaller banks, is with the extension of insuring deposits across the board. They felt vulnerable in that larger institutions may decide to pull deposits that they have in the smaller institutions because then they would be covered.

Under Secretary Liang, I wanted to get a little clarity on what seem like conflicting accounts from Secretary Yellen regarding deposit insurance. On Tuesday, March 21st, the Secretary suggested deposits would be insured. She said, "If smaller institutions suffered deposit runs, that posed the risk of contagion."

Then, during her testimony to the Senate Finance Committee the very next day, the Secretary said she was not considering, "blanket insurance or guarantees of deposits," but then a day later, she said that Treasury, "would be prepared to take additional actions to protect depositors, if warranted." Could you clarify the Department of the Treasury's position regarding deposit insurance?

Ms. LIANG. Yes. Thank you, Congressman. As Secretary Yellen has said, we have used tools to prevent contagion in the banking system and have reflected our commitment to ensure that all deposits are safe. That means we would use the tools again, if needed, to ensure that Americans' deposits are safe.

Mr. LOUDERMILK. So your answer is, yes, you would include smaller institutions, smaller banks, community banks, or am I a little confused?

Ms. LIANG. If conditions warranted that smaller institutions could pose a risk of contagion to the broader system, we would absolutely use the tool.

Mr. LOUDERMILK. I guess the question would be, what is that condition? If it starts with one community bank, then that would be a trigger, or do you have more of a definition of what would be the condition?

Ms. LIANG. I think it is very difficult to just make decisions on the hypothetical. But in this environment that we made the systemic risk determinations based on unanimous approvals from the FDIC and the Fed, we determined that the risk of contagion in the banking system was very high.

Mr. LOUDERMILK. So with that, and the action of extending it to larger institutions, regional banks, and then smaller institutions, do you have any concerns that regulators may be creating moral hazard across the entire banking system?

Ms. LIANG. I think we are concerned with addressing the current situation that we are facing. We think the system has stabilized. We have information and evidence that deposits have stabilized. We will need to address reforms going forward to address concerns about moral hazard.

Mr. LOUDERMILK. Okay. And I agree with you. I think that we are stable at this point, but as we have seen already, things can turn around in a 24-hour period, right? And I am one of those to whom, from raising three young children, and now with five grandchildren, consequences matter in future behavior, and we can't ignore that going forward.

Last question: Why did the Secretary's position appear to change regarding extending insurance to smaller institutions? Why did she change her position between the 21st and the 23rd? Were there internal discussions going on between the Secretary and the President or other prudential regulators that caused the shift?

Ms. LIANG. I am not aware of any conversations.

Mr. LOUDERMILK. Okay. I appreciate that. Mr. Chairman, no further questions at this time, and I yield back.

Chairman MCHENRY. Mr. Casten of Illinois is now recognized for 5 minutes. And after his 5 minutes, we will give the panel a 5-minute break to stretch your legs, then we will come back and we will finish with questioning. My expectation is that we will be able to get through this final segment. But I do think it is humane to actually give the panel this bit of a break, and, frankly, I need one as well. So, Mr. Casten, for 5 minutes.

Mr. CASTEN. I would like to thank the chairman for putting me on the inhumane end of that transaction. Vice Chair Barr, I am trying to understand the calendar, and I have just four or five questions for you, and I want to walk through the calendar as I understand it. If you disagree with anything I have in the calendar, let me know, but otherwise, I will just try to run through quickly to get to the questions.

In January 2019, SVB was notified by the Fed of deficient risk management. A year later, they were notified that their risk management was not up to large bank standards. About 2 years after that, April 2022 to 2023, SVB no longer had a risk officer, and in their 2023 proxy statements, they say that they have doubled the

number of risk meetings from 9 to 18. Given the prior concerns from the Fed, did the Fed participate in or otherwise have visibility into any of those risk meetings at SVB in that window?

Mr. MICHAEL BARR. The calendar you described, some of them in the future, I think that we might need to look at the calendar reconciliation together or maybe I misheard—

Mr. CASTEN. No, no, I am just going up to January of this year, was the last date. From April of 2022 to January of 2023, there was no risk officer but a doubled frequency. Did the Fed participate in any of those risk meetings within SVB during that 9-month period?

Mr. MICHAEL BARR. I don't yet have the full supervisory record, so I am not able to answer the question, but we will have that information in the May 1st report.

Mr. CASTEN. Okay. Do you know if they were at any time cited for violating Section 165 of Dodd-Frank, which requires banks over $50 billion to have a risk officer for the 9-month period when they did not?

Mr. MICHAEL BARR. The deficiency downgrade that occurred in the summer of 2022 focused on a wide range of risk management practices at the firm and found them to be deficient.

Mr. CASTEN. Okay. Moving back to the calendar, Q3 of 2022, their 10-Q showed that their held-to-security bonds were $15.9 billion, undervalued relative to mark-to-market, and they had $15.8 billion in equity at the time. Three months later, their 10-K for the year showed a slight improvement. They only had a $15.1-billion overvaluation of their bonds and $16.3 billion in equity. Was it perceived by the Fed or by management that they were in an improved risk situation at the end of 2023 than they were 3 months earlier?

Mr. MICHAEL BARR. I don't know the answer to the question with respect to how the management of the firm were viewing the situation. The supervisors were telling the firm at that time that basically their risk models were divorced from reality, that the model suggested they would earn more money, when they were actually losing more money.

Mr. CASTEN. Okay. I am glad to hear that, because now I want to move to 2023 and sort of what happened up to March 8th. On January 26, 2023, about 3 weeks after they finally got a risk officer back, CEO Becker announced that he was going to execute $3.6 million in stock sales. On February 22nd, he executed those sales. On March 8, 2023, they announced a sale of all of their available-to-sell equity portfolio to Goldman, the same day the $1.8-billion loss of a security sale was disclosed, apparently also to Goldman. Heads, Goldman wins. Tails, Goldman wins. And of course, the next day a $42 billion withdrawal.

Do you have any visibility of when was the security sale and/or the equity sale to Goldman process initiated? In other words, when was it announced? When internally was the company initiating the process to secure additional cash from those two Goldman processes?

Mr. MICHAEL BARR. I do not know the answer to that question.

Mr. CASTEN. I would imagine you probably also don't know whether the January 26th sale was cleared with a risk officer who

had been on board for 3 weeks when the January 26th announcement was made?

Mr. MICHAEL BARR. I don't yet have full visibility into that transaction. I hope that we will be able to get as much detail as we can as part of our review.

Mr. CASTEN. Okay. If I am Mr. Becker, I am obviously in a lot of trouble. You have a deposit base that is extremely well-heeled and very sophisticated. Was there any outreach to the depositors during this period to ask them either to provide equity infusions to the bank or other forms of capital prior to the run on the bank?

Mr. MICHAEL BARR. I do not know.

Mr. CASTEN. Last question: In the exchange with Mr. Scott, you had indicated—and I think I got this right—that the Board of Governors' concerns about SVB were really heightened in mid-February?

Mr. MICHAEL BARR. What I said is that the staff presented to the Federal Reserve Board of Governors in mid-February on interest rate risk generally, and one of the firms they highlighted as having interest rate risk was Silicon Valley Bank. And the staff indicated that they were doing a further horizontal review and would come back with further results of that review.

Mr. CASTEN. Okay. Was it your position that the trigger for the heightened security was simply interest rate movement, or was there anything else about this calendar that triggered that heightened concern?

Mr. MICHAEL BARR. I didn't describe it as heightened concern. Basically, the staff were presenting on interest rate broadly, and the firm they singled out as having interest rate risk was Silicon Valley Bank. And they discussed the horizontal review they were doing and the fact they would come back with further information after horizontal review.

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

Chairman MCHENRY. Okay. We will now stand in recess. The committee stands in recess for 5 minutes.

[Brief recess.]

Mr. STEIL. [presiding]. The committee will come to order.

The Chair now recognizes Mr. Rose for 5 minutes.

Mr. ROSE. Thank you. Before I get into my questions, Chair Gruenberg, I would like to say that as you consider any new special assessment on banks to replenish the Deposit Insurance Fund, that you use your special exemptive authority in implementing that assessment to ensure that Tennessee bankers and, frankly, bankers in a number of other States across the country are not paying for the mistakes of California and New York bankers serving wealthy real estate moguls and tech-related venture capitalists. Tennessee bankers understand how to manage risks and should not be punished for the mistakes of those in our coastal banks.

Now, I would like to jump right into my questions as time is limited. Chair Gruenberg, the value of First Citizens Bank is up over 50 percent over just the last 5 days and is still rising. Shareholders have benefited by $3 billion by last calculation. Chair Gruenberg, why did the FDIC cap its potential gain on First Citizens stock at $500 million?

Mr. GRUENBERG. I think it was a negotiation, Congressman, and that is what we were able to work out.

Mr. ROSE. Why not allow the Federal Government to recoup more of its losses and share in this outsized gain at First Citizens?

Mr. GRUENBERG. I wouldn't argue with that, but we had a negotiation with the acquiring institution, and that is what came out of it.

Mr. ROSE. Okay. Do you think you had good negotiators at the table?

Mr. GRUENBERG. Maybe we could have been better. I don't know.

Mr. ROSE. Okay. And, Chair Gruenberg, did you receive any pressure from the White House or other elected officials not to allow for consolidation of large or mid-sized banks with Silicon Valley Bank as part of the review process of potential bidders?

Mr. GRUENBERG. No, Congressman.

Mr. ROSE. Okay. Vice Chair Barr, as you know, as committee members, we have been undergoing a series of briefings with regulators both at the State and Federal level on these bank failures. Earlier this week, I learned that the California banking regulators were conducting their examinations of SVB remotely. Vice Chair Barr, can you tell us whether or not the Fed was also conducting its examinations remotely or onsite and in person?

Mr. MICHAEL BARR. My understanding is that there is a mix of activities. I don't know how much was onsite. A lot of activity occurs remotely doing analytical work and so on, but I don't have a precise answer to that question.

Mr. ROSE. I hope you will provide that answer to us. As a former bank board member, I know there is nothing that strikes fear in the heart of a banker more than an onsite review, maybe for good reason, and it's perhaps more effective. I would like to personally know the answer to that question as you conduct your review.

You said earlier, and I think reaffirmed your quote that this was a textbook case of mismanagement. I hope that you will conduct a thorough review to decide whether the oversight by the Fed examiners was being done in the way that it should and that the escalation of that up through your process was appropriate and that you will take appropriate actions. It seems to me, and I will just say again, based on my personal firsthand experience, that you have the tools you need, and the question is, were they being used effectively? And I hope that in the days ahead, and the weeks ahead, we get to the answer to that question.

Under Secretary Liang, earlier my colleague, Mr. Loudermilk, was questioning you about some of the comments of Secretary Yellen. And I guess I am still a little bit confused, because I think what I am hearing both from the Secretary and maybe from you is that if it is a systemically important bank that is failing, there is going to be perhaps a more strident effort to make sure that no one loses. But if it is a less significant bank, like maybe the one that I was director at, that perhaps the concern won't be as high. Can you clear that up for me? Am I mishearing what you and the Secretary are saying?

Ms. LIANG. Yes, Congressman. The point that we have been making is that we would use the systemic risk exception or our end tools to prevent contagion in the broader system if a bank were to

fail, and that could be a bank of different sizes. And it would be designed to keep all American depositors safe.

Mr. ROSE. You understand, no doubt, the confusion that these statements leave some of us with. And I just wonder, do you have confidence in Secretary Yellen at this stage?

Ms. LIANG. Absolutely.

Mr. ROSE. And as I think about what I heard earlier today from Representative Green—I know this is not a quote of my mother, but it is a quote I have heard often, "It doesn't just have to be right, it has to look right." And so, as I leave you, gentlemen and ladies, this afternoon, I would just say the American people are watching, and I think right now, we have grave concerns about whether the regulatory process looks right. I hope you take that to heart as you conduct the review of what you are doing.

My personal conviction is that you don't need new tools; you need better craftsmen using those tools to accomplish the purposes that you have, and so I commend that to you. Again, as a former bank board member, I feel that if Silicon Valley Bank had had the supervision that I feel like our bank got, we wouldn't be here today talking about this. Thank you, and I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from New Jersey, Mr. Gottheimer, is now recognized for 5 minutes.

Mr. GOTTHEIMER. Thank you, Mr. Chairman, and Ranking Member Waters. The conditions at Silicon Valley Bank in the months leading up to its failure set the stage for a classic run on the bank. What was not typical of the situation, though, was the speed and intensity of the run, as we have talked about. Depositors driven by panic on social media platforms, and armed with online banking tools capable of rapidly moving large sums of money, withdrew nearly $42 billion in deposits within 24 hours on the 9th of March.

Under Secretary Liang, do you think social media and online banking tools have the potential to increase the intensity of future runs? And if so, what do you think the appropriate response from Treasury, Congress, and the regulators should be?

Ms. LIANG. Congressman, I do agree that the runs that occurred at Silicon Valley were unprecedented in speed and size, aided by social media and technology. Those are new risks that challenge the banking system and the financial system and we will definitely need to be considering and working with Congress on those issues.

Mr. GOTTHEIMER. So, you are working on that?

Ms. LIANG. Yes, we have been working on how to think about the payment system, how to think about fintech and digital assets. And this has now also been become apparent—

Mr. GOTTHEIMER. Thanks. I would like to work with you on that if that is okay. I will follow up. Thank you. Some Members of Congress are using the failures of Silicon Valley's bank management and bank supervisors to criticize the bipartisan 2018 amendment to Dodd-Frank that ended the one-size-fits-all approach to bank regulation. Before Dodd-Frank, we had a system of too-big-to-fail. We don't want a system, in my opinion, where banks are too-small-to-succeed.

Those who say Congress eliminated annual stress tests and other prudential safeguards need to read the bill again. The bill tasked the Federal Reserve with correcting rules for banks like SVB with

more than $100 billion in assets. And Section 104 of the 2018 amendments to Dodd-Frank says clearly, "The Board of Governors may by order a rule apply any prudential standards established under the section to any bank holding company with assets equal to or greater than $100 billion if the Board of Governors determines the prudential standard is appropriate to mitigate risks in the banking system and promote safety and soundness."

The Federal Reserve could and should have applied annual stress tests to banks like SVB, but it chose not to. While stress tests are an important component, it is clear that the existing Fed supervisory tools are equally, if not more important. During a Senate Finance Committee hearing earlier this month, Treasury Secretary Yellen was asked about supervisory stress tests, and her response was, "Supervisory stress tests focus on capital and not on liquidity. In these bank failures, liquidity played an important role." When Secretary Yellen was asked whether stress tests would expose management failures of banks, she replied, "That is the purpose of supervision," concluding that supervision is critical.

Vice Chair Barr, do you agree with the comments made by Secretary Yellen that supervision is critical to identifying the failures of bank management? And clearly, there was a huge hole in Fed supervision of SVB. Can you talk about that a little bit, please?

Mr. MICHAEL BARR. I think supervision and regulation both play an important role in overseeing bank management. Obviously, in the first instance and in the last instance, it is bank management that is responsible for running the bank, and in this case, it did so in a way that caused its failure. We are taking a careful look at the role of supervision and regulation, and not forcing managers to do a better job in running their own bank.

Mr. GOTTHEIMER. Just digging into that a little bit more, The Wall Street Journal reported that the Fed had concerns about the risk management practices at SVB as early as 2019. You admitted in your testimony that the Fed knew that there were issues at SVB for years and only started more in-depth review in February 2023, which I worry was too little, too late. When exactly does the Fed give the supervisory review some more muscle and step in to prevent a disaster, and can you talk a little bit more about what happened here and what you are trying to learn? Thanks.

Mr. MICHAEL BARR. Thank you. That's a great series of questions. The Federal Reserve System is based on a tailored approach, where firms between $50 billion and $100 billion are really part of the regional banking organization group, and firms with $100 billion and above are in the large and foreign banking organization group. And even within that, there are distinctions between firms at $100 to $250 and $250 and above. And I think part of the problem is that framework, which really focuses on asset size, is not sensitive to the kinds of problems we saw here with respect to rapid growth in a concentrated business model. That is one of the reasons why earlier this year, I announced that we were going to have a novel supervision group that really focuses on these kinds of issues.

Mr. GOTTHEIMER. So to that point, you said yesterday before the Senate that the Federal Reserve has broad authority to apply additional prudential standards to banks with more than $100 billion

in assets, like Silicon Valley Bank. Is this a situation where the Fed needs different authorities, or has the Fed simply chosen not to use the authorities given by Congress? Where should you be jumping in?

Mr. MICHAEL BARR. We are going to look at our own framework, our own supervision, and our own regulation. I think that self-assessment is really critical part of risk management. As I mentioned earlier, we have a team of staff working on it who are not responsible for supervising SVB. We are going to look at our own structure and suggest reforms.

Mr. GOTTHEIMER. Thank you. I yield back.

Mr. STEIL. The gentleman yields back. The gentleman from South Carolina, Mr. Norman, is now recognized.

Mr. NORMAN. I thank each of you for testifying today. Let me ask a very simple question. We had a $209-billion bank in assets have a total meltdown from March 8th through March 26th, 18 days. You had a bank that basically, from all outward appearances, was strong to the taxpayers, and to the investors, and over those 18 days, it had a meltdown. Now, the warning signs that have been mentioned at this hearing, like the six citations, like the absence of a chief risk officer for 8 months, like the deficient government controls; the signals were there for a bank that was in trouble. When the chairman started it off, I didn't see a sense of urgency from any of you all on things to do other than, "We contacted staff," or, "We contacted the immediate supervisors."

When I was a director of a bank, if one of these citations had been issued, somebody's head would roll. We would be having a conference call. Give me some assurance that I am wrong, or, I guess, give me some assurance of what specific actions you would take if this is duplicated, because you had $20 million lost in the Insurance Fund, and the calls I am fielding in my office are from the smaller banks. And a lot of people are denying that the taxpayers are going to take the hit. The taxpayers are going to take the hit at the end of the day, because they are the ones who make the profit for the banks to pay the fees to the FDIC. What does it take to get your attention and to put a sense of urgency to situations like this?

Mr. MICHAEL BARR. I think it is an incredibly urgent situation. Obviously, when we learned of the immediate distress of the firm, we stepped in and took decisive action to make sure every American's deposits are safe. And we put in place a liquidity measure to make sure that banks all across the country would have the liquidity they need, in case any institution were to—

Mr. NORMAN. You are talking about over the weekend? Well, you found out on Thursday. And you are saying that over the weekend, you took these steps. I am asking, did you not get these warning signals ahead of time?

Mr. MICHAEL BARR. Sir, the bank supervisory staff certainly issued those warnings to the bank. The question we are looking in the review is why those were not escalated in a more rapid way. I agree with you. We want banks to be paying attention to supervisors. And at almost every bank in the country, as you just described, if you get a letter like this, you get a series of problems like this. They had many, many problems. I am focusing on liquid-

ity, and management, and interest rate risk, but they had many other problems, too. When you have a bank like that not responding, that is a real problem.

Mr. NORMAN. In your role as regulators, what would you do differently, each of you?

Mr. MICHAEL BARR. I think I would start with making sure that we escalate things faster and intervene more promptly with respect to mitigation, but as I said, we have just started this review. I am going to get a staff review back, and I want to really hear their expert judgment without any preconceptions about what they are going to find.

Mr. NORMAN. Did they jump to conclusions on having this as a systemic risk?

Mr. MICHAEL BARR. Pardon me?

Mr. NORMAN. Was it the right decision for the President to issue this, or I guess, the Board that voted on it to deem this a systemic risk?

Mr. MICHAEL BARR. I think it was the correct judgment, sir. It was a very difficult judgment, I know, for everyone. But a unanimous Federal Reserve Board, a unanimous board of the FDIC, and the Treasury Secretary agreed after consulting with the President. I think it was the right thing to do for the country. I think it saved a lot of small businesses, households, community banks, and regional banks from a kind of contagion that really could have been quite destabilizing. And we are now in a situation where I can say the banking system is sound and resilient. I think that was really the right thing to do.

Mr. NORMAN. I sure hope so. This has rattled the markets. I was in the commercial real estate business, and banks that are loaning to commercial ventures are shook right now, particularly on the concentrations of credit on where they put their money, and particularly for that family who has put their life savings in an account that they thought was insured. I get asked questions on the $250,000 insured limit.

Mr. GRUENBERG. Let me respond, if I may, Congressman. It seems to me the decision to guarantee the deposits of these two institutions really raises that question up. As I indicated in my testimony, the FDIC is going to undertake a comprehensive review of our deposit insurance system. Certainly, one of the things we will look at and identify different options for consideration is the scope of coverage and whether we should increase coverage overall or for particular—

Mr. NORMAN. I am running out of time. I would like to see those reports, if you could furnish that, and ask, if a rerun of what happened to these two banks happens again, what decisive role you all would take that you may have not taken earlier?

I yield back.

Mr. GRUENBERG. Congressman, the report will be out by May 1st.

Mr. STEIL. The gentleman yields back. The gentlewoman from Massachusetts, Ms. Pressley, is now recognized.

Ms. PRESSLEY. Thank you, Chairman McHenry, Ranking Member Waters, and all of our witnesses for joining us for this critical hearing. I know it has been a long morning, but that being said,

I truly hope that this is the first and not the last hearing that we are going to have on these recent bank failures. When SVB collapsed, my office received urgent phone calls, texts, and letters from throughout our district, from our constituents who were genuinely shocked and afraid for their future, affordable housing residents unsure about the status of mortgages, tech companies not able to pay their employees, and small businesses worried that they had lost most of their money.

Now, while I am glad we did avoid the worst possible scenario, Congress should consider the SVB collapse a wake-up call and take action. After the 2008 financial crisis, Congress stepped up to enact Dodd-Frank, a comprehensive package of regulations, in order to prevent big failures and systemic risks that hurt the economy.

However, in 2018, the Republican Majority in Congress passed the deregulation bill that stripped away crucial requirements and got rid of enhanced prudential standards. Donald Trump and Republicans, including some of my colleagues sitting in this very room, celebrated signing this dangerous piece of legislation. The 2018 deregulation law specifically made it easy for SVB and Signature Bank to engage in risky management practices with little to no oversight. And we must rightfully assign some of the responsibility for this bank turmoil to deregulation efforts.

Vice Chair Barr, when Congress passed the deregulation bill in 2018, which was lobbied for by banks like SVB, is it fair to say that it reduced supervision requirements by the Fed for small and mid-sized banks?

Mr. MICHAEL BARR. The overall effect of the law was for the smallest banks, to reduce regulatory burden for banks within the $50 billion to $100 billion in range, to limit the Federal Reserve discretion with respect to those institutions. But for institutions over $100 billion, the Federal Reserve retained discretion to do something different. It chose, in 2019, to put in place a set of rules that I think had the effect overall of reducing supervision and regulation of such firms.

Ms. PRESSLEY. Right, so it definitely did. The deregulation bill relaxed requirements for stress tests and resolution plans. The dangerous and irresponsible nature of this deregulation bill was completely predictable. In no way was this turmoil inevitable. Then-Federal Reserve Governor Brainard opposed it, as well as both of you, Vice Chair Barr and Chair Gruenberg, and yet here we are. In the aftermath of the collapse of SVB and Signature Bank, it is clear that the Republican deregulation bill shares the blame alongside Treasury, the Federal Reserve, and the FDIC due to the lapses in supervision and oversight.

Chairman Gruenberg, for folks who are concerned about the future of small and medium-sized banks in this country, what assurances can you give them?

Mr. GRUENBERG. Congresswoman, as a general matter, our small and medium-sized banks remain in good condition, including their liquidity, and I think the actions we took helped to stabilize the system. As I indicated, any expense by the Deposit Insurance Fund to cover uninsured depositors will be imposed through a special assessment on the industry. And we have discretion to tailor that as-

sessment to the institutions that most-directly benefited, so we are going to try to be thoughtful in this process.

Ms. PRESSLEY. Thank you. And I am requesting that each of your agencies provide my office and this committee by May 1st a list of recommended regulations that need to be enacted to strengthen the banking industry and to prevent future failures. The story of SVB's collapse is the story of a Republican Administration in cahoots with the banking industry to weaken our financial regulations, but it is also a story of regulators' failure to do their number-one job: regulate banks. And since I am accused of this often, I think I will close with a wokeism: The American public are tired of the super-wealthy pocketing bonuses and leaving working-class folks hiding in the back for their fiscal mismanagement. They are even more tired of Congress allowing them to do it. It is time to regulate. Thank you, and I yield back.

Mr. STEIL. The gentlewoman yields back. The gentleman from Ohio, Mr. Davidson, is recognized.

Mr. DAVIDSON. I thank the chairman. And I thank our witnesses. I appreciate your endurance here today and yesterday. And as I listened to my colleague ask questions, I know my constituents are tired of seeing Washington, D.C., Congress in particular, socialize risk and watch profits be privatized. They are also tired of people who don't listen.

Mr. Barr, when I was listening to what you said yesterday and today, S. 2155 isn't the reason that these banks failed. These banks were over $100 billion in assets, and therefore, it is just a red herring. Isn't that accurate?

Mr. MICHAEL BARR. What I would say is that the Federal Reserve's rules, issued in the wake of the legislation that was issued in 2019, did have the effect of lowering supervisory and regulatory standards for firms, but the Federal Reserve retains the discretion to have different rules. And one of the things that I think would be my job going forward is to put in place rules that are appropriate for that size of institution. We have the discretion to do that.

Mr. DAVIDSON. Yes, thank you. And so obviously, it wasn't the regulation per se that failed, it was the regulator that failed, and I want to understand the context in which that occurred. Over the past year-and-a-half, we have seen a substantial increase in the Federal funds rate. During that span, are you aware if the Fed or other prudential regulators had conversations, not specific to Silicon Valley Bank, about the inevitable interest rate risks that presents?

Mr. MICHAEL BARR. Yes, that is a core topic in supervision. Supervisors were very focused on interest rate risks. It was an important part of what we highlighted in our fall supervision report. Beginning last year, examiners were given extra training on interest rate risk. So, it is just a bread-and-butter supervisory issue. It is not some esoteric problem.

Mr. DAVIDSON. In that sense, did Silicon Valley Bank's failure surprise you?

Mr. MICHAEL BARR. Its failure did surprise me. Its risk-taking was excessive. But even then, I don't think anybody anticipated that they would have a devastating bank run that basically wiped out $42 billion on Thursday afternoon, with another $100 billion

expected the next day. That would be 85 percent of its deposit base in a 24-hour period. That was shocking.

Mr. DAVIDSON. Yes. We are anxious to understand all of the factors which drove that run on that particular bank, but we are also curious when you stated yesterday to Senator Kennedy that stress testing does not examine institutional risks precipitating from interest rate risk. And when we were on the conference call with Treasury, with the Fed, with the FDIC, and with House and Senate Republicans and Democrats, I asked the question of whether there is some complex model that the stress test involves. You said, "if macroeconomic conditions and whatever kick in." Well, I submit that the hold-to-maturity spread has to be considered, not just the available-for-sale risk, because of the need for liquidity. Is that something that you are focused on as you conduct your review?

Mr. MICHAEL BARR. Yes, I think you are absolutely right that we need to look at both sides of the balance sheet. We need to look at the liability structure and the asset structure. And the whole point is to assess whether, under certain conditions, you can have more stress in the liability side that forces you to sell on the asset side. Those are interrelated.

Mr. DAVIDSON. Mr. Gruenberg, do you share that concern about how we are looking at systemic risk?

Mr. GRUENBERG. Yes, I do Congressman.

Mr. DAVIDSON. Yes. I would love to go into everything that I could on this. But Mr. Barr, on March 9th, you gave a speech that touched on stablecoins and brought up specific risks associated with stablecoins. In that speech, you stated, "This mismatch in value and liquidity is a recipe for a classic bank run. Stablecoin issuers are not supervised by the Fed and lack capital and liquidity as a backstop. The banks we regulate, in contrast, are well protected from bank runs through a robust array of supervisory requirements." Would you revise those comments if you could?

Mr. MICHAEL BARR. It demonstrates the need for humility in thinking about how financial risk happens in the system. That has been a theme of basically all of my academic work on systemic risk, that we need humility, and that is why you need really strict capital and liquidity rules because of exactly the kind of circumstance we just saw.

Mr. DAVIDSON. Yes. Thank you for that. I will note, obviously, stablecoins are backed by assets and are properly regulated in many States, including the State of New York. The last thing I would say is we have this pressure to socialize more of the market. There are credit unions that are completely privately-insured, many in my district and others, and I think we should look to that market for private credit risk insurance. I yield back.

Mr. STEIL. The gentleman yields back. The gentlewoman from Michigan, Ms. Tlaib, is now recognized.

Ms. TLAIB. Thank you so much, and thank you all for being here. Vice Chair Barr, Silicon Valley Bank, which I feel like no one is focusing more on them as the bad actor here in the mismanagement and the inappropriate actions—you kept saying over and over again that they weren't responding. We should have done something when we knew they weren't responding. What could have been done?

Mr. MICHAEL BARR. It is an excellent point. I agree with you. You start with a basic problem that the bank manager has mismanaged the bank—

Ms. TLAIB. Did they hide something from us? They hid all this from us. Do you believe they hid this intentionally from the Fed?

Mr. MICHAEL BARR. I don't have access yet to the full supervisory record to really answer your question.

Ms. TLAIB. Yes. Will you let us know, because I really do think they misled and probably lied, and made some inappropriate and fraudulent, probably, actions for which I hope that we will hold them accountable.

Mr. MICHAEL BARR. We will definitely be looking into that. And we retain enforcement authority to go after people at the bank who violated the law, or who breached their fiduciary duty, or who engaged in unsafe and unsound practices, and we will hold them accountable to the fullest extent.

Ms. TLAIB. Yes, and let us not negotiate with bad actors like that. We think this is the time to really hold them accountable, honestly. This is how we set a precedent. But going back to you Vice Chair Barr, bonuses were paid out when? When was the last bonus paid out before they—

Mr. MICHAEL BARR. As I said, I am still getting access to the—

Ms. TLAIB. But we know it was a couple of hours before, correct?

Mr. MICHAEL BARR. I have heard news reports about that, but I want to make sure that I get full—

Ms. TLAIB. So, you don't even know when the bonuses were paid out? You don't have that information for this committee right now?

Mr. MICHAEL BARR. I do not have that information right now.

Ms. TLAIB. Was it the day of?

Mr. MICHAEL BARR. I would like to respond to you fully and accurately, and I want to be careful to do that properly. I have heard news reports about the timing, but I don't have the full—

Ms. TLAIB. Why does the news know, but we don't?

Mr. MICHAEL BARR. Pardon me?

Ms. TLAIB. Why do the media and the news know, but we don't? How do you not know this before our Financial Services Committee, because this is important?

Mr. MICHAEL BARR. I share your outrage about it. I just want to make sure we get to the facts.

Ms. TLAIB. Do you even know how much the bonuses were?

Mr. MICHAEL BARR. As I said, I think you are hitting at exactly the right issues. We are going to use our enforcement authority to the fullest extent possible.

Ms. TLAIB. Everyone is saying, oh, we are going to go ahead and introduce some clawback legislation, let's see, but Chairman Gruenberg, I asked Fed Chair Powell, about this. Section 956, it has been, what, 12, 13 years? When are we going to have a rulemaking on that? This is about excessive pay. This is something that Congress already considered. So, why has it been over a decade and we don't have a rulemaking? In 2016, there was a proposal. It wasn't great, but it was a really great start. It would have been instrumental here.

Mr. GRUENBERG. No, I am familiar with the rulemaking, Congresswoman. I was strongly supportive of it. We didn't complete it in time.

Ms. TLAIB. Why not?

Mr. GRUENBERG. I think there was a change of Administration, and that may have had something to do with it. There is every reason to come back to it now and complete that rulemaking, and I think—

Ms. TLAIB. If you had it today, what could you have done in this instance, because I am tired of being asked to pass things when I feel like we already did. But it has been over 12 years, and we don't actually have something, again, that we could have used as a tool.

Mr. GRUENBERG. I just answered. It would have given us explicit clawback authority on compensation. As I pointed out earlier, we do have, in fact, a legal obligation, the FDIC, to investigate the board and management of failed institutions and hold them accountable for any misconduct that might have occurred.

Ms. TLAIB. Yes, public advocates really believe this could have maybe been prevented, primarily because you all know that there were some inappropriate decisions made up so they could do the bonus and the payouts. It is clear as day, and I don't know why my colleagues are not even talking about that. They are talking about you all not getting things. Well, they didn't respond. How come nobody is mad at the bank for not responding?

Mr. GRUENBERG. All I can tell you is we have initiated the investigations to get the facts to take action, assuming the facts support the allegations.

Ms. TLAIB. Chairman Gruenberg, please, for the American people, we need a rulemaking decision on Section 956. You know how critically important this is.

Mr. GRUENBERG. I understand.

Ms. TLAIB. I read somewhere this is the 563rd bank to fail since 2001. There are going to be more, and I know you all don't want to talk about it, but there will be, because they will mislead us. They will lie. They will do anything for the bailouts. Even the risk manager person, what did she give herself? What was it? This is a crazy amount of money she walked out with; it is crazy. And then Gregory Becker, the CEO, on February 27th sold $3 million worth of stock, netting $2.2 million, and he knew this was going to be where we land. And we are not angry about that. We are angry because you all didn't notice. What about the fact that they don't respond to inquiries and things?

Mr. STEIL. The gentlewoman's time has expired. The gentleman from Pennsylvania, Mr. Meuser, is now recognized.

Mr. MEUSER. Thank you, Mr. Chairman. We know that the receivership for SVB occurred on Friday, March 9th. On Sunday morning, Secretary Yellen stated on national television that the American banking system was really safe and well-capitalized. On Sunday night, Secretary Yellen approved the FDIC to protect all depositors at SVB, and certainly implied that all bank deposits beyond the $250,000 would also be secured.

My first question to Vice Chair Barr is, what data over that time period drove you to go beyond the SVB and Signature, which was

made aware, I guess, on Sunday? And did you think that if you were to protect an idiosyncratic bank such as SVB, you would need to protect all? What data drove you to imply that all bank deposits would be secured?

Mr. MICHAEL BARR. The decisions that we made that weekend were obviously in a very compressed period of time. They involved not only gathering information about what is going on in the economy, but also the exercise of judgment. It was our judgment collectively on the Federal Reserve Board, and an unanimous decision of the FDIC and the Treasury Secretary, that we needed to do that to protect contagion from infecting healthy banks in the system, community banks, and regional banks around the country. It was a judgment call, based on the information we had at the time. I think it was the correct decision.

Mr. MEUSER. I don't want to prolong it. So, there was actual data from other banks that they could be in jeopardy from a systemic problem?

Mr. MICHAEL BARR. We were learning. I'm sorry. I didn't mean to cut you off.

Mr. MEUSER. It being a systemic problem as opposed to a unique problem.

Mr. MICHAEL BARR. As you said, it is a human judgment, but the information we were getting from other regional banks suggested pressure that was building.

Mr. MEUSER. It may have been the right call. I am just wondering what data drove Secretary Yellen to go from, hey, everything is okay, to 8 hours later, no, we are going to protect all deposits. But I am going to move on.

Chair Gruenberg, it was stated as well that all bank deposits were being secured, at no cost to taxpayers. I understand the FDIC fund is going to pay for it, as you stated, per law, but will FDIC rates go up on community and regional banks, and aren't banks taxpayers, too?

Mr. GRUENBERG. They certainly are, Congressman. As I have explained previously, just to be clear, the action covered uninsured depositors at those two institutions. The FDIC is required by law that any loss to the Deposit Insurance Fund as a result of those uninsured deposits has to be paid for by a special assessment on the banking industry. And we have authority under the law to consider the types of entities that benefit from any action taken or assistance, so we have discretion in designing the implementation of the assessment. As I indicated previously, we are keenly sensitive to the potential impact on community banks.

Mr. MEUSER. Good, because they are very concerned, as you know, community and regional banks, that they will pay for the bad actions of a few, and I am glad you are very much aware of that.

Vice Chair Barr, excessive spending by Congress, QE, the Fed doubling its balance sheet from $4 trillion to $9 trillion—no surprise to you—followed by the quantitative tightening, many banks holding excessive Treasuries were highly devalued and devastated in the case of SVB. On November 21, 2022, there was a report that the Fed was aware of the balance sheet issues of SVB. It was the 16th-largest bank in the country and 57 percent of its portfolio was

in Treasuries being devalued. Why wasn't there more enforcement taking place?

Mr. MICHAEL BARR. I think it is an excellent question. We were aware and focused at the supervisory level of interest rate risk in the firm and liquidity risk to the firm. I don't think anybody expected a devastating bank run of the kind I described before, with 85 percent of deposits fleeing or expected to flee in a 24-hour period.

Mr. MEUSER. The 16th-largest bank. You can see why people find that unacceptable from an enforcement standpoint. Lastly—I only have 10 seconds—there is a high concentration of commercial real estate loans out there owned by small banks. I will follow up with you on that one in writing.

I yield back, Mr. Chairman.

Mr. STEIL. The gentleman yields back. The gentleman from New York, Mr. Torres, is now recognized.

Mr. TORRES. Thank you. When interest rates rise, long-term securities become less valuable, but deposits become more valuable. If you have a stable deposit base, the gains from the deposits can offset the losses from long-term securities. But if you have an unstable deposit base, like Silicon Valley Bank, there is no built-in offset. Silicon Valley Bank had an uniquely-uninsured, unstable deposit base that made it singularly susceptible to a bank run in the age of social media.

Vice Chair Barr, should a bank with an unstable, uninsured deposit base like SVB be subject to a higher standard of regulation than a bank with a stable insured deposit base?

Mr. MICHAEL BARR. Representative Torres, I couldn't have said it better myself. I think you describe the situation exactly correctly. And the unique—

Mr. TORRES. Flattery will win you no points, but it's true.

Mr. MICHAEL BARR. It is just the truth. I wish I had said it that way. But no, I think there are unique risks to this kind of heavy uninsured deposit base. And for most banks in the country, as you described, they handle their interest rate risk properly. They have stable deposits.

Mr. TORRES. But you agree that the rigor of regulation should depend not only on size, but on deposit stability, yes?

Mr. MICHAEL BARR. I do.

Mr. TORRES. Regarding commercial real estate, the rapid rise of work-from-home during COVID has driven down office property values, and the rapid rise of interest rates has driven up financing cost, creating a perfect storm. Office buildings with declining property values are set to be refinanced at far higher interest rates. There is reportedly $2.5 trillion in commercial real estate debt coming due over the next 5 years, a substantial share of which is office debt.

Chair Gruenberg, to what extent do you worry about the office loan portfolio representing a ticking time bomb in the banking system?

Mr. GRUENBERG. It presents a risk. It is one the FDIC has talked about and identified publicly.

Mr. TORRES. And Signature was the largest commercial real estate lender in New York City. How much of Signature's commercial real estate portfolio consists of office real estate?

Mr. GRUENBERG. That is a good question. It is a substantial portion of—

Mr. TORRES. Can you give me an answer in writing?

Mr. GRUENBERG. I can get that for you.

Mr. TORRES. More important to me locally, residential real estate—Signature Bridge Bank has a housing portfolio of 3,000 properties consisting of 80,000 units in New York City. The portfolio includes 479 properties consisting of 19,000 units in the Bronx, where I serve as a Congressman.

I have two questions for the FDIC, Chair Gruenberg. As you go through the process of seeking a buyer for Signature's residential real estate debt, to what extent will you seek the input of New York State and New York City housing officials, who have an obvious stake in preserving the affordability of these properties and units? And to what extent will you prioritize affordable housing preservation in your selection of a purchaser?

Mr. GRUENBERG. Thank you, Congressman. Just to be clear, we have sold Signature to New York Community Bank—

Mr. TORRES. You sold everything but the real estate portfolio, as I understand it. That has been publicly reported.

Mr. GRUENBERG. I take your point. No, we will be glad to work with you and other local officials in New York in regard to the disposition.

Mr. TORRES. I appreciate that commitment.

Mr. GRUENBERG. Sure.

Mr. TORRES. I am not advocating the following course of action, but I want to provide you with a hypothetical. The banking system is reportedly sitting on more than $600 billion in unrealized losses from securities, and those losses will only rise with rising interest rates. Since the problem with these assets is one of asset duration rather than asset quality, should the Federal Reserve consider purchasing these securities? Unlike a bank, which needs liquidity to honor obligations to depositors, the Federal Reserve has the ability to hold these assets to a maturity without realizing those unrealized losses. Wouldn't that solve the problem?

Mr. MICHAEL BARR. You raise an excellent point. Under existing law, we cannot do asset purchases. But what we do do is provide ample liquidity to the financial system on the basis of those assets—

Mr. TORRES. Even with the emergency liquidity, the losses remain on the balance sheet. Those losses are arguably undercutting public confidence in the banking system, and, as you know, banking is as much about psychology as it is about finance. Why not just remove the losses?

Mr. MICHAEL BARR. I would go back to the first point you made in your earlier question, which is that for most banks, they are managing this well. They are doing fine. They have stable deposits, and they don't need to sell the assets they have on their balance sheet. Those assets can stay there and be held to maturity. If institutions need liquidity, they can get access to that from the discount

window. And the program we established, the Bank Term Funding Program, gives longer-term stability at par for those very assets.

Mr. TORRES. I want to squeeze in one more question. Did the bank supervisor at the San Francisco Fed have the supervisory authority to prevent Silicon Valley Bank from investing in unhedged long-term securities? Did you have that authority? Like, is the problem a lack of authority or a failure to exercise the authority you had?

Mr. MICHAEL BARR. The bank examiners cited them for not behaving properly with respect to—

Mr. TORRES. But did they have the authority to prevent it?

Mr. STEIL. The gentleman's time has expired. The witness can answer in writing for the record.

The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thanks, Mr. Chairman. It seems that Washington continues to create crisis after crisis and then come in to bail out the crisis. If you go back to 2008, it was the policies coming out of Washington that everyone was entitled to own a home, and it didn't matter what their credit score was, or whether they were able to pay it back; it was a human right. And fast forward a few years, the compounding impact of that resulted in the 2008 financial crisis.

What did we learn from that? I would argue nothing. The government came in, bailed everybody out, bailed out the big banks, caused chaos in the smaller banks, and picked winners and losers. And that is the theme I am going to be hitting on, picking winners and losers, because the free market capitalism is supposed to have consequences. And when the government continues to bail out bad decisions and pick winners and losers, it severely impacts the free market and it undermines our ability to compete in the global economy.

In 2008, we understand the policies coming out of Washington caused the crisis. We had two votes. The first vote failed on TARP. The second vote passed. It was very painful. I was not here. But at the end of the day, it solved the short-term problem, but we didn't learn anything. We did learn one thing, actually. It was that the TARP wasn't fun. So in 2008, we gave extraordinary power to the Executive Branch to avoid a future TARP vote, and this is the first time that you all used that authority.

Let's fast forward to 2023. A number of policies coming out of Washington, particularly the emphasis on ESG and on DEI, and that, compounded with the spending of trillions and trillions of dollars that caused inflation, which resulted in higher interest rates, destabilized SVB and Signature. So, we didn't really learn anything, in a way, because the Executive Branch used the 2010 authorities to, again, pick winners and losers, so there are no consequences for risk-taking. There are no consequences for poor decisions, and we keep talking about what caused this.

Really, it is the San Francisco Fed's misplaced priorities. Last fall, when every other Fed was sending out notifications regarding interest rates and inflation and the future stressors of the banking system, they were still sending out DEI and ESG updates. So that, combined with the SVB and Signature mismanagement, and the

inflation we created, caused this problem. And we have, again, not learned anything, and have bailed out poor decision-making.

I guess I want to start with Under Secretary Liang. Is this a problem? We invoked the systemic risk exception and covered both insured and uninsured depositors. Is it not creating more systemic risk in the overall system, because capitalism is no longer a thing? The government is backstopping everything. Is that a concern?

Ms. LIANG. Congressman, I understand your question and your concern. In this case, the systemic risks exception was taken. All depositors were covered. Shareholders and debt holders were not. They lost their investment. Those who took the risks lost their investments in this case.

I do think in this situation, the actions were taken to prevent contagion spreading to other banks. It was to help save banks, small and other regionals, who were losing their deposits to either the largest banks or to outside the banking system. I do think this requires that we will need to be assessing and looking for reforms.

Mr. TIMMONS. But the lack of consequences, the government continuing to pick winners and losers, my biggest thing is the justification. Treasury and the White House both said that there are no taxpayer dollars. And what about the people who are going to miss payroll? Neither one of those were necessarily true because it is taxpayer dollars, because the increased premiums from the FDIC are going to be passed down to Americans all over the country. And they are taxpayers, so those are their dollars. It is not coming out of the general fund, but it is semantics.

And as it relates to payroll, only $22-plus billion is going to be at issue, so there were opportunities to make them whole. I just really think that: one, delegating to the Executive Branch the ability to bail out banks is dangerous; and two, bailing out these banks in this manner has caused more problems than was possibly worth it. And with that, Mr. Chairman, I yield back.

Mr. STEIL. The gentleman yields back. The gentlewoman from Texas, Ms. Garcia, is now recognized.

Ms. GARCIA. Thank you, Mr. Chairman, and thank you to the ranking member for bringing us together for this really important hearing. And I wanted to start with just a quick question to the three of you, because I have been troubled by the use of the word, "crisis." I know I shared with the ranking member the other day that I never saw this as a crisis. Perhaps it was a boo-boo, maybe a major boo-boo, but not a crisis. I don't personally think that two bank failures equals a crisis. I just want to quickly ask each one of you for just a yes-or-no answer. Do you think this is a crisis, Mr. Barr?

Mr. MICHAEL BARR. As I said at the outset, I think our system is sound and resilient.

Ms. GARCIA. Is it a crisis, sir? Yes or no?

Mr. MICHAEL BARR. I think that it was an appropriate use of the systemic risk exception to prevent a crisis.

Ms. GARCIA. Is it a crisis? Yes or no?

Mr. MICHAEL BARR. As I said, I think that where we are now, the banking system is sound and resilient. There was a risk that if we did not invoke the systemic risk exception it could have led—

Ms. GARCIA. Would you have used the word, "crisis," is the question?

Mr. MICHAEL BARR. I have not used that word.

Ms. GARCIA. Okay. Chairman Gruenberg?

Mr. GRUENBERG. I think we were at risk of crisis, and I think the actions that we took have stabilized the system.

Ms. GARCIA. Ms. Liang?

Ms. LIANG. I agree with that. The actions we took stabilized the system.

Ms. GARCIA. I think you are right. And I guess that we should focus on the swift action over a weekend, no less, and how we were able to avert a crisis, and how we were able to prevent contagion, and how we were able to, frankly, not just save those banks, but potentially other banks as well.

And I know that recently, as the ranking member mentioned, there has been some notion that it is the woke policies that have done this. And I know that some extreme MAGA Republicans, like Florida Governor, Ron DeSantis, have even suggested that it was the ESG policies, frankly, with zero evidence, but yet they continue with some of this rhetoric.

Vice Chair Barr, yes or no again, do you believe that ESG investing played any role in the failure of Silicon Valley Bank?

Mr. MICHAEL BARR. No.

Ms. GARCIA. Mr. Gruenberg?

Mr. GRUENBERG. No.

Ms. GARCIA. Ms. Liang?

Ms. LIANG. I do not have the information that the supervisors have, but my strong preference would be, no.

Ms. GARCIA. Right. As I said, there has been no evidence, and thank you for reaffirming that. As you will recall, the claim that ESG investing caused the failure of Silicon Valley Bank is really strongly reminiscent of the claim back in 2008 that the financial crisis then was because of the Community Reinvestment Act obligation, so it's very similar. The Financial Crisis Inquiry Commission examined this claim and rejected it, as did researchers within the Federal Reserve.

Vice Chair Barr, would you remind us what researchers at the Fed have concluded about attempts to blame the housing and foreclosure crisis on historically-disadvantaged communities of color?

Mr. MICHAEL BARR. The research shows that there is no basis for the conclusion that low-income or moderate-income households were responsible for causing the financial crisis.

Ms. GARCIA. Okay. Do you think that the communities of color, the disadvantaged communities, and particularly people in my district, which is 77-percent Latino, should be concerned that these bank failures and some of the remedies that are being put in place may cause a lack of capital and the lack of opportunities to be able to buy homes? Will it impact mortgage rates?

Mr. MICHAEL BARR. I think the steps that we took together to stabilize the economy and provide public confidence in the banking system are of assistance to low- and moderate-income households and to all Americans around the country.

Ms. GARCIA. But do you think there will be some negative impact on interest rates and the ability to borrow to purchase homes?

Mr. MICHAEL BARR. My estimate is that the banks' reactions to the current economic circumstances are likely to lead to a reduction in credit availability overall. That is something that we are watching very carefully at the Federal Reserve.

Ms. GARCIA. Right. And Ms. Liang, I had a question for you about crypto. I know that there is an additional bank that is going through some process of voluntary liquidation. What role did crypto play in all this?

Ms. LIANG. I don't believe crypto played a direct role in either of the failures.

Ms. GARCIA. Was there an indirect role?

Ms. LIANG. I know that Signature had activities involved in digital assets, but I don't believe that is the main—

Mr. STEIL. The gentlewoman's time has expired.

Ms. GARCIA. Mr. Chairman, I will follow up in writing with the three panel members on this issue.

Thank you. I yield back.

Mr. STEIL. The gentleman from New York, Mr. Garbarino, is recognized for 5 minutes.

Mr. GARBARINO. Thank you, Mr. Chairman. Chairman Gruenberg, I want to talk a little bit about Signature Bank. Can you describe the condition of Signature Bank at the time of its receivership, and what evidence you had that showed Signature was also facing a liquidity crunch on March 10th? And what was Signature's available funding at the time the New York State Department of Financial Services closed the bank and placed it in FDIC receivership?

Mr. GRUENBERG. Congressman, we can get you the specific data. But the fact is that on Friday night, that bank had real difficulty in meeting its obligations at the end of the day, and barely met them by the 5:30 closing time. And I think both New York State and the FDIC, who jointly had responsibility, did not think that the bank could open and make it through the day on Monday. I think that was the determination, and that is why New York State, on Sunday, decided to close the institution.

Mr. GARBARINO. Okay. And you can get me the specific numbers?

Mr. GRUENBERG. Yes, we can.

Mr. GARBARINO. Thank you very much.

I want to follow up on something that my colleague, Tom Emmer, asked before. When New York Community Bancorp (NYCB) assumed Signature's deposits and some of its loans, it refrained from including roughly $4 billion of deposits related to Signature's digital assets banking business. As a result, Signature's real-time payments network remained under the FDIC's receivership. It was reported early yesterday evening that the FDIC sent a notice to depositors whose deposits were not included in NYCB's bid, informing them that any accounts not closed by April 5th will be automatically shut and depositors will receive a check in the mail. Can you walk me through the FDIC's reasoning for this decision?

Mr. GRUENBERG. Yes, Congressman. The winning bid for Signature by NYCB's subsidiary, Flagstar, was for all of the deposits, except the winning bid chose not to bid on the digital assets, and there were about $4 billion of those. And we provided those deposi-

tors a couple of weeks to determine what they might want to do, and we sent them a notice that we will return their deposits to them by early next week, I believe.

Mr. GARBARINO. In your response to Mr. Tom Emmer, you mentioned that Signet was included in the sale of Signature Bank, while the deposits were not. So, you are still currently looking for a buyer?

Mr. GRUENBERG. Just to clarify my earlier response, the digital deposits are being returned to their deposit holders. It is my understanding that Signet was not acquired and remained in the receivership and is in the process now of being marketed.

Mr. GARBARINO. So, Signet is still under FDIC receivership?

Mr. GRUENBERG. Yes, it is in the process.

Mr. GARBARINO. Okay. Thank you very much.

Chairman Gruenberg, I also want to bring this up. In the Senate Banking Committee hearing yesterday, there was an exchange between Senator Van Hollen and Vice Chair Barr on guidance issued in 2018 and codified in 2021 when Randy Quarles was Vice Chair of Supervision of the Federal Reserve Board of Governors. This has become a target of some, even though this initiative doesn't limit any action an agency can take; it simply clarifies which actions will be accomplished through regulatory measures, and which through supervisory measures.

You stayed silent during the entire exchange, but I recently read an op-ed in The Wall Street Journal written by Randy Quarles, which has said that both you and Lael Brainard voted for this guidance. Is that true? Did you vote for this guidance?

Mr. GRUENBERG. Yes, we did, Congressman.

Mr. GARBARINO. Thank you very much.

Vice Chairman Barr, as we look back at the events of the past couple of weeks, there have been a number of similarities identified between Silicon Valley Bank (SVB) and Signature Bank, the first of which is a high concentration of deposits well above the FDIC insurance limit, with a report showing 90 percent for Signature Bank, and 87 percent for SVB, and the second being the lack of diversity in both banks' deposits. The news has discussed the potential impacts of these similarities. However, I would like to explore how the Federal Reserve and the FDIC view deposit diversification as it pertains to determining the soundness of financial institutions?

Mr. MICHAEL BARR. Sorry. I couldn't hear the last four words of your sentence.

Mr. GARBARINO. I am out of time, so I will submit this question in writing for you to respond for the record. Thank you so much.

Mr. STEIL. The gentleman yields back. The gentlewoman from Georgia, Ms. Williams, is recognized for 5 minutes.

Ms. WILLIAMS OF GEORGIA. Thank you, Mr. Chairman. I want to start by making it clear that the failures of the Silicon Valley Bank and Signature Bank were not just about wealthy people, as some of the narrative that we have heard in conversation. There is a significant chance of a disastrous impact on hardworking people who are trying to make payroll, and it is important that this detail doesn't get lost in the shuffle.

The weekend that SVB failed, I woke up to text messages from constituents asking what the government was going to do, what kind of intervention there would be, because they had money in this bank. Atlanta is a booming area for tech startups, so the impact was felt very much by my constituents. They wanted to know if they would be able to access their funds on Monday morning. Black-owned businesses were worried about paying their employees, and entrepreneurs who are creating wealth in marginalized communities were concerned about covering basic business expenses. These businesses are closing the racial wealth gap, of which, unfortunately, my home district of Atlanta leads the nation, and the banking system has to work for them.

Mr. Gruenberg, in the aftermath of SVB's failure, there has been substantial debate about raising the $250,000 deposit insurance gap to minimize any potential payroll disruptions and economic pain that may follow when the next thing fails, which my constituents are so concerned about. There is reportedly bipartisan legislation in the works to temporarily raise the cap. If the cap is raised or eliminated to help protect depositors, we will need to take measures to reduce the risk of moral hazard. One proposed measure is the continuance of risk price deposit insurance premiums. Mr. Gruenberg, as we consider different deposit insurance reforms, should we seek to maintain risk price deposit insurance?

Mr. GRUENBERG. I think we do want to maintain risk-based deposit insurance, but I do think if you change one part of the system, it impacts another part of the system. As I indicated earlier, the FDIC is undertaking a comprehensive review of the deposit insurance system in light of this episode, and we will release a report by May 1st, also laying out policy considerations for changes to the system that we hope will inform the discussion around this.

Ms. WILLIAMS OF GEORGIA. So beyond the report and moving forward, what steps can the FDIC take when making decisions about deposit insurance assessments to make banks think twice about various financial stability threats that disproportionately impact marginalized communities?

Mr. GRUENBERG. We have the authority now to do risk-based pricing. And I think it is fair to say that in light of this experience, we need to think hard about liquidity risk and concentrations of uninsured deposits, and how that is evaluated in terms of deposit insurance assessments. But I also think it is an appropriate moment to take a look at how our system works, in light this episode, and consider what other changes might be prudent.

Ms. WILLIAMS OF GEORGIA. Thank you. And we all know that part of maintaining a healthy banking system is confidence, specifically consumer confidence that their money is safe in the banks that they have chosen. People of color have a harder time getting affordable loans from the largest banks, and thus turn to the community banks, Minority Depository Institutions (MDIs) , and the like. And when there is fear in the financial sector of an economic downturn, minority-owned banks and community financial institutions are hit hard as customers transfer their funds to what they think are safer and larger banks.

Vice Chair Barr, what can Congress do to strengthen and support community and minority-owned banks in situations like we just experienced?

Mr. MICHAEL BARR. Thank you very much, Representative Williams. I agree with you that having a wide diversity of kinds of institutions in our country is really critical, including community banks and regional banks, Minority Depository Institutions, and Community Development Financial Institutions (CDFIs). All of these institutions, I think, are really important for economic vibrancy and inclusion in our society. We would be happy to work with you on ways that we can continue to support those institutions going forward.

Ms. WILLIAMS OF GEORGIA. I would be happy to work with you, and we will definitely follow up.

Mr. Gruenberg, I would love to hear from you what kind of deposit insurance reforms would help support Minority Depository Institutions and other community banks?

Mr. GRUENBERG. It is an interesting question. We are in the process of finalizing a major revision of the Community Reinvestment Act. And in the proposed rulemaking, there were specific provisions to encourage banks to work with and support Minority Depository Institutions (MDIs) and Community Development Financial Institutions (CDFIs). So, I think that is actually an important vehicle and opportunity to strengthen our MDIs and CDFIs which serve low- and moderate-income (LMI) communities. And we should give some thought in our review whether deposit insurance may play into this as well.

Ms. WILLIAMS OF GEORGIA. I have many more questions, but we are going to work together on this. And my time has expired. Thank you, Mr. Chairman. I yield back.

Mr. STEIL. The gentlewoman yields back. The Chair now recognizes himself for 5 minutes. Vice Chair Barr, did you originally believe that inflation was temporary and transitory? Yes or no?

Mr. MICHAEL BARR. I was not on the Federal Reserve Board at that time.

Mr. STEIL. Did you believe it was temporary and transitory or you had no opinion?

Mr. MICHAEL BARR. I would say at that time, I did not have an informed opinion.

Mr. STEIL. You did not have an informed opinion if it was temporary and transitory. The Federal Reserve continued to call inflation temporary and transitory until Q4 of 2021. The Biden Administration continued to call inflation temporary and transitory. I apologize. The Federal Reserve Q4 of 2021, Biden Administration, Q1 of 2022, following the Russian invasion of Ukraine. That is when they stopped calling it temporary and transitory. Would the challenges that we saw with SVB have taken place if inflation truly was temporary and transitory? Yes or no?

Mr. MICHAEL BARR. The problems that came about from SVB are from classic interest rate risk management.

Mr. STEIL. So if inflation was temporary and transitory, I will make the assumption for myself that interest rates would not have gone up. If interest rates didn't go up in the manner and hold in

the way that they are, SVB would not have occurred, the breakdown of the bank?

Mr. MICHAEL BARR. Sir, banks have an obligation to manage interest rates, whether they are going up or going down. It is just classic good banking, and it wasn't done here.

Mr. STEIL. Okay. Let me dive in then. Yesterday, in response to a question from Senator Rounds, following the matter requiring immediate attention (MRIA), you noted that there was a challenge in the model that it, "was not at all aligned with reality." Was that a challenge in modeling in particular interest rates, or what part of reality was it not connected with?

Mr. MICHAEL BARR. Let me also say, as I mentioned earlier today, I called that an MRIA yesterday, but I meant an MRA. It was just a staff mistake.

Mr. STEIL. Understood.

Mr. MICHAEL BARR. But it is an MRA on interest rate risk. And basically, what I meant is that their model showed that they would earn more money as rates were going up, and they were losing more money.

Mr. STEIL. So, interest rate was at the core of how it was disconnected from reality?

Mr. MICHAEL BARR. Yes, it was about interest rate.

Mr. STEIL. That is fair. So, here is my chance. As I look at the ability to prevent all of this, the Federal Reserve would have had to admit that they were wrong, that inflation was not temporary and transitory. I think that is in the core of our conversation here. And Congress, I think, continues to do an abysmal job with the Administration to bring inflation under control.

Let me switch gears if I can, pretty substantively here, Vice Chair Barr. I have in front of me the H.4.1 from the Federal Reserve, and, in particular, looking at the loans that the Federal Reserve has made to depository institutions. There has been a significant shift in particulars related to other credit extensions. Other credit extensions, it is noted that the Fed is taking collateral from the FDIC. That account, March 9th, $0; March 16th, 1 week later, $57.6 billion; March 23rd, 1 week after that, $178.6 billion. The Federal Reserve is taking collateral from the FDIC and loaning the FDIC money. Under what statutory authority is the Federal Reserve engaged in that?

Mr. MICHAEL BARR. Sir, the Federal Reserve is lending through the discount window to the bridge institutions that were established by the FDIC. They are lending to banks. There is a provision in the statute which clearly contemplates that.

Mr. STEIL. You are noting that when I read Footnote 7, that would not have fallen under the line of either primary credit or secondary credit?

Mr. MICHAEL BARR. For the purposes of enhancing transparency to the public, that line was broken out so that everybody could see exactly what it was.

Mr. STEIL. Okay. That is helpful.

If I can shift to you, Chair Gruenberg, as we look at this dramatic increase, is there a reason that you used this facility rather than: one, selling assets; or two, tapping your line of credit at the Treasury, which I believe is to the tune of $100 billion?

Mr. GRUENBERG. We certainly have sold assets to meet our liquidity needs. And these bridge institutions are nationally-chartered banks eligible to borrow from the Fed and utilize that in order to manage the liquidity situation.

Mr. STEIL. But is there a reason that you are not either: one, utilizing in a more-substantive way the credit line available from the Treasury; or two, selling assets? And the reason I ask this is, so that maybe I can be more specific, does the FDIC have the same risk that we are seeing in other banks with unrealized losses, and is that why you are tapping this facility rather than selling assets?

Mr. GRUENBERG. No, Congressman, we are selling assets to meet the obligations of the failed institution, and we are also managing the liquidity. And these bridge banks have the authority and ability to access the Fed resources.

Mr. STEIL. So, you are both selling assets and borrowing from the Fed to the tune of $178 billion at the same time?

Mr. GRUENBERG. For these institutions to meet immediate liquidity demands, which we will eventually get back to now.

Mr. STEIL. And did the Treasury at any time discourage you from taking a loan from the line of credit from the Treasury for purposes of addressing the debt ceiling limit?

Mr. GRUENBERG. I think there were discussions in regard to that, but I think the principal purpose here, frankly, was liquidity management, and also to be able to preserve liquidity in our deposit insurance fund.

Mr. STEIL. I appreciate your time here today. I yield back. I will now recognize the gentleman from North Carolina, Mr. Nickel, for 5 minutes.

Mr. NICKEL. Thank you, Mr. Chairman, and thank you to our witnesses for being here with us today. People in my district are already living paycheck to paycheck, and they are worried about making ends meet. They are already dealing with the rising costs of everyday goods and services, and the last thing they need to worry about right now is their bank or their employers' banks failing. That is why I am working to provide transparency and accountability to this process. Where were the regulators? I want to know what the bank executives were doing in the months, weeks, and days leading up to this failure. My constituents deserve to know that we are going to hold bank executives accountable and ensure that this doesn't happen again.

These bank failures rattled our financial system. Working families in my district need a stable economy they can rely on. They can't afford more uncertainty when it comes to their next paycheck. And right now, the looming debate over the debt ceiling crisis has the ability to rattle our economy even further.

Vice Chair Barr, in just a few months, the United States Congress needs to raise the debt ceiling. If the U.S. defaulted on the debt, would it be really bad for our economy? Would it be really, really bad for our economy, or would it be really, really, really bad for our economy?

Mr. MICHAEL BARR. The basic answer to that question is that the Congress needs to increase the debt ceiling. There are no other options around that. In the absence of an increase in the debt ceiling, it could cause enormous dislocation to our economy.

Mr. NICKEL. So, one really? Two reallys? Three reallys?

Mr. MICHAEL BARR. I wouldn't characterize it—I think that it is the right thing to do. I think Congress needs to do that and really leave anything else about the debt ceiling up to discussions between the Administration and Congress. Just to say from an economic perspective, it would be quite unfortunate.

Mr. NICKEL. Thank you. Vice Chair Barr, this was the second-largest banking failure in U.S. history, with $42 billion pulled in a day. Who was asleep at the wheel?

Mr. MICHAEL BARR. I think in the first instance, as I have said, the bank management is responsible for running the bank. They failed in basic measures of interest rate risk and liquidity risk. They had very many outstanding matters requiring attention, and matters requiring immediate attention. They were deficient in governance and controls. They were rated a 3 overall with respect to the firm, which means they are not well-managed. And at the end of the day, it is the job of the bank and their board of directors to run themselves the way they should. We, of course, are looking internally at our own supervision and our regulation, and looking at ways that we could have forced the firm to do more faster, or raise standards so that if the firm got into trouble, they had more capital and liquidity.

Mr. NICKEL. I certainly hope there is some accountability.

Chair Gruenberg, moving to you now, First Citizens Bank, which is located in my congressional district, North Carolina's 13th District, was the successful bidder for Silicon Valley Bank. They have a proven track record in this space and are already instilling greater confidence in our banking system. Can you tell us about the evaluation process for the bids that were submitted, and what made First Citizens the most-attractive bidder?

Mr. GRUENBERG. Two reasons I would say, Congressman: one, financially, it was the strongest bid for the FDIC; and two, it was a bid for all of the deposits of the institution and all of the loans of the institution so that it provided operational certainty as well. So from both a financial standpoint and an operational standpoint, it was really the strongest bid we received.

Mr. NICKEL. And it took a while. Why wasn't Silicon Valley Bank purchased sooner? I think that certainly would have created more stability in this situation.

Mr. GRUENBERG. If we could have sold it that first weekend, that would have been desirable. The fact is, Silicon Valley was a pretty large institution, $200 billion in assets, and pretty complicated in terms of its business activity. So for a potential acquiring institution to do the due diligence over a weekend and reach a conclusion and make up was, frankly, not practical. And so, we set up a bridge institution for both of the failed banks, and were able, in a pretty orderly way, to set up bidding processes for each.

And, in fact, for Silicon Valley, we had considerable interest and got a couple of requests for additional time for interested parties to do due diligence. So, we extended the bid date a couple of times to give people time, and we ended up getting, I think, 27 bids from 18 different sources. And it ended up being a pretty constructive process.

Mr. NICKEL. Thank you very much. I yield back.

Chairman MCHENRY. The gentlewoman from California, Mrs. Kim, is recognized for 5 minutes.

Mrs. KIM. Thank you, Mr. Chairman. Let us examine what we are discussing here. At the time of its failure, Silicon Valley Bank was the 16th-largest bank in the United States, with assets more than tripling from $71 billion in 2019, to over $200 billion at the end of 2022. Obviously, we all know banks have a responsibility to manage their operation well. Unfortunately, with our economy facing inflation not seen in decades, and increasing interest rates, supervisory missteps at the Federal and State level failed to correct and mitigate SVB's rapid growth in its balance sheet and management risks.

Mr. Barr, yesterday, you mentioned that you first heard about SVB's interest risk and liquidity management issues back in February of this year. So I want to ask you, who decided to put SVB under the horizontal review process? Considering there are at least 6 warnings going back toward 2021, and given SVB's risk profile, how did you conclude that the firm did not merit actions beyond the horizontal review process?

Mr. MICHAEL BARR. Thank you, Representative Kim. I think that is one of the things we are trying to figure out in the review. The supervisors on the ground saw the risks that you described, saw the interest rate risk and saw the liability risk. They required the firm to make changes. The firm didn't make those changes in time. The concern of supervisors grew. You can see that from the fall of 2021 to the deficiency rating in 2022 and then further action that year. But you are absolutely right that at the end of the day, the bank failed, and so you need to look at—

Mrs. KIM. Reclaiming my time, it seems to me that you could have considered downgrading ratings or considering enforcement actions. And to me, it seems that supervisors kicked the can down the road and didn't consider the full consequences of their inaction.

But I want to ask the next question. In February, the Fed reported in its January Senior Loan Officer Opinion Survey that it was seeing tighter credit conditions, so it seems to me that SVB's failure will only serve to exacerbate the tighter credit conditions. I am worried that entrepreneurs will soon find it more difficult to get a loan or credit to expand their businesses and hire workers due to tighter credit conditions.

So Mr. Barr, I want to ask you, how will you consider tighter credit conditions as part of your holistic capital review and Basel III Endgame reforms?

Mr. MICHAEL BARR. We are looking to review our capital requirements not for the current situation, but for the long term. Any capital requirements that we consider would go through notice-and-comment rulemaking and have a transition period, so they would not apply to the current economic circumstances that we are in now. We are thinking about the long-term effects. We are, of course, paying attention to tightening credit conditions as part of our monetary policy decisions. This factors into our forecasts for the economy and, therefore, into our interest rate decisions.

Mrs. KIM. I am asking you to please pause and keep the current market volatility and uncertainty in mind as you do that.

Mr. Gruenberg, let me ask you a question. Yesterday, you stated that you received two private bids to purchase SVB. This is after the FDIC was appointed as a receiver, and you said one was invalid because it did not get the approval of the Board, and the second one indicated it was more expensive than liquidation. And in your prepared statement, you mentioned that the cost to the Deposit Insurance Fund of resolving SVB will be about $20 billion. Can you tell us why the FDIC Board decided to deny the first bid, and did you see the second bid as more expensive than the $20 billion incurred by the insurance fund?

Mr. GRUENBERG. I think the point is that neither bid was less-expensive than liquidation, so liquidation would have been a less-costly alternative than either acquisition at that point. And, frankly, the limited bids and the quality of the bids we received was a function of the very-compressed timeframe, because we just taken over the institution Friday morning, and this was Sunday afternoon. And we thought it was in the interest of the Deposit Insurance Fund to place the institution into a bridge so that we could manage it for a brief period of time and then organize an open bidding process so that interested parties would have a fair opportunity to bid on the institution. That is ultimately what happened, and if it would be helpful, I would be glad to respond more fully in writing.

Chairman MCHENRY. That would be fantastic.

Mrs. KIM. Thank you.

Chairman MCHENRY. And with that, we will recognize Ms. Pettersen of Colorado for 5 minutes.

Ms. PETTERSEN. Thank you, Mr. Chairman. I am the last on the list, I believe. I always am, so I just want to thank you all for being here today.

Chairman MCHENRY. We are Members of Congress. We don't rate it that way. We can restart your time. I am sorry to interrupt. I apologize.

Ms. PETTERSEN. Thank you, Mr. Chairman, and I really appreciate this incredibly-important discussion. There are numerous areas that need to be examined to better understand the failure of Silicon Valley Bank and Signature Bank. But first, I want to thank you, and the boards of the FDIC and the Federal Reserve, and the Treasury Secretary, for your leadership in ultimately bringing the resolution needed to stabilize the banking system and protect depositors.

I had text messages, and emails, and phone calls from constituents and from people across Colorado who were absolutely terrified that they were going to lose everything and that they were going to be unable to make payroll. So while the response took some time, and I think it did foster a lot of misinformation being spread, ultimately, thank you so much for doing what was necessary to protect our economy.

But we are, of course, here today because we want to make sure that we are learning from what could have been done better and evaluating what we need to do in changing times. And I think that one of the most-challenging issues that each of us face in this committee and for all of you is how we adjust our regulations and responses in a time when information spreads like wildfire, and, in

this case, created a panic across our system and threatened our entire economy. Previously, a bank run would take days. In 2008, Washington Mutual saw over $16 billion in withdrawals over 10 days. With SVB, the bank run happened in a matter of hours, with a record $42 billion being withdrawn in a single day. And while SVB clearly wasn't managing their risks, and was not listening to the warnings from the FDIC, I don't think any bank could have survived a run like this.

And so, Mr. Gruenberg, knowing that this panic occurred through social media, in response to the suggestion that not all depositors would be protected when the FDIC took over SVB, what lessons can regulators take from this to improve their public communication when a future bank fails, knowing how quickly depositors can immediately move their money in this new technological age? I know you are going to take time, and we will hear a lot more about this in the future. What do you think is needed to expedite the responses necessary to mitigate something like this from happening again?

Mr. GRUENBERG. To prevent it from happening again really raises all of those supervisory and regulatory issues we have been talking about this morning. I do think in regard to deposit insurance, we should do more and perhaps a better job of explaining to the public how deposit insurance works, what is covered, what is not covered, and what are the options available to people when they open a bank account. And I think that would also be one of the reasons to undertake this overall review of the deposit insurance system, to see what changes might be considered that would be helpful to the public.

Ms. PETTERSEN. Great, thank you for that. And last, Vice Chair Barr, in just a couple of weeks we have seen these two bank failures. We have seen efforts to prop up First Republic Bank, and we have also seen issues with Credit Suisse and the Deutsche Bank in Germany. I am still getting questions from people in my district who are concerned. So, what message do you have for them, for our constituents and small businesses, to reassure them that our financial system is stable and that their money is secure?

Mr. MICHAEL BARR. I think that is an excellent point. I know when many of you talk to banks in your own districts, they are telling you the same thing, which is that the banks are sound and resilient. I think if you look at the actions we took a couple of weeks ago, those actions demonstrate that we are committed to ensuring that all deposits are safe. We are prepared to use those tools for any size institution as needed, if appropriate, to keep the system safe and sound. So, the basic message is that the banking system is sound and resilient.

Ms. PETTERSEN. Great. Thank you. I really appreciate it, and I yield back, and congratulations since I am the last one.

Chairman MCHENRY. The gentlelady yields back. The last one on the Democratic side.

Ms. WATERS. We have two.

Chairman MCHENRY. I'm sorry. I will now recognize the gentleman from Florida, Mr. Donalds, for 5 minutes.

Mr. DONALDS. Thank you, Mr. Chairman. Panelists, I know it has already been an interesting day. Thanks for being here.

Vice Chair Barr, it says here you were confirmed on July 19, 2022. So you came in kind of in the middle, according to your own testimony, of when the San Francisco Fed was having examiner issues at SVB. Is that fair?

Mr. MICHAEL BARR. The examiner report with respect to the whole firm as a whole was done in July 2022, and that is when I arrived.

Mr. DONALDS. Okay. According to your testimony, you say here at the end of 2021, supervisors at the San Francisco Fed found deficiencies with bank liquidity risk, resulting in 6 supervisory findings in May of 2022. There were three additional findings associated with ineffective border management, et cetera. In October 2022, supervisors met with the bank's senior management to express concerns about the interest rate profile. On February 23, 2023, your staff alerted you to these issues, and then we know the rest of the story. Is it your assessment that there are serious supervisory issues at the San Francisco Fed?

Mr. MICHAEL BARR. We are doing the review of that now, and I don't want to prejudge the outcome of it. There were clearly supervisory—

Mr. DONALDS. Mr. Barr, I am not going to ask you to prejudge. I am going to prejudge, as an American citizen, and as a Member of Congress. Didn't you think it is unnecessary, it is a rational judgment, that with all the supervisory findings that existed for the last 2 years, this still resulted in finding that there are supervisory issues at the San Francisco Fed?

Mr. MICHAEL BARR. Sorry. That was your question?

Mr. DONALDS. Yes. Do you think it is a good assumption to make?

Mr. MICHAEL BARR. I don't want to assume. I want to go look at the facts. We are going to look at the facts in this review. I think that, overall, at the Federal Reserve, without pointing any figures in any direction, there were significant supervisory failings. I said at the outset of the hearing that if you have a bank like this that is failing, there are serious management issues, there are supervisory failings, there are regulatory failings, and we are committed to looking at all of it.

Mr. DONALDS. Okay. That is fair.

Mr. Chairman, I ask unanimous consent to put into the record a Wall Street Journal article dated November 11, 2022, "Rising Interest Rate Hikes Hit Bank Bond Holdings."

Chairman MCHENRY. Without objection, is is so ordered.

Mr. DONALDS. In this article, there is actually a comment by Thomas Hoenig, former President of the Federal Reserve Bank of Kansas City, and former Vice Chair of the FDIC, and he says if they go high enough, you can actually be losing money on those assets. He was speaking about banks generally but not specific banks. This is highlighting that his concern as somebody who was, in part, in your shoes and Mr. Gruenberg shoes, was concerned about rising interest rates on bank portfolios writ large. Do you agree with that statement?

Mr. MICHAEL BARR. Yes, I think interest rate risks, again, is a core risk. We look at it across the system and banks are supervised for that, and it is absolutely essential they manage that risk.

Mr. DONALDS. Mr. Barr, let me ask you a question. Do you think that this committee should be talking to San Francisco Fed President Mary Daly? Do you think that she would have some input on these issues that happened in Silicon Valley Bank?

Mr. MICHAEL BARR. I think the committee's decisions about witnesses is far outside my expertise.

Mr. DONALDS. Let me ask you this question, because we have been talking a lot about concerns from a supervisory perspective. You have a speech dated March 9, 2023, at the Peterson Institute for International Economics here in D.C.—March 9th is an interesting day; that is the day that SVB blew up. And in your speech, you say, "The banks we regulate, in contrast to stablecoins and crypto markets, are well-protected from bank runs through a robust array of supervisory requirements." Do you still stand by that statement?

Mr. MICHAEL BARR. As I said earlier in the hearing, I think that it demonstrates the need for humility about our ability to understand the causes and consequences of financial difficulty. So of course, that statement, in this context, has turned out to be incorrect.

Mr. DONALDS. Okay. That is fair.

Mr. Chairman, for the record, I also have another article I want to submit, "The U.S. Needs a New Bank Supervisory System," written by Peter Wallison, who is at the American Enterprise Institute.

Chairman MCHENRY. Without objection, it is so ordered.

Mr. DONALDS. And in part, it talks about some of the shortcomings of the current supervisory system. In short, I will say this in the final 22 seconds of my testimony.

For the last 14 years in Congress, we viewed Dodd-Frank as the holy grail for safe and sound banking. And if we are going to be honest with ourselves, what has been the holy grail for, "safe and sound banking," is cheap or free money for balance sheets to look good. But when rates rise, not all balance sheets look good, and that is not just banking. That is in a lot of places. So, maybe we should take a look at our supervisory system overall. I yield back.

Chairman MCHENRY. The gentleman's time has expired. The gentleman from Nevada, Mr. Horsford, is now recognized for 5 minutes.

Mr. HORSFORD. Thank you to the chairman and the ranking member, and to the regulators for appearing before the committee. I want to start by saying the work that was done to address the Silicon Valley and Signature Bank collapses and ensure the health and resiliency of the U.S. banking system is vital. And I want to commend those who were involved in the swift action and the decisive steps that were taken to protect businesses' payroll, particularly small businesses and their employees whom we heard from at that time. Now, while depositors were protected, shareholders and bondholders need to bear the costs for any potential mismanagement, and I am eagerly awaiting the full examination of these bank reviews and the upcoming reports that you will be providing.

While the collapses of Silicon Valley Bank and Signature Bank may have occurred due to unique and isolated factors, the panic that their failures caused quickly became a private sector-wide issue. And I am glad to say that the original crisis of competence

was subsided, and cooler heads did prevail. I fear that the consequences will continue to materialize as we go on. For example, consolidation of deposits within the largest systemically-important banks will only continue if the sense of risk within the financial system persists.

Uninsured depositors are leaving our mid-sized banks because they feel that their money is safer elsewhere, even as these banks showed continued strength and sound financial footing. Deposit insurance is crucial for many of my constituents to get a sense of peace of mind, and we cannot have the perception of a two-tiered banking system in this country where only the largest banks are protected.

Chairman Gruenberg, as we look to increase competence in the banking system with a particular focus on small and medium banks, how would an increase in the FDIC insurance limit prevent further consolidation of deposits at the largest banks?

Mr. GRUENBERG. Congressman, I think that question is raised by this episode. The decision to guarantee the uninsured deposits of these two institutions really has implications for the entire deposit insurance system and we need to consider it. And I would like to do it comprehensively, looking at all of the aspects of our deposit insurance regime, and then come back by May 1st with a report that the FDIC will put out, which will also provide some policy options for consideration.

Mr. HORSFORD. Okay. One other area that I am concerned about is that I have already heard that multiple development projects, particularly housing projects in my district, are struggling to get financing due to a pull-back of credit from community banks. While I understand the need to review capital requirements, I think you would agree, Vice Chair Barr, that no bank can meet $40 billion-plus in depositor demands from capital alone.

So, Vice Chair Barr, I would really urge you to consider the effects of increased capital requirements on the lending of healthy community banks. However, I do believe that action must be taken. Would you be able to discuss any additional strategies the Fed would be able to pursue to address the problems that we have seen at Silicon Valley and Signature Banks without reducing credit industry-wide?

Mr. MICHAEL BARR. Thank you very much. First of all, the capital review that we are doing does not apply to community banks. We are not intending to increase capital requirements on community banks. My understanding from looking at the community banking system is that it is well-capitalized and stable and is serving its communities. We are looking at larger institutions. If we do that, we are going to do it through a notice-and-comment rulemaking process that takes a good bit of time in their transition rules. So, we are not talking about capital rules that in any way that would apply now. We are talking about how to make sure that the capital and liquidity rules in the future are appropriate.

Mr. HORSFORD. Okay. And then finally, there were reports that after Silicon Valley went into receivership, they literally advertised that they are FDIC-guaranteed as a way to attract depositors. Is that true, and if so, what has been done? They cannot now benefit from the policy after we help save them.

Mr. MICHAEL BARR. That is a fair question, Congressman. We placed Silicon Valley into a bridge institution. There may have been some communications of the kind you describe. When we heard about it, we put an end to it.

Mr. HORSFORD. Thank you. And thank you, Mr. Chairman. I yield back.

Chairman MCHENRY. The gentleman from Nebraska, Mr. Flood, is now recognized for 5 minutes.

Mr. FLOOD. Thank you, Mr. Chairman. Vice Chair Barr, you have disclosed that Silicon Valley Bank's composite CAMELS rating was a 3 out of 5. In response to Ranking Member Waters' question earlier, you disclosed that their liquidity rating was a much stronger, 2 out of 5. Furthermore, you testified that the Federal Reserve examiners cited Silicon Valley Bank seven separate times, and you testified that examiners were aware of Silicon Valley Bank's interest rate risk last year. Why wasn't that risk reflected in Silicon Valley bank's liquidity rating?

Mr. MICHAEL BARR. I think that is an excellent point. One of the things we are looking at in the review is, given the extent of difficulties, the problems the firm was having, how did the regulators come up with this particular, the supervisor come up with this particular approach? Its composite rating was not well-managed, and its holding company rating was deficient. That is also not well-managed, but it has a 2 for liquidity, and a, "conditionally meets expectations," for liquidity. And we are trying to understand how that is consistent with the other material.

I mentioned earlier, too, that I am highlighting the liquidity and governance and interest rate risk findings. But there were many other findings at the firm that had not been addressed at the time they failed. And so the question is, why wasn't that escalated and why wasn't further action taken? I think it is a legitimate and fair question.

Mr. FLOOD. Was that composite score, that composite CAMELS rating ever downgraded in 2021 following the examiners' citations?

Mr. MICHAEL BARR. I don't know the answer to what happened in 2021. The 2022 rating was the first time the firm had a composite rating for all of its activities as it entered the large and foreign banking organization group.

Mr. FLOOD. Vice Chair Barr, was Silicon Valley Bank's liquidity rating ever downgraded following the examiners' citations in 2022, or is it the same issue you just described with the large bank status, their liquidity rating?

Mr. MICHAEL BARR. The overall rating for the firm, of which this would be a part, was done that summer. There was a process after that of looking at both liquidity risk and interest rate risk. And my understanding is that as part of the horizontal review that was being conducted at the beginning of 2023, the examiners were looking at what was the appropriate level.

Mr. FLOOD. Okay. Every quarter, the FDIC releases its quarterly banking profile. This profile includes a public disclosure of the total assets of FDIC-insured institutions that are deemed, "problem banks." In December of 2022, the FDIC's problem bank list included total assets of only $47.5 billion. Although the banks and the FDIC's problem list are not public, given the size of Silicon Val-

ley Bank, it is reasonable for me to conclude that Silicon Valley Bank was not on the FDIC's problem bank list released just 3 months before its collapse.

Chairman Gruenberg, given the several supervisory findings, identifying various issues with Silicon Valley Bank's practices since 2021, including the issuance of matters requiring immediate attention from those supervisors, were those findings communicated to the FDIC?

Mr. GRUENBERG. I can tell you, Congressman, that the criteria to get on the problem bank list is to be rated a 4 or 5 on the CAMELS rating scale of 1 to 5. And at that time, Silicon Valley was not rated a 4 or 5, so we wouldn't have been in a position to put it on the problem bank list.

Mr. FLOOD. Vice Chairman Barr, why wasn't this information shared for the purposes of the FDIC's problem bank list?

Mr. MICHAEL BARR. As Chairman Gruenberg just indicated, the FDIC makes an independent judgment with respect to its list based on the ratings of the firm, and the firm was not rated lower than a 3.

Mr. FLOOD. Chairman Gruenberg, has Silicon Valley Bank ever previously been on the FDIC's list of problem banks?

Mr. GRUENBERG. The reason I hesitate is we put the aggregate assets of the institutions on the problem list. We do not indicate the individual institutions—

Mr. FLOOD. You can't do that?

Mr. GRUENBERG. And now, I take your point—

Mr. FLOOD. And this is a question from Congress.

Mr. GRUENBERG. Yes, I believe I can get back to you, and answer your question, if I may follow up for the record. We will be glad to do that. I just want to check. But yes, the answer is, we will get back to you with an answer.

Mr. FLOOD. The answer is, yes?

Mr. GRUENBERG. We will come back with an answer for you, if that is okay.

Mr. FLOOD. Okay. Thank you for your testimony. I still think there are lots of questions regarding what happened here, especially with Silicon Valley Bank, but I appreciate your time. And I yield back.

Chairman MCHENRY. The gentleman from New York, Mr. Meeks, is recognized for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman. And let me thank all of you for your responsibilities and the duties and what you have done. It's funny when you have been here for a while, a lot of folks are here talking about how Dodd-Frank shouldn't be the holy grail. But if you were here in 2008, when there was no Dodd-Frank, that was a crisis. That was something. This is nothing. For some of my colleagues who are here now, who were not here then, we are a long way away from where we were in 2008, and the banking system is much stronger now than it was in 2008. I say, thank God that we had Dodd-Frank at that particular time, so I want to thank you for that.

But as a result, let me just ask maybe, Vice Chair Barr, as part of your internal review, you have indicated that you plan to evaluate whether the application of more-stringent standards would

have prompted SVB to better manage risks. So as part of that, do you expect to look into whether more-frequent stress testing for a bank of SVB's size would be appropriate?

Mr. MICHAEL BARR. Yes, Representative Meeks, we will look at stress tests. We will look at really all of the enhanced prudential standards, liquidity standards, capital standards, stress testing. All of that will be part of our review with respect to SVB, and it will help inform broader questions we have been working on since I arrived in July about what the capital framework for the system should look like.

Mr. MEEKS. Now, stress test results for our largest banks, those that are above $250 billion, are available to the public. Is that correct?

Mr. MICHAEL BARR. Yes, stress testing results are available annually to the public.

Mr. MEEKS. And I understand that because of SVB's rapid growth, and the timing of when the bank crossed the $100-billion asset threshold, SVB would not have been subject to stress testing until 2024. But when a bank with about $100 billion in assets size is subject to stress testing, who has access to those results? Would, for example, an individual or small-business client of the bank be able to see those results?

Mr. MICHAEL BARR. Under the current framework, you correctly describe that the Federal Reserve's rules established in 2019 would provide that SVB would be subject for the first time to stress testing in 2024. There is currently, under that structure that was put in place in 2019, no stress testing for firms below the $100-billion level. And that is part of the framework.

Mr. MEEKS. Could you expound a little bit more on how helpful it might be for the positive, for example, to get to see those results, especially depositors who are uninsured, that have uninsured deposits?

Mr. MICHAEL BARR. Stress testing results for the firms that are in stress testing are published annually. For firms that are below that level in the current framework, they are not required for that kind of stress test. They do internal liquidity stress test as a normal part of their requirements on a quarterly basis. That is an internal proprietary action by them, subject to supervisory review. In the case of SVB, they conducted their liquidity stress test, but the supervisors found that the stress tests essentially were not stressful enough; they were not realistic.

Mr. MEEKS. But I believe there is an issue that customers and investors who bank with institutions that are large enough to trigger a systemic risk exemption do not have the transparency into the risk management and scenario plan that their banks may have on the way. But in the limited time I have, let me just follow up on a couple of questions that some other people had asked. I am thinking about small banks and community banks which are very important, and talking about depository insurance. And I know someone is talking about that.

Now, to me, not a lot of people, especially in the community banks, have $250,000 in the bank. But in trying to help strengthen those banks, what I would like to see is some of the small businesses may have more than $250,000 in the bank, and they have

to pay employees, and I would like them to be given them some business. Do you think that when you look at depository insurance, there should be a difference between small businesses and personal, as far as that is concerned, going forward?

Mr. GRUENBERG. Congressman, that is a good question, and it is one of the things we will be looking at in the report that we are going to submit on May 1st, and laying out some policy considerations to take into account here.

Mr. MEEKS. Thank you. I am out of time, so I yield back.

Chairman MCHENRY. Another gentleman from New York, Mr. Lawler, is now recognized.

Mr. LAWLER. Thank you, Mr. Chairman.

Chairman Gruenberg, just a follow-up on that line of questioning. Yes or no, should the FDIC insurance limit be raised?

Mr. GRUENBERG. Let us do the work on this, and then come back to you with the report.

Mr. LAWLER. In the 2008 collapse, we raised it from $100,000 to $250,000. We made it permanent in 2010. It has not been raised since then. Do you think it should be raised?

Mr. GRUENBERG. I don't know the answer to that question right now, Congressman.

Mr. LAWLER. Okay. Did the Fed, the FDIC and the Treasury have the tools needed to deal with this crisis when you were made aware of the situation with SVB? Do you all believe, yes or no, that you had the tools needed to deal with this?

Mr. MICHAEL BARR. Yes, we have the tools we need.

Mr. LAWLER. Yes?

Mr. GRUENBERG. I agree. Yes.

Mr. LAWLER. Yes?

Ms. LIANG. I agree. We had the tools to prevent—

Mr. LAWLER. Okay. Did the Fed, the FDIC and the Treasury have the tools needed to prevent it? Yes or no?

Mr. MICHAEL BARR. I think that is a very difficult question to answer. I do not have a yes-or-no answer for it. I think we can do better at supervision and regulation. But whether we could have prevented the collapse in 24 hours of this institution, I don't know the answer to that.

Mr. GRUENBERG. I agree with Vice Chair Barr's point, but from a supervisory basis, I think there was an opportunity.

Ms. LIANG. I'm sorry, Congressman. Can you repeat your question?

Mr. LAWLER. Yes or no, do you think that Treasury had the tools needed to prevent this from happening?

Ms. LIANG. The Treasury had the tools to use the systemic risks exception.

Mr. LAWLER. And used it?

Ms. LIANG. And recommendations to prevent a crisis.

Mr. LAWLER. So, the FDIC and the Treasury do believe it, but the Fed is not sure yet. In that case, do you think the Federal Reserve failed here in its role?

Mr. MICHAEL BARR. I think fundamentally, as I have said, it is the responsibility of the bank management to run the bank. The bank managers failed in basic risk management.

Mr. LAWLER. Right. But you provided, the Federal Reserve and the San Francisco Fed provided guidance, provided notices and failed to follow up on that, correct?

Mr. MICHAEL BARR. I would say that there was follow-up; the question is whether the follow-up was stringent enough. And that is part of the review we are doing.

Mr. LAWLER. But, "stringent enough," really means that the individual people may or may not have done the job that they were supposed to do, correct, because if you give the notice and you reach out, isn't it incumbent on the individual supervisors to actually follow up and make sure that the bank is doing what it needs to do?

Mr. MICHAEL BARR. It is incumbent on the bank to take the actions that the supervisors are directing them to take. And it is incumbent on the supervisors to check on that.

Mr. LAWLER. And the supervisors failed to check on that?

Mr. MICHAEL BARR. No, I didn't say that. What I said is that it is incumbent on the supervisors to do that. I think it is a legitimate—

Mr. LAWLER. Did they do that?

Mr. MICHAEL BARR. I think it is a legitimate and fair question to ask whether they were stringent enough, whether they used enough tools to force the bank manager do what was obviously right.

Mr. LAWLER. With respect, that is semantics. Did they do the job they were supposed to do? Did they follow up?

Mr. MICHAEL BARR. The reason I am having difficulty answering the question is I believe they did follow up, but the bank managers did not perform on the job, and that is why we are—

Mr. LAWLER. Okay. Were the California and New York regulators equipped with the appropriate tools to handle this, or should these banks, specifically SVB, given its size, been federally-chartered instead of State-chartered?

Mr. MICHAEL BARR. I think that our country benefits from having a wide diversity of kinds and sizes of institutions and the diversity of chartering authorities that we have. So, I am not recommending that we change that.

Mr. LAWLER. Okay. When did any of you first speak with Superintendent Harris regarding Signature Bank? Just dates, please.

Mr. GRUENBERG. I would want to check the record on that, if I may. I will get back to you. I just want to be sure we are accurate.

Mr. LAWLER. Okay. Do either of you know when you first spoke to Superintendent Harris?

Mr. MICHAEL BARR. I do not. Signature Bank is a New York State-regulated institution, but I don't know when I first had a conversation about it.

Mr. LAWLER. Okay.

Chairman Gruenberg, when was the decision made to close Signature Bank, and what criteria were used to determine whether or not Signature Bank met the systemic risks exception?

Mr. GRUENBERG. Those are two questions, Congressman. The decision to close the bank is the authority for the State, and the State made that decision on Sunday. What was the question in regard to the systemic risk exception?

Mr. LAWLER. What criteria was used to determine that?

Mr. GRUENBERG. I think we had before us the failure of two institutions, both Silicon Valley and Signature, and we also had before us evidence of significant liquidity stress in other institutions. And we had data in terms of deposit outflows, and I think that was basically the data on which we relied.

Chairman MCHENRY. If the Chair will submit that data for the record and answer this, would you be willing to do that, the data related to systemic risk designation?

Mr. GRUENBERG. Yes, of course.

Mr. LAWLER. Okay. Thank you.

Chairman MCHENRY. Or systemic risk event.

We will now go to the gentleman from Iowa, Mr. Nunn, for 5 minutes.

Mr. NUNN. Thank you, Mr. Chairman. And to the witnesses, thank you for being here today. If you would, just with a show of hands, do you believe, as most Americans do, as I have said, and as the President has said, that taxpayers should not be on the hook for that? Would you agree with that statement?

Mr. MICHAEL BARR. Yes.

Mr. NUNN. Further, would you agree with the statement that we should have diversity within our banking system?

Mr. MICHAEL BARR. Yes, I agree.

Mr. NUNN. Specifically, then, would you support our regional banks, our small local banks, and recognize the undue burden that they potentially are going to be saddled with as a result of an FDI assessment because of these two banks?

Mr. GRUENBERG. As you may know, Congressman, I responded to that issue and the answer is the FDIC has authority under the law to consider who benefits from the assistance provided and we will take that into account with particular attention and sensitivity to the impact on community banks.

Mr. NUNN. I appreciate that, Mr. Gruenberg.

I want to specifically talk to Mr. Barr about the diversity in banks. When you do your holistic capital review of banks under $10 billion, what would that look like?

Mr. MICHAEL BARR. We are not anticipating in any way raising capital requirements with respect to community banks. It is not part of my holistic review.

Mr. NUNN. Good. I am glad to hear that. Second, I will highlight here, $22 billion. As we say in Iowa, that is a lot of money, and, in fact, it is 20 percent of the entire FDICs fund for this. In order to make that up, special assessments will inevitably have to be part of this. Do you see that being passed along to the top banks primarily, or how will you calibrate that?

Mr. GRUENBERG. Congressman, it is relevant to my response before, that we are required by law to pay for any cost to the Deposit Insurance Fund caused by the coverage of the uninsured deposits through a special assessment. We have to do that by public notice and rulemaking, and we have authority under the law to consider the types of entities that benefit from any action taken or assistance provided.

Mr. NUNN. I understand that, but I just want to highlight the difference here. We had two banks that had 90 percent of their de-

positors uninsured at any level. Most banks across America have 47 percent, but in my State of Iowa, in Des Moines alone, it is 70 percent. Am I wrong? It is 70 percent. These are farmers who are looking to plant this spring, who know that they have a good deposit there. It is small businesses that are supported by this. What they don't need is ultimately, to our original question, an increase in their cost of living, and in their cost of doing business by a special assessment that disproportionately punishes those who are at the medium and small size. Are you committed to making sure that is a priority for you?

Mr. GRUENBERG. Yes.

Mr. NUNN. Excellent. Last question. I want to be brief here. Silicon Valley Bank did not have a chief risk officer, Mr. Barr, for how many months?

Mr. MICHAEL BARR. I believe was approximately 8 months.

Mr. NUNN. So, almost a year. During that time, they did have four members who served on something called the Governance and Corporate Responsibility Committee. And these four members were actually on their risk committee, but as I understand it, they had no actual experience in managing material risks. Were these individuals focused on the wrong thing, and was there no true risk management being taken at Silicon Valley Bank in the lead-up to the failure?

Mr. MICHAEL BARR. I can't speak to the particular individuals. I can say that the supervisors told the board of directors and the bank that the board oversight with respect to risk management was deficient. That was one of the findings that was made in the summer of 2022.

Mr. NUNN. So, did beginner risk management of interest rate risk and liquidity risks cause this bank to fail, SVB specifically?

Mr. MICHAEL BARR. Yes. Ultimately, they mismanaged their interest rate and their liquidity risk. And their very large percentage of uninsured depositors had a massive and unexpected run. As I said, $42 billion on a Thursday, and they expected another $100 billion on Friday, and that was just a devastating run for the institution.

Mr. NUNN. I would like to ask this question then, and I hope that San Francisco Fed President Mary Daly has the opportunity, Mr. Chairman, to testify in person before this committee. But as you are overseeing this, why did she tell the regional Fed to work on cataloging climate risks, even going so far as to assemble a team to study how these risks are likely to impact the Fed's future reserve mandates? And I will state here that one of SVB's memos from their supervisory credit group claims they have been working closely with the Fed to inform its agenda priorities, namely fiscal risk to banks from climate change. Were the regulators focused on the wrong risk posed by this Administration? Yes or no?

Mr. MICHAEL BARR. The supervisors were focused overall in the system on interest rate risk, credit risk, and cybersecurity risk, traditional risks in the banking system. There are some supervisors who are focused on climate change.

Mr. NUNN. But there was no risk officer to look at the actual dramatic over-interest they had at this.

Chairman MCHENRY. The gentleman's time has expired.

Mr. NUNN. Thank you, Mr. Chairman. I will submit the rest of my questions in writing. And I yield back.

Chairman MCHENRY. The gentlewoman from Texas, Ms. De La Cruz, is now recognized for 5 minutes.

Ms. DE LA CRUZ. Thank you, Mr. Chairman, and thank you, witnesses, for being here today. What we have learned in the wake of the first run on a major U.S. bank since the Great Recession, is that the management team of Silicon Valley Bank took, quite frankly, foolish actions that no informed financial institution should ever take, by taking on deposits from their customers, which are short term in definition, and buying long-term bonds when interest rates were low. Now, that was before President Biden's inflation crisis. They chose to become vulnerable. When inflation skyrocketed after enacting the Democrats' partisan $2-trillion American Rescue Plan, the Fed was late to determine that inflation wasn't transitory, forcing a decision to spike interest rates, creating risk in the banking system.

Now, if we backtrack for a second and look at what the Federal Reserve was focusing on when they were hiking interest rates, it wasn't the risks associated with those actions. Instead, it was research papers on climate risks and social issues, and you just acknowledged a second ago that some were focused on climate change.

My question is to you, Mr. Barr. I realize you didn't come into your role until July 2022, but isn't it correct that when you did, you quickly announced your holistic view of Fed regulations and your own Fed special scenario analysis for weather and climate risks?

Mr. MICHAEL BARR. Those are a few different items. I announced that I was doing a holistic capital review, which was looking at capital in the system, whether it was at appropriate levels. We have been conducting that really since July. There is a separate thing, which is that in the beginning of this year, we piloted for the Global Systemically Important Banks (G-SIBs), a pilot climate scenario analysis, to evaluate how they were addressing climate risk in the system. That is separate from basically what most supervisors are doing most of the time—which is highlighted in our November 2022 supervision report—which is looking at interest rate risk, credit risk, liquidity risk and—

Ms. DE LA CRUZ. We could both agree that interest rate risk and liquidity risk are within your job scope. But is climate risk really something that you should be focused on when we saw all of the red flags on this bank? Now, correct me if I am wrong, but isn't the role of the Vice Chair of Supervision to focus on bank supervision and regulation? Yes or no?

Mr. MICHAEL BARR. Yes, that is, in fact, what I am focused on.

Ms. DE LA CRUZ. So if that is the case, were you distracted from the mission of your role, which, again, is supervision and regulation, and instead focused on climate?

Mr. MICHAEL BARR. No, I would respectfully disagree with that. The way that we are looking at climate risk is about the risks that climate change might pose to the financial system and to individual banks. It is a very narrow role focused on financial risks, not climate policy more generally. And I think, as I was saying, before, we need to be humble about regulators' ability or banks' ability to

understand all the risks in front of us. It is prudent to look at long-term risks as well as really obvious and central risks right in front of us, like interest rate risk and liquidity risks.

Ms. DE LA CRUZ. I would say that what we saw with Silicon Valley was obvious risk. It looks like the mismanagement was flagged. There were fair warning signs. And while I appreciate that you were able to focus some attention on the actual supervision part of the bank regulation, we see a gap here. And I think that we would like you to focus on your job as the Vice Chair of Supervision in the wake of SVB's collapse, and I feel like this was a little too late when you all finally stepped in to look at it. So, thank you. With that, Mr. Chairman, I yield back.

Chairman MCHENRY. We will now recognize the gentlewoman from Indiana, Mrs. Houchin.

Mrs. HOUCHIN. Thank you, Mr. Chairman. We are here today to really determine who knew what, and when, and who did what, and when. Is this a failure of Silicon Valley Bank? Is it a factor of lack of adequate oversight or lack of regulation? I am happy to hear many of you say today that it was largely a factor of lack of oversight. We have heard discussion today about the Financial Stability Oversight Council (FSOC).

Vice Chair Barr, what is the purpose of FSOC?

Mr. MICHAEL BARR. I'm sorry. The question is, what is the purpose of FSOC?

Mrs. HOUCHIN. What is the purpose? What is the mission of FSOC?

Mr. MICHAEL BARR. The FSOC is an entity that brings together regulators from around the financial system, market regulators and bank regulators, to look at risks in the system and to try and coordinate across those agencies.

Mrs. HOUCHIN. Right. It was created by Dodd-Frank in 2010 to provide, according to FSOC's website, comprehensive monitoring of the stability of our nation's financial system. It is chaired by the Secretary of the Treasury, and it includes the Fed, the OCC, the CFPB, the FDIC, and the CFTC. In fact, all of our witnesses today take part in those meetings, do you not? Yes or no?

Mr. MICHAEL BARR. Yes. Each of the three of us participate in FSOC as member agencies.

Mrs. HOUCHIN. And is the function of FSOC also to identify risks to the financial stability of the United States? Mr. Barr, yes or no?

Mr. MICHAEL BARR. Yes, that is among its functions.

Mrs. HOUCHIN. Following an Executive Order by President Biden in May of 2021, entitled, "Climate-related Financial Risk," FSOC now also evaluates climate-related financial risk. Is that right, Mr. Barr?

Mr. MICHAEL BARR. That predates my time, and we are not in charge of running the FSOC. So, I don't know the sequence of events, but that is the case.

Mrs. HOUCHIN. But I assume that it is now part of FSOC's charge to monitor and evaluate for systemic risk also?

Mr. MICHAEL BARR. I'm sorry. I couldn't hear the last sentence.

Mrs. HOUCHIN. I assume it is also part of FSOC's charge to monitor and evaluate for systemic risk?

Mr. MICHAEL BARR. Yes. As I indicated previously, a core function of FSOC is to look at risks across the financial system.

Mrs. HOUCHIN. In a quick review of the FSOC meeting minutes dated December 16, 2022, five pages were devoted to, "climate-related financial risk."

Mr. Barr, many of those comments came from you. I couldn't find any pages devoted to market and news reports of the apparent looming problem with Silicon Valley Bank and Signature Bank. In fact, in December of 2022, Silicon Valley Bank was listed on the S&P Global marketplace as the top U.S. bank by proportion of uninsured deposits, at nearly 94 percent. Only 4 other banks were estimated to be above 80 percent, including Signature Bank, but none of that was mentioned in your December 16th meeting. Are those factors not important to comprehensive monitoring of the stability of our nation's financial system, Mr. Barr?

Mr. MICHAEL BARR. I was asked at the meeting you are describing to discuss one risk to the financial system, and that was with respect to climate risk.

Mrs. HOUCHIN. Let me just ask that question one more time. Are those factors not important to the comprehensive monitoring of the stability of our nation's financial system? The debt ratio, the uninsured ratio, is that not important?

Mr. MICHAEL BARR. The standard factors we think about in banking, among those factors are interest rate risk and liquidity risk, those are core issues that we do in the bread-and-butter supervision every day.

Mrs. HOUCHIN. So, do you not consider the uninsured ratio as one of the factors of systemic risk?

Mr. MICHAEL BARR. We look with respect to microprudential supervision of individual firms, we are looking at their liquidity risk. And one element of their liquidity risk is the extent to which they rely on uninsured deposits. That includes uninsured deposits from financial entities, uninsured deposits from operating businesses, and then, their insured deposit base. So, it is a core part of what we think about when we think about liquidity risks.

Mrs. HOUCHIN. But none of that was discussed in the December meeting relative to Signature Bank or Silicon Valley Bank or any system gap?

Mr. MICHAEL BARR. As I said, the specific request to me in that meeting was to talk about this issue. We obviously talk about broader issues all the time.

Mrs. HOUCHIN. Any other issues, yes, I get that. Under Secretary Liang, earlier, Chairman Huizenga was asking about the minutes taken at the meetings for FSOC. You said the meeting minutes are published after the next meeting. However, it seems there is more detailed information than what is shared publicly, and that the closed executive session meeting minutes are not shared at all. Will you commit to providing this committee with unredacted minutes from every FSOC meeting since the March 10th meeting, including closed executive sessions?

Ms. LIANG. Congresswoman, I am aware of two FSOC meetings since these events, March 12th and March 24th.

Mrs. HOUCHIN. Will you commit to providing the meeting minutes for the executive sessions?

Ms. LIANG. They were executive sessions, and we do produce minutes, so we will release them.

Mrs. HOUCHIN. Thank you. I yield back.

Chairman MCHENRY. We will now go to our final two questioners. And the penultimate questioner, Mr. Ogles of Tennessee, is now recognized for 5 minutes.

Mr. OGLES. Good afternoon, and thank you all for being here. I know it has been a long day. I will try to be brief, because I know you all have to be exhausted.

Mr. Barr, when you look at increasing interest rates, especially in a rapid environment, you know that is going to create risks when it comes to deposit structure for these or really any bank, but certainly as it pertains to small and mid-sized banks.

Mr. MICHAEL BARR. As interest rates change, whether they go up or down, they create risks for banks and the expectation is that banks manage those risks, and most banks in the country do manage those risks quite effectively.

Mr. OGLES. Now, the regulatory regime that is in place, do they give specific guidance as it pertains to those risks in a rapidly-changing environment?

Mr. MICHAEL BARR. We do have standard guidelines that are issued to banks about how they conduct their internal liquidity stress tests. Those tests are designed or supposed to be designed to stress-test stressful environments with significant increases and decreases in interest rates. So, they are not directionally-guided; they are supposed to test both up and down.

Mr. OGLES. As far as some of the guidance that was given specifically to SVB, I think my colleague from across the aisle said that they blew you guys off. What types of guidance or alerts were given to SVB?

Mr. MICHAEL BARR. Silicon Valley Bank was required to conduct internal liquidity stress tests on a quarterly basis, once it reached a certain size. It conducted those tests and the guidance back from the supervisors was that the tests were inadequate.

Mr. OGLES. So, understanding that you have a bank that grew rapidly in a very short period of time, and there was even a Wall Street Journal article dating back to November 11, 2022, singling out SVB's potential risks to the banking system, so clearly, it was on people's radar. I think you stated earlier that you need further regulatory action from this body to give you more teeth, if you will, as you move forward. Did you ever request a hearing on SVB from this committee of jurisdiction, understanding that there was potential risk in the market?

Mr. MICHAEL BARR. Representative, I haven't asked this body for additional authority. I said we were conducting a review of our existing authority to see where we could have done better on supervision and regulation.

Mr. OGLES. When I think about this situation, and I think about my district, which, although it includes part of Nashville, it is predominantly suburban and rural, what is going to end up happening is my small banks, my community banks are going to end up bailing out a couple of banks that are too-big-to-fail. I am curious, Mr. Gruenberg, if my banks receive an assessment from the FDIC, and they decide to blow you guys off, is there going to be some sort of

regulatory action? Are you going to send them a bill? Are you going to enforce that assessment?

Mr. GRUENBERG. Congressman, this has come up previously, and we are required by law, to the extent there are losses to the Deposit Insurance Fund as a result of the coverage of uninsured deposits, to impose a special assessment on the banking industry. And we are required to do that through a notice-and-comment rulemaking process.

Mr. OGLES. Right.

Mr. GRUENBERG. And as I indicated, we also have authority—

Mr. OGLES. I guess the heart of the question, though, is, would you go to the bank and say, we want our money? Yes or no?

Mr. GRUENBERG. The answer is, if they were subject to the assessment, the answer would be, yes. We do have authority to consider the types of entities that benefit from any action taken or assistance provided.

Mr. OGLES. The thing that is important here, though, is I have to go back to my district and tell my banks they are not going to get screwed over in this process. And what I have heard today is a bunch of tap dancing, and no assurances to my district and my banks that they are not going to have to bail out, basically, the failures of the regulatory bodies that were empowered to do a job. And if you found yourself unable to do that job, you could have come to the committee of jurisdiction and asked for support, but I find no evidence that you did so.

Mr. Chairman, I yield back.

Chairman MCHENRY. The gentleman yields back. We will now go to the final questioner, the gentleman from Wisconsin, Mr. Fitzgerald, for 5 minutes.

Mr. FITZGERALD. Thank you, Mr. Chairman. Yes, I have heard the same question asked 100 different ways over 2 days. The thing that I am concerned about is, it seems like shutting down a bank is messy. And I am not sure if we are nimble enough or if the Fed or the FDIC is nimble enough, that if we have multiple institutions that are all failing at the same time, as to whether or not we could address this, because there seems like a 3-day period in which everybody was kind of making arbitrary, I will say, arbitrary decisions, not necessarily guided by any specifics. And if there is a table of specifics on what is the red flare that says, this bank is in trouble, we need to act quickly. I am not convinced, after 2 days of testimony, that it actually happened that way.

I would ask either one of you to first comment on, can you instill more confidence that, in fact, we do know what we are doing, and we can react quickly? And if it is multiple banks, that we know we are going to be in a good place. And then, I have one more question after that.

Mr. GRUENBERG. I can say in regard to Signature, that they basically ran out of money to meet their obligations, and that was the reason the bank failed. As I indicated earlier, they barely met their obligations at the end of the business day on that Friday. And it was clear to the State regulator, New York State, as well as to us that they could not open on Monday and get to the end of the day based on the liquidity they had, and that was the reason the bank was closed by the State. And Chairman Barr speaks to Silicon Val-

ley Bank, but it was a pretty straightforward decision and a traditional one.

Mr. MICHAEL BARR. Similarly, Silicon Valley Bank basically was unable to meet its obligations in the ordinary course of business. They suffered a devastating run, a $42-billion run on Thursday. On Friday, they expected to face around $100 billion. And they did not have the collateral sufficient to support discount window letting, and so they were not able to meet their obligations and they were closed.

Mr. FITZGERALD. And then the last question or comment, Ms. Liang, when were you informed, first of all, that there was a possibility of Silicon Valley Bank defaulting, and was the President made aware of that? How much conversation was happening within the White House, and were there conversations with specific depositors or those that had an interest, like Governor Gavin Newsom in California? And now, I learned that the State makes a decision on actually shutting down the bank, what were those conversations like, and could you characterize them for me?

Ms. LIANG. So Treasury learned, or I learned, I can speak for myself here, of the issues at Silicon Valley, either Wednesday evening or Thursday, after it issued its statement, its earnings report, saying that it had a loss and was going to raise capital. We heard certainly Thursday night of concerns at the institution because of the very, very rapid deposit withdrawals.

And then on Friday morning, we learned the California State regulator had closed it, and the FDIC was appointed receiver. That was our situation. Over the day of Friday and Saturday, we heard from many, many people, institutions, and businesses, wondering how they could access their deposits, and if they could make payroll. And so, we were gathering information and consulting regularly with the Federal Reserve and the FDIC.

Mr. FITZGERALD. Did you speak to California Governor Newsom at any point?

Ms. LIANG. I did not.

Mr. FITZGERALD. Did anybody at the White House talk to Governor Newsom?

Ms. LIANG. I do not know.

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

Chairman MCHENRY. The gentleman yields back. With prior agreement between the ranking member and the Chair, I will now recognize the ranking member for such time as she may consume, and then I will close.

Ms. WATERS. Thank you very much, Mr. Chairman. Chairman McHenry, I thank you for working with me on holding this bipartisan hearing, and I look forward to additional hearings on these bank failures. Importantly, we need to hear directly from the CEOs of SVB and Signature Bank. I also want to thank our witnesses and their staffs for the countless hours they have spent since the failure of SVB and Signature Bank. The economy is stronger today because of your decisive actions. I look forward to hearing from you again when you have completed your review of the bank failures, and I expect those reviews will consider the various matters raised by myself and committee members here today.

In listening to the concerns of members on both sides of the aisle, I must say, I am heartened at how much agreement there was. I heard Republicans argue for our bank regulators to be more-aggressive in their bank supervision, to do more onsite exams, escalate penalties more quickly, apply enhanced prudential regulations for all banks over $100 billion, expand deposit insurance, and protect community banks from bearing the burden of these bank failures. I and my Democratic colleagues couldn't agree more, and so I look forward to working with Chair McHenry on legislative reforms to effectuate those reforms quickly.

Again, I thank the witnesses for being here today and doing everything that you could possibly do to respond to the questions and the concerns that you were presented with today. Thank you. I yield back.

Chairman MCHENRY. I want to thank the ranking member, and I want to thank the ranking member on our joint call for this hearing. The agreement that we had was to pursue this to find out the facts, and I think that is the way the committee comported itself today. I won't speak ill of the Senate, but you had a hearing there yesterday, and today was just a different hearing here. That was the expectation that the ranking member and I both had, and I think it met those expectations.

The bottom line for you as the panel is that there is bipartisan frustration with many of your answers. There is a question of accountability and the appearance of a lack of accountability. I hope you hear this clearly, not as a partisan act, but as a sincere concern. I think, furthermore, there is a lack of transparency in the decision-making by those of you sitting on this panel to answer for your decisions in that week and that first weekend.

And while I think we are able to start painting a picture of what happened, there is still much that we need to understand, specifically timelines of what you knew, when, and how you responded. I think those are very important things for you three on this panel to answer fully for in the name of transparency, but, frankly, in the name of building confidence.

There are still questions that somehow after 3 weeks, many of you have answered here that, "You are going to check with staff," or, "You are not sure." This was not a, "gotcha," hearing. This was not a surprise thing. We expect a little more detail than what you provided in many of your answers, specifically the timeline, the data used, and the evidence for your decision-making.

We needed leadership in that key moment of that week, and we want to understand the decision-making. We put you in these very powerful positions, all Senate-confirmed, in our government. We want you to be capable of achieving good outcomes for the American people and the American economy. We want you to be competent in carrying that out and that is why we have oversight. And over 5 hours in, you have certainly submitted yourselves to oversight. We will have written questions for the record. We ask that you respond in a timely manner.

But the final point I will make is, at a time where there may be a bit of a political divide in America, I don't think you heard that here today. By and large, in this hearing, from both sides of the aisle, you heard our sincere concerns. And we know here on Capitol

Hill that our work is not done, and we will have oversight of this, independent of your actions and your coordinated efforts on oversight with these reports.

I would like to thank Vice Chair Barr, Chairman Gruenberg, and Under Secretary Liang. Thank you for being here today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I would ask the witnesses and their team behind them to respond no later than April 28, 2023, as you certainly work to your self-imposed deadline of May 1st.

We are also working to conduct our review together with the Government Accountability Office (GAO). We ask for your full participation, that data and evidence in particular, to support that investigation and oversight.

The hearing is adjourned.

[Whereupon, at 3:10 p.m., the hearing was adjourned.]

A P P E N D I X

March 29, 2023

10:00 a.m. EDT
March 29, 2023

Statement by

Michael S. Barr

Vice Chair for Supervision

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

March 29, 2023

Chairman McHenry, Ranking Member Waters, and other members of the Committee, thank you for the opportunity to testify today on the Federal Reserve's supervisory and regulatory oversight of Silicon Valley Bank (SVB).[1]

Our banking system is sound and resilient, with strong capital and liquidity. The Federal Reserve, working with the Treasury Department and the Federal Deposit Insurance Corporation (FDIC), took decisive actions to protect the U.S. economy and to strengthen public confidence in our banking system. These actions demonstrate that we are committed to ensuring that all deposits are safe. We will continue to closely monitor conditions in the banking system and are prepared to use all of our tools for any size institution, as needed, to keep the system safe and sound.

At the same time, the events of the last few weeks raise questions about evolving risks and what more can and should be done so that isolated banking problems do not undermine confidence in healthy banks and threaten the stability of the banking system as a whole. At the forefront of my mind is the importance of maintaining the strength and diversity of banks of all sizes that serve communities across the country.

SVB failed because the bank's management did not effectively manage its interest rate and liquidity risk, and the bank then suffered a devastating and unexpected run by its uninsured depositors in a period of less than 24 hours. SVB's failure demands a thorough review of what happened, including the Federal Reserve's oversight of the bank. I am committed to ensuring that the Federal Reserve fully accounts for any supervisory or regulatory failings, and that we fully address what went wrong.

[1] This testimony uses "Silicon Valley Bank (SVB)" to refer to both the state member bank, Silicon Valley Bank, and its bank holding company, SVB Financial Group.

Our first step is to establish the facts—to take an unflinching look at the supervision and regulation of SVB before its failure. This review will be thorough and transparent, and reported to the public by May 1. The report will include confidential supervisory information, including supervisory assessments and exam material, so that the public can make its own assessment.[2] Of course, we welcome and expect external reviews as well.

Why the Bank Failed

To begin, SVB's failure is a textbook case of mismanagement. The bank had a concentrated business model, serving the technology and venture capital sector. It also grew exceedingly quickly, tripling in asset size between 2019 and 2022. During the early phase of the pandemic, and with the tech sector booming, SVB saw significant deposit growth. The bank invested the proceeds of these deposits in longer-term securities, to boost yield and increase its profits.[3] However, the bank did not effectively manage the interest rate risk of those securities or develop effective interest rate risk measurement tools, models, and metrics.

At the same time, the bank failed to manage the risks of its liabilities. These liabilities were largely composed of deposits from venture capital firms and the tech sector, which were highly concentrated and could be volatile. Because these companies generally do not have operating revenue, they keep large balances in banks in the form of cash deposits, to make payroll and pay operating expenses. These depositors were connected by a network of venture capital firms and other ties, and when stress began, they essentially acted together to generate a bank run.

[2] Typically, the Board does not disclose confidential supervisory information. We are sharing confidential supervisory information in the case of SVB because the bank went into resolution, and its disorderly failure posed systemic risk.
[3] By year-end 2022, the firm's investment portfolio represented over 55 percent of its total assets.

The Bank's Failure

The bank waited too long to address its problems, and ironically, the overdue actions it finally took to strengthen its balance sheet sparked the uninsured depositor run that led to the bank's failure. Specifically, on Wednesday, March 8, SVB announced that it realized a $1.8 billion loss in a sale of securities to raise liquidity and planned to raise capital during the following week. Uninsured depositors interpreted these actions as a signal that the bank was in distress. They turned their focus to the bank's balance sheet, and they did not like what they saw.

In response, social media saw a surge in talk about a run, and uninsured depositors acted quickly to flee. Depositors withdrew funds at an extraordinary rate, pulling more than $40 billion in deposits from the bank on Thursday, March 9. On Thursday evening and Friday morning, the bank communicated that they expected even greater outflows that day. The bank did not have enough cash or collateral to meet those extraordinary and rapid outflows, and on Friday, March 10, SVB failed.

Panic prevailed among SVB's remaining depositors, who saw their savings at risk and their businesses in danger of missing payroll because of the bank's failure.

Contagion and the Government's Response

It appeared that contagion from SVB's failure could be far-reaching and cause damage to the broader banking system. The prospect of uninsured depositors not being able to access their funds could prompt depositors to question the overall safety and soundness of U.S. commercial banks. There were signs of distress at other banking organizations, and Signature Bank, an FDIC-supervised institution, experienced a deposit run that resulted in the bank's failure. On Sunday, March 12, the Secretary of the Treasury, upon the unanimous recommendation of the

boards of the Federal Reserve and the FDIC, approved systemic risk exceptions for the failures of SVB and Signature. This enabled the FDIC to guarantee all of the deposits of both banks. Equity and other liability holders of the two failed banks were not protected and lost their investments. Senior management was immediately removed.

In addition, the Federal Reserve Board (Board), with the Treasury Department's approval, created a temporary lending facility, the Bank Term Funding Program, to allow banks to receive additional liquidity to meet any unexpected depositor demand. The facility allows banks to borrow against safe Treasury and agency securities at par for up to one year. Together with banks' internal liquidity and stable deposits, other external sources, and discount window lending, the new facility provides ample liquidity for the banking system as a whole.

Our Review of the Bank's Failure

Immediately following SVB's failure, Chair Powell and I agreed that I should oversee a review of the circumstances leading up to SVB's failure. SVB was a state member bank with a bank holding company, and so the Federal Reserve was fully responsible for the federal supervision and regulation of the bank. The California Department of Financial Protection and Innovation—the state supervisor—has announced its own review of its oversight and regulation of SVB.

In the Federal Reserve's review, we are looking at SVB's growth and management, our supervisory engagement with the bank, and the regulatory requirements that applied to the bank. As this process is ongoing, I will be limited in my ability to provide firm conclusions, but I will focus on what we know and where we are focusing the review.

The picture that has emerged thus far shows SVB had inadequate risk management and internal controls that struggled to keep pace with the growth of the bank. In 2021, as the bank

grew rapidly in size, the bank moved into the large and foreign banking organization, or LFBO, portfolio to reflect its larger risk profile and was assigned a new team of supervisors. LFBO firms between $100 billion and $250 billion are subject to some enhanced prudential standards but not at the level of larger banks or global systemically important banks (G-SIBs).

Near the end of 2021, supervisors found deficiencies in the bank's liquidity risk management, resulting in six supervisory findings related to the bank's liquidity stress testing, contingency funding, and liquidity risk management.[4] In May 2022, supervisors issued three findings related to ineffective board oversight, risk management weaknesses, and the bank's internal audit function. In the summer of 2022, supervisors lowered the bank's management rating to "fair" and rated the bank's enterprise-wide governance and controls as "deficient-1." These ratings mean that the bank was not "well managed" and was subject to growth restrictions under section 4(m) of the Bank Holding Company Act.[5] In October 2022, supervisors met with the bank's senior management to express concern with the bank's interest rate risk profile and in November 2022, supervisors delivered a supervisory finding on interest rate risk management to the bank.

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[4] Supervisory findings include Matters Requiring Attention (MRA) and Matters Requiring Immediate Attention (MRIA). An MRA is "a call for action to address weaknesses that could lead to deterioration in a banking organization's soundness." An MRIA is "a call for more immediate action to address acute or protracted weaknesses that could lead to further deterioration in a banking organization's soundness, may result in harm to consumers, or have caused, or could lead to, noncompliance with laws and regulations." MRAs and MRIAs typically are the first step in communicating supervisory findings to a firm. When a bank has a weakness, supervisors decide whether to assign an MRA or MRIA—and the timeline for remediation—depending on the severity of the issue. The number of MRAs and MRIAs per firm is variable and largely reflects the extent of risk-management weaknesses of a firm. While most MRAs and MRIAs are resolved without further escalation, to the extent not resolved, they can serve as the basis for provisions included in a public enforcement action. See Board of Governors of the Federal Reserve System, *Supervision and Regulation Report* (Washington: Board of Governors, November 2019), at 21, https://www.federalreserve.gov/publications/files/201911-supervision-and-regulation-report.pdf.

[5] 12 U.S.C. § 1843(m), 12 C.F.R. § 225.83. The growth restrictions under section 4(m) apply to the expansion of nonbank activities through merger and acquisition.

In mid-February 2023, staff presented to the Federal Reserve's Board of Governors on the impact of rising interest rates on some banks' financial condition and staff's approach to address issues at banks. Staff discussed the issues broadly, and highlighted SVB's interest rate and liquidity risk in particular. Staff relayed that they were actively engaged with SVB but, as it turned out, the full extent of the bank's vulnerability was not apparent until the unexpected bank run on March 9.

Review Focus on Supervision

With respect to our review, let me start with the supervision of the bank. For all banks but the G-SIBs, the Federal Reserve organizes its supervisory approach based on asset size. The G-SIBs—our largest, most complex banks—are supervised within the Large Institution Supervision Coordinating Committee, or LISCC, portfolio. Banks with assets of $100 billion or more that are not G-SIBs are supervised within the LFBO portfolio. Banks with assets in the $10 to $100 billion range are supervised within the regional banking organization, or RBO, portfolio. Banks with assets of less than $10 billion are supervised within the community banking organization, or CBO, portfolio.

As I mentioned, SVB grew exceedingly quickly, moving from the RBO portfolio to the LFBO portfolio in 2021. Banks in the RBO portfolio are supervised by smaller teams that engage with the bank on a quarterly basis and conduct a limited number of targeted exams and a full-scope examination each year.[6] Banks in the LFBO portfolio are supervised by larger teams that engage with the bank on an ongoing basis. As compared to RBOs, LFBO banks are subject to a greater number of targeted exams, as well as horizontal (cross-bank) exams that assess risks

[6] A full scope examination is an assessment of safety and soundness of a bank and includes an evaluation of financial condition, risk management and control. A target examination is an assessment of a particular area or risk within a firm.

such as capital, liquidity, and cyber security throughout the year.[7] In addition, banks in the LFBO portfolio are subject to a supervision framework with higher supervisory standards, including heightened standards for capital, liquidity, and governance.[8]

In our review, we are focusing on whether the Federal Reserve's supervision was appropriate for the rapid growth and vulnerabilities of the bank. While the Federal Reserve's framework focuses on size thresholds, size is not always a good proxy for risk, particularly when a bank has a non-traditional business model. As I mentioned in a speech this month, the Federal Reserve had recently decided to establish a dedicated novel activity supervisory group, with a team of experts focused on risks of novel activities, which should help improve oversight of banks like SVB in the future.[9]

But the unique nature of this bank and its focus on the technology sector are not the whole story. After all, SVB's failure was brought on by mismanagement of interest rate risk and liquidity risks, which are well-known risks in banking. Our review is considering several questions:

- How effective is the supervisory approach in identifying these risks?
- Once risks are identified, can supervisors distinguish risks that pose a material threat to a bank's safety and soundness?
- Do supervisors have the tools to mitigate threats to safety and soundness?

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[7] A horizontal review is an examination in a particular area or risk that is coordinated across several firms. Horizontal reviews also provide a clear picture of the relative risk in an individual firm and allow supervisors to align supervisory expectations with the firm's risk profile. For more information, see Board of Governors of the Federal Reserve System, *Supervision and Regulation Report* (Washington: Board of Governors, May 2019), at 18, https://www.federalreserve.gov/publications/files/201905-supervision-and-regulation-report.pdf.

[8] SR letter 12-17 / CA 12-14, "Consolidated Supervision Framework for Large Financial Institutions," https://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm.

[9] Michael S. Barr, "Supporting Innovation with Guardrails: The Federal Reserve's Approach to Supervision and Regulation of Banks' Crypto-related Activities" (speech at the Peterson Institute for International Economics, Washington, D.C., March 9, 2023), https://www.federalreserve.gov/newsevents/speech/barr20230309a.htm.

- Do the culture, policies, and practices of the Board and Reserve Banks support supervisors in effectively using these tools?

Beyond asking these questions, we need to ask why the bank was unable to fix and address the issues we identified in sufficient time. It is not the job of supervisors to fix the issues identified; it is the job of the bank's senior management and board of directors to fix its problems.

Review Focus on Regulation

Let me now turn to regulation. In 2019, following the passage of *The Economic Growth, Regulatory Relief, and Consumer Protection Act*, the Federal Reserve revised its framework for regulation, maintaining the enhanced prudential standards applicable to G-SIBs but tailoring requirements for all other large banks. At the time of its failure, SVB was a "Category IV" bank, which meant that it was subject to a less stringent set of enhanced prudential standards than would have applied before 2019; they include less frequent stress testing by the Board, no bank-run capital stress testing requirements, and less rigorous capital planning and liquidity risk management standards. SVB was not required to submit a resolution plan to the Federal Reserve, although its bank was required to submit a resolution plan to the FDIC.[10] And as a result of transition periods and the timing of biennial stress testing, SVB would not have been subject to stress testing until 2024, a full three years after it crossed the $100 billion asset threshold.[11]

[10] Previously, SVB was in the $50 billion to $100 billion category, which under the statutory tailoring framework does not require a resolution plan, stress testing, or liquidity rules.
[11] To be subject to enhanced prudential standards, a bank holding company's assets must exceed $100 billion on a four-quarter rolling average. The phase-in for stress testing is roughly two years and was unchanged by the 2019 rule changes. However, moving to an every-other-year stress test for Category IV firms can result in another year lag if the phase-in period concludes in an odd-numbered year.

Also in 2019, the banking agencies tailored their capital and liquidity rules for large banks, and as a result, SVB was not subject to the liquidity coverage ratio or the net stable funding ratio.[12] In addition, SVB was not subject to the supplementary leverage ratio, and its capital levels did not have to reflect unrealized losses on certain securities.

All of these changes are in the scope of our review. Specifically, we are evaluating whether application of more stringent standards would have prompted the bank to better manage the risks that led to its failure. We are also assessing whether SVB would have had higher levels of capital and liquidity under those standards, and whether such higher levels of capital and liquidity would have forestalled the bank's failure or provided further resilience to the bank.

Ongoing Work to Understand and Address Emerging Risks

As I said a few months ago with regards to capital, we must be humble about our ability—and that of bank managers—to predict how a future financial crisis might unfold, how losses might be incurred, and what the effect of a financial crisis might be on the financial system and our broader economy.[13]

The failure of SVB illustrates the need to move forward with our work to improve the resilience of the banking system. For example, it is critical that we propose and implement the Basel III endgame reforms, which will better reflect trading and operational risks in our measure of banks' capital needs. In addition, following on our prior advance notice of proposed rulemaking, we plan to propose a long-term debt requirement for large banks that are not G-SIBs, so that they have a cushion of loss-absorbing resources to support their stabilization and allow for resolution in a manner that does not pose systemic risk. We will need to enhance our

[12] The banking agencies include the Board, the FDIC, and the Office of the Comptroller of the Currency.
[13] Michael S. Barr, "Why Bank Capital Matters" (speech at the American Enterprise Institute, Washington, D.C., December 1, 2022), https://www.federalreserve.gov/newsevents/speech/barr20221201a.htm.

stress testing with multiple scenarios so that it captures a wider range of risk and uncovers channels for contagion, like those we saw in the recent series of events. We must also explore changes to our liquidity rules and other reforms to improve the resiliency of the financial system.

In addition, recent events have shown that we must evolve our understanding of banking in light of changing technologies and emerging risks. To that end, we are analyzing what recent events have taught us about banking, customer behavior, social media, concentrated and novel business models, rapid growth, deposit runs, interest rate risk, and other factors, and we are considering the implications for how we should be regulating and supervising our financial institutions. And for how we think about financial stability.

Part of the Federal Reserve's core mission is to promote the safety and soundness of the banks we supervise, as well as the stability of the financial system to help ensure that the system supports a healthy economy for U.S. households, businesses, and communities. Deeply interrogating SVB's failure and probing its broader implications is critical to our responsibility for upholding that mission.

Thank you, and I look forward to your questions.

STATEMENT OF

MARTIN J. GRUENBERG
CHAIRMAN
FEDERAL DEPOSIT INSURANCE CORPORATION

on

"The Federal Regulators' Response to Recent Bank Failures"

before the

COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

March 29, 2023
2128 Rayburn House Office Building
Washington, DC

Chairman McHenry, Ranking Member Waters and Members of the Committee, thank you for the opportunity to appear before the Committee today to address recent the federal regulators' response to recent bank failures.

On March 10, 2023, just over two weeks ago, Silicon Valley Bank (SVB), Santa Clara, California, with $209 billion in assets at year-end 2022, was closed by the California Department of Financial Protection and Innovation (CADFPI), which appointed the FDIC as receiver. The failure of SVB, following the March 8, 2023 announcement by Silvergate Bank that it would wind down operations and voluntarily liquidate,[1] signaled the possibility of a contagion effect on other banks. On Sunday, March 12, 2023, just two days after the failure of SVB, another institution, Signature Bank, New York, New York, with $110 billion in assets at year-end 2022, was closed by the New York State Department of Financial Services (NYSDFS), which also appointed the FDIC as receiver. With other institutions experiencing stress, serious concerns arose about a broader economic spillover from these failures.

After careful analysis and deliberation, the Boards of the FDIC and the Federal Reserve voted unanimously to recommend, and the Treasury Secretary, in consultation with the President, determined that the FDIC could use emergency systemic risk authorities under the Federal Deposit Insurance Act (FDI Act)[2] to fully protect all depositors in winding down SVB and Signature Bank.[3]

It is worth noting that these two institutions were allowed to fail. Shareholders lost their investment. Unsecured creditors took losses. The boards and the most senior executives were

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[1] See Silvergate Capital Corporation Press Release, *Silvergate Capital Corporation Announces Intent to Wind Down Operations and Voluntarily Liquidate Silvergate Bank* (March 8, 2023), available at https://ir.silvergate.com/news/news-details/2023/Silvergate-Capital-Corporation-Announces-Intent-to-Wind-Down-Operations-and-Voluntarily-Liquidate-Silvergate-Bank/default.aspx.

[2] 12 U.S.C. § 1823 (c)(4)(G).

[3] See FDIC Press Release, *Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC* (March 12, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23017.html.

removed. The FDIC has authority to investigate and hold accountable the directors, officers, professional service providers and other institution-affiliated parties of the banks for the losses they caused to the banks and for their misconduct in the management of the banks.[4] The FDIC has already commenced these investigations.

Further, any losses to the FDIC's Deposit Insurance Fund (DIF) as a result of uninsured deposit insurance coverage will be repaid by a special assessment on banks as required by law. The law provides the FDIC authority, in implementing the assessment, to consider "the types of entities that benefit from any action taken or assistance provided."[5]

The FDIC has now completed the sale of both bridge banks to acquiring institutions. New York Community Bancorp's Flagstar Bank is the acquiring institution for Signature Bridge Bank, N.A., and First-Citizens Bank & Trust Company is the acquiring institution for Silicon Valley Bridge Bank, N.A..[6]

My testimony today will describe the events leading up to the failure of SVB and Signature Bank and the facts and circumstances that prompted the decision to utilize the authority in the FDI Act to protect all depositors in those banks following these failures. I will also discuss the FDIC's assessment of the current state of the U.S. financial system, which remains sound despite recent events. In addition, I will share some preliminary lessons learned as we look back on the immediate aftermath of this episode.

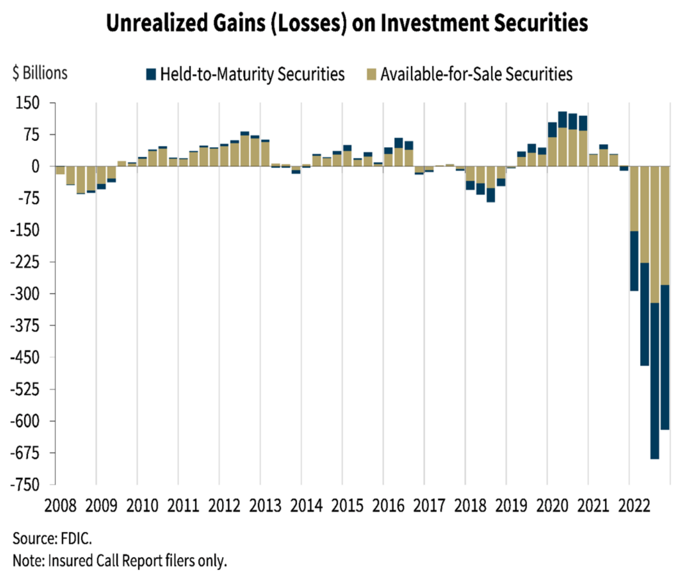
In that regard, the FDIC will undertake a comprehensive review of the deposit insurance system and will release a report by May 1, 2023, that will include policy options for consideration related to deposit insurance coverage levels, excess deposit insurance, and the

[4] 12 U.S.C. §1821(d)(13)(E) and (k). See also 12 U.S.C. §1818(e) and (i).
[5] 12 U.S.C. §1823(c)(4)(G)(ii)(III).
[6] The acquiring institutions entered into purchase and assumption agreements for the bridge banks' deposits and assets, as described in detail later in this statement.

implications for risk-based pricing and deposit insurance fund adequacy. In addition, the FDIC's Chief Risk Officer will undertake a review of the FDIC's supervision of Signature Bank and will also release a report by May 1, 2023. Further, the FDIC will issue in May 2023 a proposed rulemaking for the special assessment for public comment.

The two bank failures also demonstrate the implications that banks with assets over $100 billion can have for financial stability. The prudential regulation of these institutions merits serious attention, particularly for capital, liquidity, and interest rate risk. This would include the capital treatment associated with unrealized losses in banks' securities portfolios. Resolution plan requirements for these institutions also merit review, including a long-term debt requirement to facilitate orderly resolution.

Economic Conditions



On February 28, 2023, the FDIC released the results of the Quarterly Banking Profile, which provided a comprehensive summary of financial results for all FDIC-insured institutions for the fourth quarter of last year. Overall, key banking industry metrics remained favorable in the quarter.[7] Loan growth continued, net interest income grew, and asset quality measures remained favorable. Further, the industry remained well-capitalized and highly liquid, but the report also highlighted a key weakness in elevated levels of unrealized losses on investment securities due to rapid increases in market interest rates. Unrealized losses on available–for–sale and held-to-maturity securities totaled $620 billion in the fourth quarter, down $69.5 billion from the prior quarter, due in part to lower mortgage rates. The combination of a high level of longer-term asset maturities and a moderate decline in total deposits underscored the risk that these unrealized losses could become actual losses should banks need to sell securities to meet liquidity needs.

This latent vulnerability within the banking system would combine with several other prevailing conditions to form a key catalyst for the subsequent failure of SVB and systemic stress experienced by the broader banking system.

The Wind Down of Silvergate Bank

Silvergate Bank, La Jolla, California, with $11.3 billion in assets as of December 31, 2022, had a business model focused almost exclusively on providing services to digital asset firms. Following the collapse of digital asset exchange FTX in November 2022, Silvergate Bank released a statement indicating that it had $11.9 billion in digital asset-related deposits, and that FTX represented less than 10 percent of total deposits in an effort to explain that its exposure to

[7] See *Remarks by FDIC Chairman Martin Gruenberg on the Fourth Quarter 2022 Quarterly Banking Profile* (February 28, 2023) available at https://www.fdic.gov/news/speeches/2023/spfeb2823.html.

the digital asset exchange was limited.[8] Nevertheless, in the fourth quarter of 2022, Silvergate Bank experienced an outflow of deposits from digital asset customers that, combined with the FTX deposits, resulted in a 68 percent loss in deposits – from $11.9 billion in deposits to $3.8 billion.[9] That rapid loss of deposits caused Silvergate Bank to sell debt securities to cover deposit withdrawals, resulting in a net earnings loss of $1 billion.[10] On March 1, 2023, Silvergate Bank announced it would be delaying issuance of its 2022 financial statements and indicated that recent events raised concerns about its ability to operate as a going concern, which resulted in a steep drop in Silvergate Bank's stock price.[11] On March 8, 2023, Silvergate Bank announced that it would self-liquidate.[12]

The troubles experienced by Silvergate Bank demonstrated how traditional banking risks, such as a lack of diversification, aggressive growth, maturity mismatches in a rising interest rate environment, and sensitivity to liquidity risk, when not managed adequately, could combine to lead to a bad outcome. Many of these same risks were also present in the failure of SVB.

The Failure of Silicon Valley Bank

SVB was established in San Jose, California, on October 17, 1983. SVB's approximately $191.4 billion in deposit liabilities as of December 31, 2022, were associated with its

[8] See *Silvergate Provides Statement on FTX Exposure*, Businesswire (November 11, 2022), available at https://www.businesswire.com/news/home/20221111005557/en/Silvergate-Provides-Statement-on-FTX-Exposure.
[9] See *Silvergate Capital Corporation, 4Q22 Earnings Presentation* (January 17, 2023), available at https://s23.q4cdn.com/615058218/files/doc_financials/2022/q4/Ex.-99.2-SI-4Q22-Earnings-Presentation-FINAL.pdf.
[10] Ibid.
[11] See Silvergate Capital Corporation Form 12b-25, Notification of Late Filing, available at https://ir.silvergate.com/sec-filings/sec-filings-details/default.aspx?FilingId=100117301783.
[12] See Silvergate Capital Corporation Press Release, *Silvergate Capital Corporation Announces Intent to Wind Down Operations and Voluntarily Liquidate Silvergate Bank* (March 8, 2023), available at https://ir.silvergate.com/news/news-details/2023/Silvergate-Capital-Corporation-Announces-Intent-to-Wind-Down-Operations-and-Voluntarily-Liquidate-Silvergate-Bank/default.aspx.

commercial and private banking clients, mostly linked to businesses financed through venture capital. The bank did not maintain a large retail deposit business. Total assets grew rapidly from under $60 billion at the end of 2019 to $209 billion by the end of 2022,[13] coinciding with rapid growth in the innovation economy and a significant increase in the valuation placed on public and private companies. This influx of deposits was largely invested in medium- and long-term Treasury and Agency securities. SVB also had significant cross-border operations, with a subsidiary in the United Kingdom and branches in Germany, Canada, and the Cayman Islands.

On the same day that Silvergate Bank announced its self-liquidation, SVB announced that it had sold substantially all of its available-for-sale securities portfolio at a $1.8 billion after tax loss.[14] SVB simultaneously announced an attempt to raise approximately $2.25 billion through the issuance of common equity and mandatory convertible preferred shares via an underwritten public offering and planned private investment.[15] The following day, SVB's share price dropped 60 percent. In an attempt to quell the rising concerns of the bank's depositors and borrowers, the Chief Executive Officer of SVB urged venture capital clients to remain calm and keep their deposits in the institution. The appeal did not have the intended effect.[16] Many of SVB's venture capital customers took to social media to urge companies to move their deposit accounts out of SVB.[17] By the end of the day on Thursday, March 9, 2023, $42 billion in deposits had left the bank.

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[13] See Silicon Valley Bank's FFIEC Call Report filings from December 31, 2019, and December 31, 2022.
[14] See *Silicon Valley Bank Strategic Actions/Q1 2023 Mid-Quarter Update* (March 8, 2023), available at https://s201.q4cdn.com/589201576/files/doc_downloads/2023/03/Q1-2023-Mid-Quarter-Update-vFINAL3-030823.pdf.
[15] See SVB Financial Group Form 8-K (March 8, 2023), available at https://www.sec.gov/ix?doc=/Archives/edgar/data/719739/000119312523064680/d430920d8k.htm.
[16] See *New York Times*, "Silicon Valley Bank's Financial Stability Worries Investors" (March 9, 2023), available at https://www.nytimes.com/2023/03/09/business/silicon-valley-bank-investors-worry.html.
[17] Ibid.

The evening of March 9, the FDIC was informed by SVB's primary federal regulator, the Federal Reserve, of the deposit run, subsequent funding shortfalls and that the bank was unlikely to have adequate liquidity to meet the demands of depositors and other creditors. FDIC staff engaged with the chartering authority, the CADFPI, shortly thereafter. FDIC staff worked through the night with SVB's primary regulators in an effort to put a resolution strategy in place. At 11:15 a.m., EST, on March 10, 2023, SVB was closed by the CADFPI, which simultaneously appointed the FDIC as receiver. To protect insured depositors, the FDIC created the Deposit Insurance National Bank (DINB) of Santa Clara, an institution operated by the FDIC on a temporary basis to provide insured depositors with continued access to their funds until they could open accounts at other insured institutions. The FDIC also announced its intent to provide uninsured depositors with an advance dividend against their claims for the uninsured amounts of their deposits as soon as Monday, March 13, when the DINB of Santa Clara was scheduled to reopen.[18]

By using a DINB and announcing an advance dividend, the FDIC hoped to minimize disruption for insured depositors and to provide a measure of immediate relief for the uninsured depositors while the agency worked to resolve the institution. The FDIC did not foreclose the possibility that another institution could purchase the deposits or assets of the failed bank, an unlikely but far preferable outcome to liquidation. Over the weekend, the FDIC actively solicited interest for a purchase and assumption of the failed bank.

Although several institutions expressed an interest in acquiring SVB, given the limited timeframe for bidders to consider making an offer, the FDIC received bids from only two

[18] See FDIC Press Release, *FDIC Creates a Deposit Insurance National Bank of Santa Clara to Protect Insured Depositors of Silicon Valley Bank, Santa Clara, California* (March 10, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23016.html.

institutions, only one of which provided a valid offer on the insured deposits and some of the assets of SVB.[19] The costs associated with the sole valid offer would have resulted in recoveries significantly below the estimated recoveries in liquidation. Once the systemic risk determination was made, the FDIC was able to move all depositors and assets into a bridge bank and continue the operations of SVB, enabling the FDIC to engage a wider range of potential acquirers. As a result, the decision was made to conduct an expanded marketing effort of the institution on a whole-bank basis, which was anticipated to engender more and better offers.

Signature Bank Closing

Unlike SVB, which catered almost exclusively to venture capital firms, and Silvergate Bank, which was almost exclusively known for providing services to digital asset firms, Signature Bank was a commercial bank with several business lines. For example, of its approximately $74 billion in total loans as of year-end 2022, approximately $33 billion were in its commercial real estate portfolio, approximately $19.5 billion of which consisted of multifamily real estate. Signature Bank also had a $34 billion commercial and industrial loan portfolio; $28 billion of these were loans made through the Fund Banking Division, which provided loans to private equity firms and their general partners. Unlike SVB, which showed depreciation in its total securities portfolio of 104 percent to total capital, Signature Bank's level of depreciation was approximately 30 percent.

Signature Bank's operating model did share some of the same risk characteristics of both Silvergate Bank and SVB. Like SVB, Signature Bank grew rapidly, from $43 billion in total

[19] The other institution failed to submit a resolution from its board of directors authorizing its offers on SVB; therefore, the offers could not be considered.

assets at year-end 2017 to $110 billion at year-end 2022. Growth was particularly significant from 2019 to 2020, when assets grew 64 percent. Also like SVB, Signature Bank was heavily reliant on uninsured deposits for funding. At year-end 2022, SVB reported uninsured deposits at 88 percent of total deposits versus 90 percent for Signature Bank. Signature Bank also operated a business line serving venture capital firms, although it was much smaller than that of SVB, at less than one percent of total loans and only two percent of total deposits. Moreover, in 2019, Signature Bank opened an office in San Francisco–the site of SVB's home office–and later opened another in Los Angeles, although West Coast operations were small in relation to the overall bank.

Like Silvergate Bank, Signature Bank had also focused a significant portion of its business model on the digital asset industry. Signature Bank began onboarding digital asset customers in 2018, many of whom used its Signet platform, an internal distributed ledger technology solution that allowed customers of Signature Bank to conduct transactions with each other on a 24 hours a day/7 days a week basis. As of year-end 2022, deposits related to digital asset companies totaled about 20 percent of total deposits, but the bank had no loans to digital asset firms. Silvergate Bank operated a similar platform that was also used by digital asset firms.[20] These were the only two known platforms of this type within U.S. insured institutions.

Signature Bank's balance sheet shrank during 2022, from $118 billion in total assets and $110 billion in total deposits at year-end 2021 to $110 billion in total assets and $89 billion in total deposits at year-end 2022. In the second and third quarters of 2022, Signature Bank, like Silvergate, experienced deposit withdrawals and a drop in its stock price as a consequence of

[20] See CoinDesk, *Silvergate Closes SEN Platform Institutions Used to Send Money to Crypto Exchanges* (March 3, 2023), available at https://www.coindesk.com/policy/2023/03/03/silvergate-suspends-sen-exchange-network.

disruptions in the digital asset market due to failures of several high profile digital asset companies.[21] Signature Bank met these deposit withdrawals with cash.

Signature Bank was subject to media scrutiny following the bankruptcy of FTX and Alameda Trading in November 2022, as the bank had deposit relationships with both.[22] Subsequently, in December 2022, Signature Bank announced that it would reduce its exposure to digital asset related deposits.[23] These declines were funded primarily by cash and borrowings collateralized with securities.

In February 2023, Signature Bank was again subject to media attention when a lawsuit was filed alleging it facilitated FTX commingling of accounts.[24] Following the March 1, 2023 announcement by Silvergate Bank regarding the delay in filing its year-end 2022 financial statements and comments about its ability to continue as a going concern, Signature Bank once again experienced negative media attention, which raised questions about its liquidity position.[25] This attention continued as Silvergate Bank later announced its self-liquidation.

Subsequently, as word of SVB's problems began to spread, Signature Bank began to experience contagion effects with deposit outflows that began on March 9 and became acute on Friday, March 10, with the announcement of SVB's failure. On March 10, Signature Bank lost

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[21] See Bloomberg, *A $60 Billion Crypto Collapse Leads to a New Type of Bank Run* (May 19, 2022), available at at https://www.bloomberg.com/news/articles/2022-05-19/luna-terra-collapse-reveal-crypto-price-volatility?leadSource=uverify%20wall.
[22] See Businesswire, *Signature Bank Provides Digital Asset Banking Update* (November 15, 2022), available at https://www.businesswire.com/news/home/20221115006076/en/. See also Seeking Alpha, *Silvergate gives mid-quarter update after FTX collapse; stock slips* (November 16, 2022), available at https://seekingalpha.com/news/3908970-silvergate-gives-mid-quarter-update-after-ftx-collapse-stock-slips.
[23] See PYMNTS, *Signature Bank Tries to Distance Itself from Crypto* (December 6, 2022), available at https://www.pymnts.com/cryptocurrency/2022/signature-bank-tries-to-distance-itself-from-crypto/.
[24] See CoinDesk, *Signature Bank Sued for 'Substantially Facilitating' FTX Comingling* (February 7, 2023), available at https://www.coindesk.com/business/2023/02/07/signature-bank-sued-for-substantially-facilitating-ftx-comingling/.
[25] See Crain's New York Business, *Signature Bank warns its growth could be impacted if the cryptocurrency world suffers another downdraft* (March 6, 2023), available at https://www.crainsnewyork.com/finance/signature-bank-warns-its-growth-could-be-impacted-if-cryptocurrency-world-suffers-another.

20 percent of its total deposits in a matter of hours, depleting its cash position and leaving it with a negative balance with the Federal Reserve as of close of business. Bank management could not provide accurate data regarding the amount of the deficit, and resolution of the negative balance required a prolonged joint effort among Signature Bank, regulators, and the Federal Home Loan Bank of New York to pledge collateral and obtain the necessary funding from the Federal Reserve's Discount Window to cover the negative outflows. This was accomplished with minutes to spare before the Federal Reserve's wire room closed.

Over the weekend, liquidity risk at the bank rose to a critical level as withdrawal requests mounted, along with uncertainties about meeting those requests, and potentially others in light of the high level of uninsured deposits, raised doubts about the bank's continued viability.

Ultimately, on Sunday, March 12, the NYSDFS closed Signature Bank and appointed the FDIC as receiver within 48 hours of SVB's failure.[26]

Systemic Risk Determination

With the rapid collapse of SVB and Signature Bank in the space of 48 hours, concerns arose that risk could spread to other institutions and that the financial system as a whole could be placed at risk. Shortly after SVB was closed on Friday, March 10, a number of institutions with large amounts of uninsured deposits reported that depositors had begun to withdraw their funds. Some of these banks drew against borrowing lines collateralized by loans and securities to meet demands and bolster liquidity positions. As previously noted, the industry's unrealized losses on

[26] See FDIC Press Release, *FDIC Establishes Signature Bridge Bank, N.A., as Successor to Signature Bank, New York, NY* (March 12, 2023), available at https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/signature-ny.html.

securities were $620 billion as of December 31, 2022, and fire sales driven by deposit outflows could have further depressed prices and impaired equity.

With the failure of SVB and the impending failure of Signature Bank, concerns had also begun to emerge that a least-cost resolution of the banks, absent more immediate assistance for uninsured depositors, could have negative knock-on consequences for depositors and the financial system more broadly. With uninsured depositors at the two banks likely to face an undetermined amount of losses, depositors at other banks began to move some or all of their deposits to other banks to diversify their exposures and increase their deposit insurance coverage.[27] There were also concerns that investors could begin to doubt the financial strength of similarly situated institutions making it difficult and more expensive for these banks to obtain needed capital and wholesale funding.

A significant number of the uninsured depositors at SVB and Signature Bank were small and medium-sized businesses. As a result, there were concerns that losses to these depositors would put them at risk of not being able to make payroll and pay suppliers. Moreover, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations could become even less willing to lend to businesses and households. These effects would contribute to weaker economic performance, further damage financial markets, and have other material negative effects.

Faced with these risks, the FDIC Board voted unanimously on March 12, to recommend that the Secretary of the Treasury, in consultation with the President, make a systemic risk determination under the FDI Act with regard to the resolution of SVB and Signature Bank.[28] That same day, the Federal Reserve Board unanimously made a similar recommendation, and the

[27] Depositors also moved funds to Treasury securities and government money market funds.
[28] 12 U.S.C. § 1823(c)(4)(G).

Secretary of the Treasury determined that complying with the least-cost provisions in Section 13(c)(4) of the FDI Act would have serious adverse effects on economic conditions or financial stability, and any action or assistance taken under the systemic risk exception would avoid or mitigate such adverse effects.

The systemic risk determination enabled the FDIC to extend deposit insurance protection to all of the depositors of SVB and Signature Bank, including uninsured depositors, in winding down the two failed banks. At SVB, the depositors protected by the guarantee of uninsured depositors included not only small and mid-size business customers but also customers with very large account balances. The ten largest deposit accounts at SVB held $ 13.3 billion, in the aggregate.

The systemic risk determination does not protect any shareholders or unsecured debt holders of the two failed banks.[29] The board and the most senior executives of the banks were removed. The FDIC has authority to investigate and hold accountable the directors, officers and other professional service providers of the bank for the losses they caused to the bank and for their misconduct in the management of the bank.[30] The FDIC has already commenced these investigations. In accordance with the law, any losses to the DIF as the result of extending coverage to the uninsured depositors are to be recovered by a special assessment on the banking industry.[31]

[29] The FDIC as receiver for a failed bank routinely affirms the bank's obligations to providers of services, such as, for example, IT contractors and utility companies, because the payment of these obligations is necessary for the administration of the bank's receivership. 12 U.S.C. § 1821(d)(2)(B) & (d)(11).
[30] The FDIC as receiver for SVB and Signature Bank will pursue all civil actions against directors, officers, and professional service providers of the former banks that are meritorious and cost-effective, as permitted under state federal law. Additionally, the FDIC in its supervisory capacity may pursue administrative enforcement actions against SVB's officers and directors and institution-affiliated parties, including the assessment of civil money penalties and prohibitions from the banking industry, where the individual's misconduct evidences personal dishonesty, recklessness, or a willful or continuing disregard for the safety and soundness of the institution. 12 U.S.C. §1818(e) & (i). 12 U.S.C. §1821(d)(13)(E). See also 12 U.S.C. §1821(k) and 12 U.S.C. §1818.
[31] 12 U.S.C. §1823(c)(4)(G)(ii).

Establishment of the Bridge Banks

After the systemic risk determination was approved on March 12, the FDIC chartered Silicon Valley Bridge Bank, N.A., (SV Bridge Bank) and transferred all deposits, both insured and uninsured, and substantially all the assets of SVB to SV Bridge Bank.[32] The FDIC also chartered Signature Bridge Bank, N.A., (Signature Bridge Bank) and transferred all deposits and substantially all assets of the failed Signature Bank to Signature Bridge Bank.[33]

A bridge bank is a chartered national bank that operates on a temporary basis under management appointed by the FDIC.[34] It assumes the deposits and certain other liabilities and purchases certain assets of a failed bank. The bridge bank structure is designed to "bridge" the gap between the failure of a bank and the time when the FDIC can stabilize the institution and implement an orderly resolution. It also provides prospective purchasers with the time necessary to assess the bank's condition in order to submit their offers.

Depositors and borrowers of SVB and Signature Bank automatically became customers of the new bridge institutions, which reopened on Monday, March 13, with normal business activities.

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[32] See FDIC Press Release, *FDIC Acts to Protect All Depositors of the former Silicon Valley Bank, Santa Clara, California* (March 13, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23019.html.
[33] See FDIC Press Release, *FDIC Establishes Signature Bridge Bank, N.A., as Successor to Signature Bank, New York, NY* (March 12, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23018.html.
[34] 12 U.S.C. §1821(n).

Marketing and Sale of the Bridge Banks

The FDIC's ultimate goal in operating a bridge institution is always to return the institution to private control as quickly as possible. In the context of SVB and Signature Bank, this goal was especially important, given the need to provide stability and certainty to affected depositors and customers of the banks, as well as to maintain stability and confidence in the banking system and stem the risk of contagion to other financial institutions. The FDIC opened bidding for the bridge banks on Wednesday, March 15.

Signature Bridge Bank Purchase and Assumption Agreement

Bidding for Signature Bridge Bank closed on Saturday, March 18. The FDIC received five bids from four bidders. The FDIC Board approved Flagstar Bank, N.A., Hicksville, New York, a wholly-owned subsidiary of New York Community Bancorp, Inc., Westbury, New York, as the successful bidder.

On March 19, the FDIC entered into a purchase and assumption agreement for the acquisition of substantially all deposits and certain loan portfolios of Signature Bridge Bank by Flagstar Bank, N.A. The 40 former branches of Signature Bank began operating under Flagstar Bank, N.A., on Monday, March 20. Depositors of Signature Bridge Bank, other than depositors related to the digital asset banking business, automatically became depositors of the acquiring institution. The acquiring institution did not bid on the deposits of those digital asset banking customers. The FDIC is providing those deposits, approximating $4 billion, directly to those customers.

As of December 31, 2022, the former Signature Bank had total deposits of $88.6 billion and total assets of $110.4 billion. The transaction with Flagstar Bank, N.A., included the

purchase of about $38.4 billion of Signature Bridge Bank's assets, including loans of $12.9 billion purchased at a discount of $2.7 billion. Approximately $60 billion in loans will remain in the receivership for later disposition by the FDIC. In addition, the FDIC received equity appreciation rights in New York Community Bancorp, Inc., common stock with a potential value of up to $300 million.

SV Bridge Bank Purchase and Assumption Agreement

On March 20, the FDIC announced it would extend the bidding process for SV Bridge Bank.[35] While there was substantial interest from multiple parties, the FDIC determined it needed additional time to explore all options in order to maximize value and achieve the optimal outcome. The FDIC also announced it would allow parties to submit separate bids for SV Bridge Bank and its subsidiary Silicon Valley Private Bank. Qualified, insured banks and qualified, insured banks in alliance with nonbank partners would be able to submit whole-bank bids or bids on the deposits or assets of the institutions. Bank and non-bank financial firms were permitted to bid on the asset portfolios.

Bidding for Silicon Valley Private Bank and SV Bridge Bank closed on March 24. The FDIC received 27 bids from 18 bidders, including bids under the whole-bank, private bank, and asset portfolio options. On March 26, the FDIC approved First-Citizens Bank & Trust Company (First-Citizens), Raleigh, North Carolina, as the successful bidder to assume all deposits and loans of SV Bridge Bank. First-Citizens also acquired the bank's private wealth management business. The 17 former branches of SV Bridge Bank in California and Massachusetts reopened as First-Citizens on March 27.

[35] See FDIC Press Release, *FDIC Extends Bid Window for Silicon Valley Bridge Bank, N.A.* (March 20, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23022.html.

As of March 10, 2023, SV Bridge Bank had approximately $167 billion in total assets and about $119 billion in total deposits. The transaction with First-Citizens included the purchase of about $72 billion of SV Bridge Bank's assets at a discount of $16.5 billion. Approximately $90 billion in securities and other assets remained in the receivership for disposition by the FDIC. In addition, the FDIC received equity appreciation rights in First Citizens BancShares, Inc., Raleigh, North Carolina, common stock with a potential value of up to $500 million.

The FDIC and First-Citizens entered into a loss-share transaction on the commercial loans it purchased of the former SV Bridge Bank.[36] The FDIC as receiver and First-Citizens will share in the losses and potential recoveries on the loans covered by the loss-share agreement. The loss-share transaction is projected to maximize recoveries on the assets by keeping them in the private sector. The transaction is also expected to minimize disruptions for loan customers.

Impact on the Deposit Insurance Fund

The FDIC estimates that the cost to the DIF of resolving SVB to be $20 billion. The FDIC estimates the cost of resolving Signature Bank to be $2.5 billion. Of the estimated loss amounts, approximately 88 percent, or $18 billion, is attributable to the cost of covering uninsured deposits at SVB while approximately two-thirds, or $1.6 billion, is attributable to the cost of covering uninsured deposits at Signature Bank. I would emphasize that these estimates are subject to significant uncertainty and are likely to change, depending on the ultimate value realized from each receivership.

[36] For more information on FDIC loss share transactions, see https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/lossshare/index.html.

Under the FDI Act, the loss to the DIF arising from the use of a systemic risk exception must be recovered from one or more special assessments on insured depository institutions, depository institution holding companies, or both, as the FDIC determines to be appropriate.[37] The FDI Act provides the agency with discretion in the design and timeframe for any special assessment to cover the losses from the systemic risk exception. Specifically, the law requires the FDIC to consider: the types of entities that benefit from the action taken, economic conditions, the effects on the industry, and such other factors as the FDIC deems appropriate and relevant.[38] Finally, the FDI Act requires that a special assessment be prescribed through regulation.[39] The FDIC intends to seek input on any special assessment from all stakeholders through notice-and-comment rulemaking and expects to issue a notice of proposed rulemaking for a special assessment related to the failures of SVB and Signature Bank in May 2023.

Current State of the U.S. Financial System

The state of the U.S. financial system remains sound despite recent events.

The FDIC has been closely monitoring liquidity, including deposit trends, across the banking industry. Since the action taken by the government to support the banking system, there has been a moderation of deposit outflows at the banks that were experiencing large outflows the week of March 6. In general, banks have been prudently working preemptively to increase liquidity and build liquidity buffers.

Over the past two weeks, banks have relied on new Federal Home Loan Bank (FHLB) advances to strengthen liquidity and have also pre-positioned additional collateral at the FHLB to

[37] 12 U.S.C. §1823(c)(4)(G)(ii)(I).
[38] 12 U.S.C. §1823(c)(4)(G)(ii)(III).
[39] Ibid.

support future draws, if needed. Banks have also prepared to access the Federal Reserve's Discount Window and new Bank Term Funding Program by ensuring that they have pre-positioned collateral. It is important that we, as regulators, message to our supervised institutions that these facilities can and should be used to support liquidity needs. Sales of investment securities have been a less common source of liquidity as the level of unrealized loss across both available-for-sale and held-to-maturity portfolio remains elevated.

With reference to deposits, as expected, banks report that they are closely monitoring deposit trends and researching unexpected account activity. Banks report instances of corporate depositors, in particular, moving some or all of their deposits to diversify their exposures and increase their deposit insurance coverage. Banks have also reported clients moving their deposits out of the banking system and into government money market funds or U.S. Treasuries. In general, the largest banks appear to be net beneficiaries of deposit flows, increasing the amounts on deposit, or held in custody, at the global systemically important banks and at large regional banks. While some banks are reporting a moderate decline in total deposits over the past two weeks, the vast majority are reporting no material outflows.

The FDIC is also following other trends in bank activities, in particular, the steps institutions are taking to support capital and liquidity in times of market instability and uncertain deposit outlook.

More broadly, the financial system continues to face significant downside risks from the effects of inflation, rising market interest rates, and continuing geopolitical uncertainties. Credit quality and profitability may weaken due to these risks, potentially resulting in tighter loan underwriting, slower loan growth, higher provision expenses, and liquidity constraints.

Additional short-term interest rate increases, combined with longer asset maturities may continue to increase unrealized losses on securities and affect bank balance sheets in coming quarters.

Preliminary Lessons Learned

In the immediate aftermath of the failure of SVB and Signature Bank, some preliminary lessons can be identified. A common thread between the failure of SVB and the failure of Signature Bank was the banks' heavy reliance on uninsured deposits. As of December 31, 2022, Signature Bank reported that approximately 90 percent of its deposits were uninsured, and SVB reported that 88 percent of its deposits were uninsured. The significant proportion of uninsured deposit balances exacerbated deposit run vulnerabilities and made both banks susceptible to contagion effects from the quickly evolving financial developments. One clear takeaway from recent events is that heavy reliance on uninsured deposits creates liquidity risks that are extremely difficult to manage, particularly in today's environment where money can flow out of institutions with incredible speed in response to news amplified through social media channels.

A common thread between the collapse of Silvergate Bank and the failure of SVB was the accumulation of losses in the banks' securities portfolios. In the wake of the pandemic, as interest rates remained at near-zero, many institutions responded by "reaching for yield" through investments in longer-term assets, while others reduced on-balance sheet liquidity – cash, federal funds–to increase overall yields on earning assets and maintain net interest margins. These decisions led to a second common theme at these institutions - heightened exposure to interest-rate risk, which lay dormant as unrealized losses for many banks as rates quickly rose over the last year. When Silvergate Bank and SVB experienced rapidly accelerating liquidity demands,

they sold securities at a loss. The now realized losses created both liquidity and capital risk for those firms, resulting in a self-liquidation and failure.

Finally, the failures of SVB and Signature Bank also demonstrate the implications that banks with assets of $100 billion or more can have for financial stability. The prudential regulation of these institutions merits additional attention, particularly with respect to capital, liquidity, and interest rate risk. This would include the capital treatment associated with unrealized losses in banks' securities portfolios. Given the financial stability risks caused by the two failed banks, the methods for planning and carrying out a resolution of banks with assets of $100 billion or more also merit special attention, including consideration of a long-term debt requirement to facilitate orderly resolutions.

Conclusion

Recent efforts to stabilize the banking system and stem potential contagion from the failures of SVB and Signature Bank have ensured that depositors will continue to have access to their savings, that small businesses and other employers can continue to make payrolls, and that other banks – small, medium, and large - can continue to extend credit to borrowers and serve as a source of support. The FDIC continues to monitor developments and is prepared to use all of its authorities as needed.

The circumstances surrounding the failures of SVB and Signature Bank merit further thorough review by both regulators and policymakers. The FDIC's Chief Risk Officer will undertake a review of the FDIC's supervision of Signature Bank and intends to release a report by May 1, 2023. The FDIC will also undertake a comprehensive review of the deposit insurance system and will release by May 1, 2023, a report that will include policy options for

consideration related to deposit insurance coverage levels, excess deposit insurance, and the implications for risk based pricing and deposit insurance fund adequacy.

The FDIC is committed to working cooperatively with our counterparts at the other federal regulators as well as with policymakers in the Congress to better understand what brought these institutions to failure and what measures can be taken to prevent similar failures in the future.

STATEMENT OF

NELLIE LIANG

UNDER SECRETARY FOR DOMESTIC FINANCE

UNITED STATES DEPARTMENT OF THE TREASURY

on

"The Federal Regulators' Response to Recent Bank Failures"

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

March 29, 2023

2128 Rayburn House Office Building
Washington, DC

Chairman McHenry, Ranking Member Waters, and other members of the Committee, thank you for inviting me to testify today.

I have had the opportunity to speak with committee members several times in recent days to share updates from Treasury regarding current events. In light of that, I will keep my introductory remarks brief.

The American economy relies on a healthy banking system – one that includes large, small and mid-size banks and provides for the financial needs of families, businesses, and local communities. Households depend on banks to finance their cars and homes and build their savings. Businesses borrow from banks to start and expand their operations, creating jobs for American workers and benefits for their local economies.

Nearly three weeks ago, problems emerged at two banks with the potential for immediate and significant impacts on the broader banking system and the economy. The situation demanded a swift response. In the days that followed, the federal government took decisive actions to strengthen public confidence in the U.S. banking system and protect the American economy.

On March 9th, depositors of Silicon Valley Bank (SVB), withdrew $42 billion in deposits in a period of just a few hours. After concluding that significant deposit withdrawals would continue the next day, the California state regulator closed SVB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on March 10th. Two days later, on Sunday March 12th, the New York regulator closed Signature Bank, which also had experienced a depositor run, and appointed the FDIC as receiver.

Treasury worked to assess the effects of these failures on the broader banking system, consulting regularly with the Federal Reserve and FDIC. On Sunday evening, recognizing the urgency of reducing uncertainty for Monday morning, Treasury, the Federal Reserve, and the FDIC announced a number of actions to stem uninsured depositor runs and to prevent significant disruptions to households and businesses.

First, the boards of the FDIC and the Federal Reserve unanimously recommended, and Secretary Yellen approved after consulting with the President, two actions that would enable the FDIC to complete its resolutions of the two banks in a manner that fully protects all of their depositors. These actions ensured that businesses could continue to make payroll and that families could access their funds. Depositors were protected by the Deposit Insurance Fund. Equity holders and bond holders were not covered.

Second, the Federal Reserve created the Bank Term Funding Program, a new facility to provide term funding to all insured depository institutions eligible for primary credit at the discount window, based on their holdings of Treasury and government agency securities. This program, along with its pre-existing discount window, has helped banks meet depositor demands and bolstered liquidity in the banking system.

This two-pronged, targeted approach was necessary to reassure depositors at all banks, and to protect the U.S. banking system and economy. These actions have helped to stabilize deposits throughout the country and provided depositors with confidence that their funds are safe.

In addition to these actions, on March 16th, 11 banks deposited $30 billion into First Republic Bank. The actions of these large and mid-size banks represent a vote of confidence in the banking system and demonstrate the importance of banks of all sizes working to keep our

economy strong. Moreover, on March 20th the deposits and certain assets of Signature Bridge Bank were acquired from the FDIC, and on March 26th the deposits and certain assets of Silicon Valley Bridge Bank were acquired from the FDIC.

We continue to closely monitor developments across the banking and financial system, and coordinate with Federal and state regulators. As Secretary Yellen has said, we have used important tools to act quickly to prevent contagion. And they are tools we would use again if warranted to ensure that Americans' deposits are safe.

Looking forward, while we do not yet have all the details about the failures of the two banks, we do know that the recent developments are very different from those of the Global Financial Crisis. Back then, many financial institutions came under stress because they held low credit-quality assets. This was not at all the catalyst for recent events. Our financial system is significantly stronger than it was 15 years ago. This is in large part due to post-crisis reforms for stronger capital and liquidity requirements.

As you know, the Federal Reserve announced a review of the failure of SVB and the FDIC a review of Signature bank. I fully support these reviews and look forward to learning more in order to inform any regulatory and supervisory responses. We must ensure that our bank regulatory policies and supervision are appropriate for the risks and challenges that banks face today.

The American financial system is strong in part because of our dynamic and diverse banking system. Large, small, and mid-size banks all play an important role in our economy. Small and mid-size banks, including community banks, serve a vital role in providing credit and financial support to families and small businesses. Smaller banks provide 60% of loans to US small businesses.[1] Their specialized knowledge, expertise, and relationships in their communities enable them to capably serve customers, and their presence increases competition in the banking sector for the benefit of consumers.

I want to thank the Committee for its leadership on these important issues and for inviting me here to testify today. I look forward to your questions.

[1] https://cdn.advocacy.sba.gov/wp-content/uploads/2022/07/12095600/2020-Small-Business-Lending-Report-508c.pdf

PATRICK McHENRY, NC
CHAIRMAN

MAXINE WATERS, CA
RANKING MEMBER

United States House of Representatives
One Hundred Eighteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

March 17, 2023

The Honorable Eugene Dodaro
Comptroller General of the United States
Government Accountability Office
441 G St., NW
Washington, DC 20548

Dear Comptroller General Dodaro:

We write to request that the Government Accountability Office (GAO) begin an immediate evaluation and investigation into the events that transpired in the financial system over the last week. GAO should focus on examining the factors that led to potential mismanagement at Silicon Valley Bank and Signature Bank; the changing conditions and analyses that occurred between March 10 and 12; any regulatory, supervisory or examination failures in the Federal Reserve System (Fed) and the Federal Deposit Insurance Corporation (FDIC). The competency and qualifications of supervisory management and personnel should be included in this review. Separately, GAO should examine the decisions and actions taken by the FDIC, the Fed, and the Secretary of the Treasury surrounding the recent bank failures, enhanced prudential standards, and systemic risks.

As you know, the two bank failures and ensuing financial instability occurred quickly. On Friday, March 10, 2023, the California Department of Financial Protection and Innovation closed Silicon Valley Bank, Santa Clara, California, and appointed the FDIC as receiver.[1] On Sunday, March 12, 2023, the New York State Department of Financial Services closed Signature Bank, New York, New York, and appointed the FDIC as receiver.[2] By Sunday March 12, Treasury Secretary Janet Yellen, Federal Reserve Board Chair Jerome H. Powell, and FDIC Chairman Martin J. Gruenberg announced that the boards of the FDIC and the Federal Reserve recommended, in consultation with the President, the Secretary approve an invocation the FDIC's "systemic risk exception" for each of the two aforementioned financial institutions. The result of this decision made all depositors of those institutions whole—those with balances at or

[1] "FDIC Creates a Deposit Insurance National Bank of Santa Clara to Protect Insured Depositors of Silicon Valley Bank, Santa Clara, California," Press Release, FDIC, Friday, March 10, 2023 (updated March 12, 2023 and available at https://www.fdic.gov/news/press-releases/2023/pr23016.html .

[2] "FDIC Establishes Signature Bridge Bank, N.A., as Successor to Signature Bank, New York, NY," Press Release, Sunday, March 12, 2023 (updated and available at https://www.fdic.gov/news/press-releases/2023/pr23018.html#:~:text=As%20receiver%2C%20the%20FDIC%20will%20operate%20Signature%20Bridge,operates%20under%20a%20board%20appointed%20by%20the%20FDIC. .

below the FDIC insured maximum of $250,000 and as well as those with balances above that maximum.[3]

At the same time, on Sunday, March 12, 2023, the Fed announced the establishment of a new Bank Term Funding Program (BTFP), to provide loans of up to one year in duration to banks, savings associations, credit unions, and other eligible depository institutions pledging Treasury securities, agency debt, and mortgage-backed securities, and other unspecified "qualifying assets" as collateral.[4] The assets will be valued at par, meaning that BTFP borrowers can swap Fed approved securities, many of which are likely below par value, at current market prices, for cash in an amount equal to the par value of the securities. With the Treasury Secretary's approval, the Treasury Department made $25 billion available from the Exchange Stabilization Fund to backstop the BTFP.

Moreover, there are reports that there were questionable stock sales and bonus payments made days if not hours before the bank closed that should be examined.[5] There's also questions about the role of investment bank underwriters,[6] credit rating agencies,[7] and the Federal Home Loan Bank (FHLB) system[8] that you should examine as well.

Separate and apart from this, it appears that the FDIC, for reasons not fully understood at this time, was not able to secure a buyer for Silicon Valley Bank. A willing buyer would have provided for an orderly resolution and closure of Silicon Valley Bank, including re-opening the bank under a new name and with new owners, on Monday, March 13. The absence of a buyer may have injected new risk in the financial system on Sunday, March 12.

It is critical the House Committee on Financial Services understand the events of the last week, including bank mismanagement and failures; supervisory and examination failures; and the decisions or lack thereof in the days leading up to the announcement of these extraordinary actions on the night of March 12. An external evaluation and investigation by GAO will help supplement the material loss reviews the FDIC and Federal Reserve Inspectors General are expected to do, along with the Fed's announcement on Monday, March 13, 2023, to "review …

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[3] "Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC," Press Release, FDIC, Sunday, March 12, 2023, available at https://www.fdic.gov/news/press-releases/2023/pr23017.html .
[4] "Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors," Press Release, Federal Reserve Board, March 12, 2023, 6:15 p.m. EDT, available at https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm .
[5] For example, see "Silicon Valley Bank CEO Sold $3.6 Million In Shares Days Before Fatal Loss Disclosed," Wall Street Journal, March 10, 2023, available at https://www.wsj.com/livecoverage/stock-market-news-today-03-10-2023/card/silicon-valley-bank-ceo-sold-3-6-million-in-shares-days-before-fatal-loss-disclosed-6re8L8VDWjk956bOLaDD; and "Silicon Valley Bank employees received bonuses hours before government takeover," CNBC, March 11, 2023, available at https://www.cnbc.com/2023/03/11/silicon-valley-bank-employees-received-bonuses-hours-before-takeover.html.
[6] For example, see "New Questions About Goldman Sachs's Work With Silicon Valley Bank," New York Times, March 15, 2023, available at https://www.nytimes.com/2023/03/15/business/goldman-svb-silicon-valley-bank.html.
[7] For example, see "How credit ratings are playing a key role in the unfolding banking crisis," Insider, March 16, 2023, available at https://www.businessinsider.com/explainer-credit-ratings-agencies-sp-moodys-fitch-svb-bank-crisis-2023-3.
[8] For example, see "After big bank failure, renewed questions about Home Loan Bank System," American Banker, March 10, 2023, available at: https://www.americanbanker.com/news/after-big-bank-failure-renewed-questions-about-home-loan-bank-system.

the supervision and regulation of Silicon Valley Bank, in light of its failure." The review will be led by the Vice Chair for Supervision and released by May 1.[9]

The House Financial Services Committee is working responsibly to get to the bottom of what happened over the last week. We are interested in determining whether there are additional banks like the two described above that have similar asset growth, deposit concentration, and maturity mismatches within their portfolios. We recognize this evaluation and investigation may take some time. We ask that you provide an interim report on your findings no later than April 28, 2023.

We value the nonpartisan and professional work done at the GAO under your leadership and appreciate your attention to this request.

Sincerely,

Patrick McHenry
Chairman
Committee on Financial Services

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services

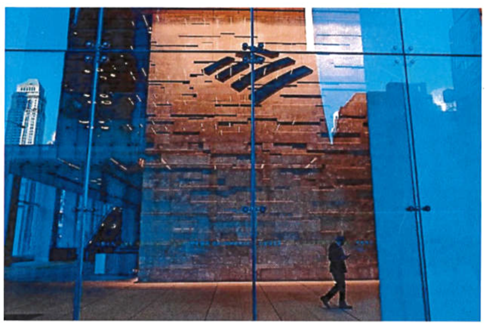
[9] "Federal Reserve Board announces that Vice Chair for Supervision Michael S. Barr is leading a review of the supervision and regulation of Silicon Valley Bank, in light of its failure," Press Release, Federal Reserve Board, March 13, 2023, for release at 4:00 p.m. EDT, available at https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230313a.htm .

https://www.wsj.com/articles/rising-interest-rates-hit-banks-bond-holdings-11668123473

MARKETSFINANCE

Rising Interest Rates Hit Banks' Bond Holdings

Losses on bonds grow, potentially affecting earnings and liquidity



Among big banks, Bank of America had the largest gap between the book value of the bonds it holds and their market value.

PHOTO: JOHN TAGGART FOR THE WALL STREET JOURNAL

By Jonathan Weil Follow

Nov. 11, 2022 5:30 am ET

The Federal Reserve's rapid interest-rate increases have created an unusual and potentially worrisome gap between the value companies place on trillions of dollars of bonds they hold and the value those bonds fetch in the market.

The difference between the bonds' book values and market values poses unique risks for banks. They could face tighter liquidity and earnings pressure as rates they pay for deposits and other funding sources rise, while yields on the bonds they own stay low.

Companies are allowed to hold bonds on their balance sheets at cost if they label them "held to maturity" for accounting purposes. The Fed's rate increases mean many of the bonds held by banks have fallen in value and are trading below what the banks paid for them.

For the 24 big U.S. lenders in the KBW Bank Index, the combined balance-sheet value of held-to-maturity bonds was $2.21 trillion as of Sept. 30, according to a Wall Street Journal review of their filings. The market value was $1.91 trillion, or 14% less. The gap was negligible when the year started.

The vast majority were mortgage bonds issued by government-sponsored entities, such as Fannie Mae, as well as U.S. Treasurys. Those bonds don't pose credit risk, meaning they won't default. But they do present market risk, including interest-rate risk, because bond values fall when rates rise.

"The greater the increase in the cost of funds the more pressure you have on your margins, because your cost of funds is still going up and your earnings from the low-earning securities remains the same," said Thomas Hoenig, former president of the Federal Reserve Bank of Kansas City and former vice chairman of the Federal Deposit Insurance Corp. "If they go high enough, you could actually be losing money on these assets." He was speaking generally, not about any specific banks.

Banks are in many cases stuck with the bonds they own. If they sell them, they would have to recognize the losses for accounting purposes. And because their holdings are large, selling might push prices down further. The Fed in its latest financial-stability report, released last week, said "liquidity remained low in the U.S. Treasury market."

This may be partly a problem of regulators' creation. Banking regulations have motivated lenders to load up on "high quality liquid assets," including Treasurys. But accounting considerations can discourage trading them in the secondary market, reducing market liquidity for those assets.

The losses don't put any of the banks under financial stress. They could hurt earnings for years to come if banks need to pay higher rates for deposits than they earn on their bonds.

Because they don't want to sell the bonds, they could face liquidity pressure if their deposits decline or they suffer outsize losses on their loans.

Valuing the bonds at their cost assumes the banks can hold them to maturity. If a bank ever needed to sell them to raise cash, it would have to mark them down to market values. If the losses were severe, that could put some banks into a crisis.

There is little chance of this occurring anytime soon, but it also points out potential flaws in bank regulations. These are supposed to assure that banks have sufficient capital and liquidity. If big embedded losses in bonds prevent banks from selling them, then liquidity could suffer.

Greg Becker is chief executive of SVB Financial Group, which said the market value of its held-to-maturity bonds as of the end of September was $15.9 billion less than their balance-sheet value.
PHOTO: LAUREN JUSTICE/BLOOMBERG NEWS

Among the KBW index members, the lender with the largest gap by dollar amount was Bank of America Corp. Its latest balance sheet showed $644 billion of held-to-maturity bonds. Their market value was $528 billion, according to an accompanying disclosure. The $116 billion difference was equivalent to 43% of Bank of America's $270 billion of total equity, or assets minus liabilities, as of Sept. 30. At the start of the year, before rates surged, the market value and balance-sheet value were within 1% of each other.

Bank of America spokesman William Halldin said in an email, "Our capital and liquidity remains strong and well ahead of requirements."

Like most large banks, Bank of America is awash in deposits and hasn't raised rates much on those accounts. Banks also can benefit from charging higher rates on their loans.

The held-to-maturity label also means the market declines don't count in the formulas banking regulators use for measuring capital, which is the financial cushion companies have on hand to absorb future losses. Had the banks classified the same holdings as "trading," they would have been required to include the unrealized losses in their earnings and equity. A third category, "available for sale," lets lenders exclude such losses from their earnings, but not equity.

SVB Financial Group, the parent of Silicon Valley Bank, said the market value of its held-to-maturity bonds was $15.9 billion less than their balance-sheet value, as of Sept. 30. That gap was slightly more than SVB's $15.8 billion of total equity. SVB's chief financial officer, Dan Beck, said in an email, "There are no implications for SVB because, as we said in our Q3 earnings call, we do not intend to sell our HTM [held to maturity] securities."

At Wells Fargo & Co., the market-value gap for such bonds was almost $45 billion as of Sept. 30, equivalent to 25% of equity. A Wells Fargo spokeswoman declined to comment. In its latest quarterly report, Wells said the unrealized losses were "driven by higher interest rates and wider credit spreads."

In all, 15 of the 24 KBW index members had market-value gaps that were equivalent to 10% of their equity or more. Cumulatively, for all 24 banks, the $300 billion difference between the bonds' book value and market value represented 22% of their $1.39 trillion of combined total equity.

Some banks this year have been transferring bonds to their held-to-maturity buckets from available-for-sale, minimizing their hits to equity as bond prices have fallen.

The concept behind allowing companies to value bonds at cost is they will recover their principal over time, assuming they hold them and the bonds don't default. Smoothing out paper gains and losses for accounting purposes lets companies show less volatility in their results.

Sometimes, though, bondholders have to sell in ways unforeseen. Many U.K. pension funds last month, for example, were forced to sell government bonds to raise cash for collateral calls triggered by rapid increases in bond yields.

"That's the only justification for having held-to-maturity: It's so the banks would not have all this volatility in earnings for something that is presumed to be transitory," said Ed Ketz, an

accounting professor at Pennsylvania State University. "But ask the question, what if the inflation is not transitory? The numbers are huge, absolutely huge."

Write to Jonathan Weil at jonathan.weil@wsj.com

The U.S. Needs a New Bank Supervisory System

By Peter Wallison

AP

The failure of Silicon Valley Bank has sent shock waves through the U.S. and international banking system. One of the reasons, of course, was the bank's shockingly weak financial condition. But it's also likely that the widespread panic reflects a loss of faith in the Fed's supervision of U.S. and foreign banks.

It's now clear that there is a serious conflict between the Fed's role as a monetary authority and its bank supervisory function. The Biden administration's effort to allay the banking panic by guaranteeing all deposits in SVB will fail to return the US and the world's banking system to boring normalcy until Congress makes major changes in the U.S. deposit protection and supervisory structure.

sky loans—although it did. The main cause
: basic rule of banking: never support a
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require that you sell them or otherwise

The fact that SVB's failure was based on something so simple indicts the Fed's regulatory system. An alert regulatory staff would have known that many banks within its jurisdiction were likely to have suffered asset value declines because of the Fed's own policy of raising interest rates to stifle inflation. In many cases, these losses had not been recorded in their balance sheets (assets like Treasury bonds are not generally written down if they are intended to be held to maturity).

According to a recent article in the *New York Times*, The Fed was fully aware of SVB's parlous condition, but its recommendations –which should have been directions—were not followed. The reasons for this, and the failure of the Fed's supervisory staff to follow up with demands or even threats is inexplicable, except for the possibility that the Fed had conflicts of interest that interfered with tough supervision.

First, the chairman of SVB sat on the board of directors of the San Francisco Fed, the bank's direct supervisor. How this was allowed is also inexplicable and reflects a blindness or arrogance at the Fed about its own susceptibility to conflicts.

Second, although we do not know what the Fed's specific supervisory requests were, they came as the Fed itself was raising interest rates to curb inflation, putting greater pressure on all banks that were holding mortgage-backed or U.S. Government securities. While it was doing this, the Fed's supervisory side knew that SVB would be especially adversely affected. Was the monetary side informed? Probably not, but once SVB failed, we saw the Fed change the policies on its monetary side. On Wednesday this week, the Fed raised interest rates 25 basis points, a small increment considering the continued high rate of inflation, and one unlikely to do much to slow prices, but it shows the Fed responding to its supervisory failure with a tepid effort on inflation. It is not sound policy either for monetary matters or bank supervision to have conflicted agency involved, but Congress only sees one solution.

Over the years, whenever there has been a significant banking problem, Congress has given increased power to regulators and supervisors—particularly the Fed—and has raised the FDIC's insurance for bank deposits, now $250,000.

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strong or effective.

Nevertheless, when the 2008 financial crisis occurred, Congress turned immediately to giving more power to the Fed and the government's regulatory and supervisory system. These "reforms" were put in place through the Dodd-Frank Act, before Congress or the Obama administration had done any serious study of the causes of the crisis or the performance of the financial supervisory system. "Never let a good crisis go to waste" was the motto.

The failure of SVB and others, and the quick recognition in the markets that something was badly wrong in the US bank supervisory system, should persuade Congress—this time—to look elsewhere for a more imaginative solution.

Peter J. Wallison is a senior fellow emeritus at the American Enterprise Institute. He was General Counsel of the Treasury and White House Counsel in the Reagan administration. His book, Hidden in Plain Sight (Encounter 2015) details the causes of the 2008 crisis.

Engine

April 13, 2023

House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman McHenry, Ranking Member Waters, and members of the House Financial Services Committee,

Thank you for your efforts to explore the fall of Silicon Valley Bank (SVB) and the ensuing response of banking regulators. As a mainstay bank in the startup ecosystem, the fall of Silicon Valley Bank deeply affected the U.S. startup ecosystem. And while the government has stepped in to ensure depositors would be made whole and at least part of the bank has found a buyer, the effects of the bank's collapse will be far-reaching. Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues. As such, we thank you for the opportunity to provide a statement for the record for the committee's hearing on the matter and for your attention to the impact of banking failures.

While SVB's executives made critical errors that in part led to the bank's collapse and should be addressed by banking regulators, we encourage policymakers addressing the fallout from the crisis to keep the needs of the U.S. startup ecosystem in mind and to ensure banking services and capital access pathways are open to founders. SVB positioned itself as the bank for the U.S. innovation ecosystem. Its clients were not limited to Silicon Valley, but instead included founders scattered across the U.S., as well as the globe. Nor were all of the bank's clients venture capital firms or large successful companies—nascent startups in Engine's network, including underrepresented founders, counted themselves as SVB clients. As a regional bank dedicated to the startup ecosystem, SVB didn't just offer favorable terms for new founders, but they also fostered connections between founders and other ecosystem members, served as a source of venture debt, and helped to nurture founders from underrepresented backgrounds. The loss of Silicon Valley Bank leaves a significant gap in the innovation ecosystem.

The fallout from the SVB collapse also more broadly threatens the banking industry, especially other regional banks and community banks. Community banks in particular engage in relationship banking, offering services that startup clients may not be able to access at large banks. But the collapse of SVB has pushed many startups to move their deposits to large banks, even though they may face additional costs when banking. This could lead to the closure of many small banks down the line and could limit banking options for founders—especially as community banks,

including minority-owned banks, have already been steadily declining across the U.S., despite their limited risky investments.

Startups are rightly concerned about what SVB's fall means for the broader startup ecosystem, and more specifically, how they will be able to access the services they need. They are also concerned about the long-term impact the fallout will have on their community, including their ability to raise capital as the collapse may lead to a diminished appetite for risk, which is ever present in the innovation ecosystem. Founders in particular worry about what this means for underrepresented groups, with one network member telling us, "We have concerns that funding for underrepresented founders will decline as 'risk tolerance' decreases among funders. Not because funding minority founders is risky (it's not), but because people tend to revert to old patterns in times of crisis, and old patterns were not diverse."

As policymakers consider legislative solutions to ensure the stability of the U.S. banking system, we encourage them to consider the needs of the U.S. startup community, particularly underserved founders. More information about the role SVB had in the startup ecosystem and the effects its collapse may have on thousands of founders across the country can be found in the attached blog post Engine drafted following SVB's closure.[1] As always, we are happy to serve as a resource for the committee when considering policies that may impact U.S. startups. Thank you for your attention to this matter and for holding a hearing to explore the response to banking failures.

Sincerely,

Engine Advocacy
700 Pennsylvania Ave SE
Washington, D.C. 20003

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[1] Jennifer Weinhart, *SVB: what happened, how the fallout impacts startups, what policymakers can do next* (Mar. 24, 2023), https://engineadvocacyfoundation.medium.com/what-policymakers-need-to-know-about-the-svb-collapse-and-startup-fallout-a4dcfb3ee2e7.

SVB: what happened, how the fallout impacts startups, what policymakers can do next
By Jennifer Weinhart, Senior Policy Advisor, Engine Advocacy & Foundation

The fall of Silicon Valley Bank (SVB) dealt an immediate shock to the global startup ecosystem and will have lasting ramifications for banks and founders. Many startups lack access to large banks, and instead rely on community and regional banks to meet their needs. SVB in particular was uniquely situated to support the startup ecosystem, offering more favorable terms for loans and connections for founders. But the fall of SVB has led to concerns that other banks may suffer similar fates, and at the same time has brought to the forefront the risk inherent to the startup ecosystem. While a divided Congress means legislation is unlikely, banks could face additional regulatory burdens that would have a larger impact on smaller banks, and founders may confront more risk aversion as they seek to access capital. The journey of a startup is already precarious on any given day — the collapse of a mainstay bank for the startup ecosystem will only make building a startup more challenging.

What happened at SVB?

While the SVB collapse largely unfolded over 48 hours, the circumstances that lead to the bank being placed into receivership go back months. Silicon Valley Bank situated itself as *the* bank for the startup ecosystem, counting numerous venture capital firms and startups as clients. Pre-pandemic, as the startup ecosystem thrived, SVB similarly thrived. The bank's clients were flush with cash, and startups raised record amounts of venture capital. At the same time, interest rates hit historic lows and were expected to stay low, barring an unexpected surge in inflation. SVB decided to take advantage of low interest rates and park capital in longer-term bonds.

What was once an asset for SVB — clients with brimming bank accounts — soon became a liability, with the majority of the deposits exceeding the $250,000 limit for Federal Deposit Insurance Corporation (FDIC) insurance. As interest rates rose and inflation crept up, the value of the long-term bonds plummeted. With liabilities in excess of its assets and depositors looking for higher returns, SVB was forced to sell bonds at a loss and was unable to raise the cash needed to remain afloat. Chatter swiftly swirled amongst VCs and throughout the startup ecosystem about whether companies should pull their deposits, creating a run on the bank and leading to its collapse. Many depositors, including startups, often have deposits in their accounts that exceed FDIC insurance limits — when early-stage startups need on average $55,000 to operate per month, it is simply impractical for many startups to split all of their funds amongst multiple banks so that all funds are insured, without creating a headache for operating activities. Even for those companies with insurance through other mechanisms, like cash sweep accounts, companies faced fears they couldn't swiftly access their money.

Other factors likely also contributed — the Trump administration raised the threshold designating banks as systemically important from $50 billion to $250 billion, freeing up many smaller and regional banks from annual stress tests and certain capitalization requirements. And SVB was without a chief risk officer for much of 2022. And some blame the speed of the bank's collapse on conversations on social media, arguing they accelerated the run.

What did SVB mean to the startup ecosystem?

From its outset, Silicon Valley Bank positioned itself as a mainstay bank for the startup ecosystem, courting founders and venture capitalists. SVB developed extensive relationships with startup companies, providing services like lines of credit and loans to companies that weren't yet profitable and would have a difficult time accessing services at other banks. Even in the wake of the collapse, startups have sung praises of working with SVB — Ham Serunjogi of Chipper stated, "when I was trying to open Chipper's first bank account, SVB was the only bank that would accept us." Some startups used SVB for all of their banking services in exchange for SVB lines of credit.

Other startups chose to bank with SVB because the bank knew the startup ecosystem. Joshe Ordonez of Airpals banks with SVB because "they are the ones that understand our situation." She explained that as a founder she is already taking a lot of risks, and SVB provided credit cards for her startup that wouldn't impact her personal finances. . It was also important that they waived fees, whereas the large banks charge for everything, including minimum balance requirements, which can be particularly hard to meet as an early-stage founder. Joshe also pointed to the fact that SVB allowed clients to open accounts remotely using the EIN numbers from their companies, which was a benefit for immigrant founders and entrepreneurs overseas.

SVB was also a critical source of venture debt — a relatively short-term loan on favorable terms, usually in exchange for the right to purchase common stock of the company in the future at a predetermined price. Venture debt is often used by early-stage, venture-backed startups that might not have the extensive collateral needed to obtain a conventional loan. "Growth companies use Silicon Valley Bank and Signature Bank because of their Venture Debt product which allows a scaling company to receive a loan easier than a traditional bank." Paul Foley of Colorado Startups told us.

SVB was founded in the epicenter of the U.S. startup ecosystem, it worked with startups across the country and across the globe. SVB had branches in over a dozen states and served up to almost half of our nation's startups. While it's easy to picture the wealthiest investors as depositors at SVB, startups of all sizes relied on the bank, as did angel investors, many of whom operated independently.

What about underrepresented founders?

SVB, like the entire startup ecosystem, had strides to make towards accessibility and equitability for everyone — venture capital firms, many of whom were SVB clients, themselves lack much-needed diversity — but it often served as a lifeline for underrepresented founders that were locked out of many funding streams. Steve Case called SVB "an important gateway for female founders, minority founders and entrepreneurs from corners of the country that don't see a lot of venture capital." As he explained, the bank would "take meetings with founders, learn about their plans and develop relationships that other banks would likely not take the time to nurture" which "opened doors for founders beyond the traditional profile." And the bank operated programs, like Access to Innovation, which was geared toward helping underrepresented founders access needed funding.

Given the role the bank played in fostering relationships for underrepresented founders, for Black founders, at least, SVB worked to build trust and facilitate access, particularly in light of past discrimination against people of color in banking. SVB supported organizations across Black entrepreneurial ecosystems, including accelerators, and without a clear institution to step into its footsteps, Black founders may feel the bank's absence acutely.

As many startups moved their deposits from SVB to larger "systemically important" banks, many Black founders didn't have that option as they've had to rely on smaller financial institutions like community and regional banks that have worked to meet the needs of underrepresented communities.

What do regional and community banks mean for the startup ecosystem?

SVB's collapse has also put a spotlight on small and mid-sized banks. Startups and small businesses seek out small community or regional banks for a number of reasons. Whereas large banks have more stringent requirements for issuing loans or lines of credit, smaller banks often foster more personal relationships with clients, making it easier for startups to get the banking services they need. They might be more willing to take on clients that large banks might find risky, and they're often able to move faster than larger banks, which can be attractive to startups. They're typically able to tailor their services to their clients, including by providing industry-specific guidance, and can help with network building. According to the Independent Community Bankers of America, "In stark contrast to the nation's largest banks, community banks operate under an entirely different business model — one that's based locally and is relationship focused. As small businesses themselves, local community banks take pride in serving the unique needs of their customers and communities."

The ripple effects from the collapse already are, and will continue to affect smaller banks, including minority-owned institutions, which have already declined in number over the years. Some banks are already seeing customers move their deposits to larger banks, even though many small banks, like minority-owned banks, have minimal risky investments.

What happens next?

Even though the federal government has stepped in to guarantee all deposits — insured or not — at Silicon Valley Bank, the impact of the collapse will continue to affect the startup ecosystem and the U.S. banking system.

For banks, the aftermath of the collapse could result in community and regional banks losing clients in favor of larger banks. The flow of deposits to large banks at the expense of smaller institutions would reduce competition in banking, which would leave fewer options for startups to meet their banking needs. Policymakers could also pursue increased regulation of the U.S. banking system, including subjecting more banks to stress tests, which would require more resources that would disproportionately impact smaller banks.

For startups, the predominant concern has moved on from making payroll and accessing SVB deposits, to longer-term concerns, like the future ability to raise capital as the risk profile associated with the startup ecosystem is in the spotlight. Andrew Prystai of Omaha, Nebraska-based startup Event Vesta told Engine, "it feels like we were already in winter…I don't see how this doesn't make it worse by increasing risk or fear and encouraging a flight of capital to safer assets."
Others are concerned about what the loss of SVB itself means to the startup ecosystem overall, including who will step in as a leader in the provision of venture debt. Foley of Colorado Startups went on to explain, "without Silicon Valley Bank and Signature Bank, startups will have fewer options to receive venture debt, which accounts for a large portion of funding in the ecosystem, especially in the later rounds such as Series A and on."

Underrepresented founders are rightly concerned about what the collapse means for their ability to access capital and for their own banking relationships. Ordonez, of Airpals, tweeted, "we are not 'tech bros'… Although we are a minority in the industry, we make a significant impact on the economy of our local communities. Unfortunately, as a minority-owned business, we are also among the most vulnerable to the potential ripple effects of a banking crisis." And another founder told us they were concerned about the potential fallout — "We have concerns that funding for underrepresented founders will decline as 'risk tolerance' decreases among funders. Not because funding minority founders is risky (it's not), but because people tend to revert to old patterns in times of crisis, and old patterns were not diverse."

Startup founders need security in the banking system — to perform operating tasks, access loans and lines of credit, and build relationships — and policy needs to support the banks that startups have to rely on. Policymakers stepped in quickly to insure SVB deposits, adding some much-needed stability to the banking system, but they must continue to act to support more banks, especially community and regional banks. Policymakers and investors should also take steps to ensure startup founders — especially underrepresented founders who have historically been excluded from venture

capital opportunities and the banking system — have the resources they need to access diverse sources of funding and support as their companies grow.

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues.

April 13, 2023

House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman McHenry, Ranking Member Waters, and members of the House Financial Services Committee,

My name is Joshe Ordonez. I am the Founder, CEO, and Creative Director of Airpals, a New York City, N.Y.-based platform working to close gaps in the local delivery logistics market. We are proudly owned and operated by members of the Latinx community and 50 percent of our female employees hold leadership positions in the company. I lead my startup with a triple-bottom-line approach, emphasizing people, the planet, and profit, and our investors share our vision. Like many founders and startups across the country, Airpals was directly impacted by the collapse of Silicon Valley Bank (SVB). And while we are grateful for the government's swift action to ensure depositors would be made whole, I also remain concerned about the long-term effects SVB's collapse will have on startups and our ability to raise capital in the future. Thank you for taking the time to conduct hearings on the recent bank collapses and for the opportunity to provide this statement for the record.

My company, Airpals, had a significant portion of our funds in a Money Market Account at SVB. We banked with SVB, in part, because of how they were positioned to work with founders in the startup ecosystem, especially founders from underrepresented backgrounds. They understood our situation—their banking tools waived many fees, which can quickly mount for new businesses, and they provided access to credit cards for Airpals that wouldn't affect my personal finances. For Airpals and startups like ours, SVB went above and beyond, including by helping founders to create wealth through investing tools. And while bank executives certainly made errors with respect to SVB's investments in longer-term bonds, the bank also prioritized supporting new founders—including underrepresented founders—and the startup ecosystem more broadly.

SVB serves as a prime example that investing in the community is a sound business strategy. They frequently sponsored and organized events and projects that spotlight BIPOC founders and investors. Personally, I have been involved in two such initiatives and found them to be incredibly beneficial. SVB's investments and events provided us with a platform that we may not have had access to otherwise, and without their efforts, we may experience setbacks in our careers. Being associated with the powerful household name of SVB within the industry allowed me to pique the interest of other investors and opened doors to new opportunities. This relationship helped me expand my network, which is crucial in the innovation economy where networks are considered social capital and follow a power law. SVB worked hard to include individuals from outside their usual circles, like myself, in their network-building efforts.

It is no secret that founders of color and women founders have to work significantly harder to raise just a fraction of the capital that many of our white, male peers raise with ease. After SVB's collapse, there was an echo chamber of people claiming it was just large, wealthy startups, VCs, and tech bros affected. But at Airpals we are not "tech bros," nor are we a large company. Our team consists of just eight full-time employees and five contractors. From a financial standpoint, our

company has raised only one-fifth of the amount that similar companies founded by male counterparts in our space have raised. However, our unique investor base primarily consists of Latinx, Black, and Asian professionals, rather than the traditional venture capitalists from Silicon Valley. We are a small business, operating a platform that primarily serves women in admin and clerical roles, helping them to advance their careers by taking office logistics out of their plates. For startups like Airpals, SVB's collapse could have been devastating.

As it stands, the aftermath of this recent banking crisis could still be detrimental to many startups. SVB made significant investments in Black and Latino founder communities. The startup ecosystem is already an environment filled with risk across the board—from founders taking a chance at launching a company, to investors betting on our businesses. Many founders, especially those from underrepresented backgrounds, are concerned that investors will pull back from investing. When we already receive such a small piece of the pie, SVB's collapse will likely shrink potential investment even further. While many traditional founders will never feel the impact the SVB collapse had on the startup ecosystem, many women founders and founders of color will struggle even more.

As policymakers examine regulators' responses to the collapse and consider next steps to ensure a banking crisis like this does not happen again in the future, I encourage you to keep startups like Airpals, and other startups headed by underrepresented founders, in mind. Steps like revisiting FDIC insurance limits and exploring the possibility of introducing different types of limits that address the disparate impacts of bank failures on startups vs. established companies. It is equally important that banks should be required to account for losses in long-term investments. An updated accounting approach could prevent problems similar to those we've seen with SVB and other regional banks. Finally, it would be highly beneficial if policymakers could communicate to the American public about the diverse range of entrepreneurs who are now active in the innovation economy. The recent crisis at SVB sparked debates based on the inaccurate idea that "wealthy" startup founders and employees didn't need or deserve support.

And as a founder, I value the ability to bank with a regional or community bank as they take relationships in mind as they conduct banking services. Following the availability of our deposits on Monday, the 13th, we opted to open accounts at larger banks. However, our experience has been far from smooth. In addition to funding, time is a valuable resource, and is becoming increasingly scarce due to the time-consuming processes that these banks have in place. It is now evident to me that the reason banks like SVB exist is to alleviate this burden for companies like ours. Although larger banks are notorious for their predatory fees, the primary issue lies in the additional and unnecessary administrative work required to manage these accounts within a company.

Thank you for the opportunity to provide feedback on the recent banking collapses as you continue to explore the response of regulators and policymakers to the crisis. For more background on the impact of SVB's collapse on the startup ecosystem, this blog post from Engine provides some background and information about possible long-term consequences.

Sincerely,

Joshe Ordonez
Founder, CEO, & Creative Director
Airpals

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Chairman McHenry:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Questions for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Chairman Patrick McHenry:</u>

1. **Will you treat the questions for the Congressional Record asked today, with responses requested by no later than April 28, 2023, with priority over the unsolicited, self-referential, internal review you have decided to perform regarding Signature Bank and the policy options you have chosen to research and provide for hasty presentation to Congress by May 1?**

I strongly believe in transparency and accountability to Congress and strive to provide timely responses to your questions. I am committed to ensuring that the Federal Reserve fully accounts for any supervisory or regulatory failings and welcome the committee's oversight.

2. **A November 11, 2022, Wall Street Journal article explained, at length, interest rate risks presented to the banking system by the Federal Reserve's inflation-fighting rapid increases in interest rates. Silicon Valley Bank was mentioned as a particular case, with, as of September 30 of 2022, a market value of its held-to-maturity bonds just slightly above the value of its total equity. So, both the Federal Reserve Bank of San Francisco, the Federal Reserve Board, and you were or should have been fully aware of the risks generally, and of the big risks at Silicon Valley Bank. Yet, your testimony suggests that you learned of problems at Silicon Valley Bank, with respect to interest rate risks and the extent of maturity mismatch across assets and liabilities, and possibly of interest rate risks facing the banking system generally, only by mid-February from a Federal Reserve staff presentation. In what meeting or seminar of presentation venue was the mid-February presentation you attended? Was the setting (e.g., a meeting) a planned event. Were interest rate risks the subject of the meeting, or simply one item on the agenda and, if the latter, please provide the agenda? Who attended the meeting and who presented at the meeting? Was the November 11 Wall Street Journal article referenced in the presentation?**

Interest rate risk is a foundational risk of banking and is a core area of focus within supervision. As interest rates began to rise beginning in March 2022, Federal Reserve supervision began to focus on the impact of increasing rates on the safety and soundness of banks. As highlighted in the November 2022 *Supervision and Regulation Report,* supervisors were prioritizing examinations of interest rate risk management.[1]

On a quarterly basis, the Supervision and Regulation division (S&R) staff hold a briefing for the Board of Governors (Board) to deliver informational presentations on select topics. The Board received an informational briefing on February 14, 2023, entitled "Impact of Rising Rates on Certain Banks and Supervisory Approach," delivered by S&R and Federal Reserve System risk staff. This presentation highlighted the range of impacts of rising rates on banks, including large unrealized market value losses in investment securities for some banks. The presentation

[1] *See* https://www.federalreserve.gov/publications/files/202211-supervision-and-regulation-report.pdf.

described the increased supervisory activity at banks with significant risk, as well as internal training and outreach to supervised firms on interest rate risk given the current environment..[2]

Staff identified Silicon Valley Bank (SVB) as an example of a large bank with substantial exposure to interest rate risk. Staff discussed SVB executing its Contingency Funding Plan, a planned downgrade of SVB's CAMELS "S" sensitivity rating to "Less-than-Satisfactory-3," issuance of a supervisory Matters Requiring Attention (MRA) around Interest Rate Risk modeling, and heightened supervisory attention. The November 11, 2023 Wall Street Journal article was not referenced in the presentation.

The other topic covered at the Board briefing that day was related to a tool used in the supervision of Community Banking Organizations (CBO), presented by S&R CBO staff.

3. **The Dodd-Frank Act contains transparency and review provisions when certain actions are taken by the Federal Reserve, FDIC, and Treasury that Republicans fought for and the Federal Reserve resisted. For actions taken in "unusual and exigent circumstances," under Section 13(3) of the Federal Reserve Act, Dodd Frank provides authority for audits, examinations, reviews, and reports by the Comptroller General of the United States. The FDI Act requires that the Inspector General conduct a review of the supervision of failed banks and determine whether supervision contributed to the failure. Dodd Frank also requires that any 13(3) facility be broad based and the Treasury Secretary must sign off on the facility. The intent of Congress was to allow emergency actions by the Federal Reserve, and then allow an objective assessment to occur. Counter to that spirit, the Federal Reserve hastily announced on March 13, that you will lead a "swift" and public-facing self-reflecting review of the supervision and regulation of Silicon Valley Bank, whose failure prompted an emergency Federal Reserve action.**

    a. **Did the Board of Governors review and vote to approve this 'internal' hasty review of the supervision and regulation of Silicon Valley Bank along with a pledge to release it publicly by May 1? If not, were other Governors consulted prior to the announcement that it would be publicly released by May 1?**

    b. **Why do you believe it is in the best interest of the Board of Governors for the Vice Chair of Supervision to lead the internal review of supervisory activities that you are charged with overseeing for the Board? Doesn't that present a conflict of interest – whether real or perceived? Did you consider asking another Governor not otherwise involved in supervision or regulation to lead this review to ensure impartiality?**

Following discussion with Chair Powell, he and I decided that I would lead a review of the supervision and regulation of SVB in a timely manner, consistent with my statutory authorities. It was important to begin the review soon after the failure of the bank, while the information was still fresh in the minds of those involved in the supervision of the bank.

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[2] *See* https://www.federalreserve.gov/supervisionreg/files/board-briefing-on-impact-of-rising-interest-rates-and-supervisory-approach-20230214.pdf.

The staff members who conducted this review were not involved in the supervision of SVB and therefore were in a position to provide an impartial look at what went wrong. As the Vice Chair for Supervision, I was best suited to oversee this review as supervision and regulation policy are my statutorily assigned duties. Neither the Chair nor other Governors were involved in the review, nor did they vote on it.

We welcome external reviews into the Board's supervision of SVB, including from Congress, the Board's Office of the Inspector General, and the GAO.

4. **The Office of Financial Research—or OFR—which is a Dodd-Frank creation, purports to promote financial stability by, in part, delivering data and analysis to the Financial Stability Oversight Council (FSOC) and its member agencies. The Federal Reserve Board has recently partnered with the OFR to work on climate change issues. Did anyone in leadership at the Division of Supervision and Regulation at the Federal Reserve look at any OFR data or analysis, including the Financial Stress Index, while interest rate risks were rising in the banking system or during the weekend of March 10? If not, why not? Are you aware of FSOC discussing or charging the OFR to obtain and analyze this type of data at the most recent FSOC meetings?**

The Treasury, as Chair of the FSOC, is best able to answer questions regarding the work of the OFR. The Federal Reserve routinely monitors bank-focused market indicators of potential stress and volatility, which are similar to the measures included in the Office of Financial Research index.

5. **When the Federal Reserve announced that it was opening a special credit facility on March 12, its press release and accompanying information did not identify that it was using its emergency authority provided in Section 13(3) of the Federal Reserve Act. In prior emergency cases, such as with events surrounding the CARES Act and during the great financial crisis, the Federal Reserve always made clear when it was invoking Section 13(3) authority. Was keeping the fact the Bank Term Funding Program (BTFP) was a 13(3) facility a deliberate omission?**

No. The omission was an unintentional oversight and was quickly remedied. To provide clarity, the Board posted 26 frequently asked questions and answers (FAQs) about the BTFP on its website within hours after the announcement of the facility.[3] The first FAQ explained that the program was authorized by the Board under section 13(3) of the Federal Reserve Act.

6. **When did the Federal Reserve Board vote to recommend invoking the systemic risk exception? When was that recommendation communicated to the Treasury Secretary?**

The Board unanimously voted to recommend the systemic risk exception for the resolution of SVB and Signature Bank, in the event of failure, on the afternoon of Sunday, March 12. Letters with these recommendations were sent by Chair Powell to Secretary Yellen shortly after.

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[3] *See* https://www.federalreserve.gov/financial-stability/files/bank-term-funding-program-faqs.pdf.

7. **A number of questions arise with respect to interaction between the Vice Chair for Supervision and bank supervision staff working at district Federal Reserve Banks, with interaction with supervisors at the Federal Reserve Bank of San Francisco (FRBSF) particularly relevant considering the recent bank failures.**

    a. **How do you, as the Vice Chair of Supervision, interact with bank supervision staff at the Federal Reserve Banks?**

    b. **How does the Vice Chair's staff interact with the bank supervision staff, and in particular managers and officers over the Large and Foreign Banking Organization portfolio, monitoring and examining a bank like SVB?**

    c. **What type of information is communicated?**

    d. **Are there standing meetings and, if not, what is the frequency of meetings?**

    e. **Did you interact with the banking supervision, including managers and officers over the Large and Foreign Banking Organization portfolio, at the FRBSF since you began your tenure as Vice Chair and, if so, can you provide documentation of that interaction?**

    f. **Did you interact with the bank supervision staff assigned to SVB?**

    g. **Did anyone in your office communicate with the FRBSF about SVB?**

Supervision is a responsibility and function of the Board, with Reserve Banks conducting supervision under the Board's delegated authority. The Board establishes the regulations to which banks are subject, designs the supervisory programs, provides input and support in supervision, and oversees the Reserve Banks' activities.

For all but the global systemically important banks, the Reserve Banks are responsible for the assessment of banks under delegated authority. Board staff provide input and support in supervision, as well as oversight of the Reserve Banks' activities. In the case of SVB, the Federal Reserve Bank of San Francisco (FRBSF) was the responsible Reserve Bank.

The Board's Large and Foreign Banking Organization (LFBO) Firm Oversight section oversees the execution of the Large Bank Organization and Foreign Bank Organization supervisory programs by the Reserve Banks. Similar to other sections at the Board, LFBO Firm Oversight has reports and communication protocols that keep staff informed on the status of banks in the LFBO portfolio and relevant emerging risks, to include routinely scheduled and ad-hoc meetings.

Under the statute, the Vice Chair for Supervision oversees the supervision and regulation of banks and their holding companies. For the GSIBs, I am in close touch with supervisors about the supervisory issues at these firms. For other firms, staff generally raise issues to me when staff believe that a firm has significant issues or experiences distress.

As discussed in my response to question 2, the Board received an informational briefing on February 14, 2023 about interest rate risk in the banking system, and highlighted interest rate risk at SVB in particular. Staff discussed SVB executing its Contingency Funding Plan, a planned downgrade of SVB's CAMELS "S" sensitivity rating to "Less-than-Satisfactory-3," issuance of a supervisory Matters Requiring Attention (MRA) around Interest Rate Risk modeling, and heightened supervisory attention. Neither I nor anyone else in my office communicated with FRBSF about SVB before March 9, when the firm began to show signs of stress. After that point, my office was in close communication with FRBSF about the bank.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

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

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Questions for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Andy Barr:</u>

1. **Please describe all evidence of broad-based customer deposit withdrawals or contagion risk at a system-wide level the Federal Reserve Board (FRB) observed prior to voting in favor of recommending that the Treasury Secretary invoke the Systemic Risk Exception. What metrics does the FRB look at in measuring contagion risk?**

On March 8, 2023, Silicon Valley Bank (SVB) publicly reported that it had suffered a significant loss on the sale of its available for sale securities portfolio, and that the bank intended to raise $2.25 billion in additional equity. These announcements spurred a run on nearly a quarter of the bank's deposits in a single day, over $42 billion, and a drop in stock value by more than half in a single day. Rapid and unprecedented outflows were anticipated to continue the next day, with estimates from SVB that it would experience $100 billion in further withdrawals on March 10. SVB did not have adequate collateral that it could pledge to the discount window to cover this outflow. Thus, the California Department of Financial Services closed the bank, and the Federal Deposit Insurance Corporation (FDIC) was appointed as receiver for the bank on March 10, 2023.[1]

Following the strikingly large and rapid deposit run at SVB,[2] depositor sentiment about firms that were perceived as similarly situated turned sharply negative. Firms with a very high percentage of deposits that were uninsured – particularly when the firms also held securities portfolios with long durations and substantial accumulations of unrealized losses – were under acute pressure.

This climate contributed to significant challenges at Signature Bank. On March 10, Signature Bank received withdrawal requests totaling about $18.6 billion, or about 20 percent of Signature's total deposit balances.[3] Signature Bank also saw its stock trade more than 30 percent below where it opened on March 7, 2023. Immediately following the closure of SVB, trading in the shares of Signature Bank was temporarily halted due to the extreme price movements.

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[1] *See* Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (April 28, 2023), https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[2] *See* Board of Governors of the Federal Reserve System, Financial Stability Report, 34-36 (May 2023), (https://www.federalreserve.gov/publications/files/financial-stability-report-20230508.pdf (comparing the speed and magnitude of the run to previous runs).

[3] *See* Federal Deposit Insurance Corporation, *FDIC's Supervision of Signature Bank* (April 28, 2023), https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf and New York State Department of Financial Services, *New York State's Department of Financial Services Internal Review of the Supervision and Closure of Signature Bank* (April 28, 2023), https://www.dfs.ny.gov/system/files/documents/2023/04/nydfs_internal_review_rpt_signature_bank_20230428.pdf.

Other banks also came under pressure, with observed deposit outflows shortly after SVB failed and declines in share price. As is now public information, First Republic Bank experienced $102 billion in deposit outflows during the first quarter of the year, with "unprecedented deposit outflows" beginning on March 10.[4] From the closing value on March 7, to the closing value on March 10, 2023, First Republic Bank saw its stock decline by nearly 30 percent. As with Signature Bank, trading in the shares of First Republic Bank was temporarily halted due to the extreme price movements.

Multiple other banks came under significant pressure, and a number of banks conveyed that their depositors had queued electronic withdrawal requests over the weekend of March 11-12. As later reported on the Federal Reserve's weekly report on the Assets and Liabilities of U.S. Commercial Banks, there was a high level of outflows from banks outside the 25 largest during this time period, with nearly $200 billion of deposits being withdrawn from these banks between March 8 and March 15.[5] There was also broad-based selling of regional bank stocks.

In addition to the effects already observed, there was reason to be wary of a further spread of contagion. A breadth of economic research demonstrates that emergent bank runs may lead to widespread contagion, affecting other banks and financial intermediaries that are otherwise profitable and solvent.[6] The size and breadth of the move in the KBW regional banking index, combined with the deposit outflows seen late in the week from otherwise healthy banks, suggested that market participants had ceased to distinguish between fundamentally sound banks and the small group of banks that had outsized exposure to uninsured deposits or significant duration risk. In this environment, Federal Reserve Board staff believed it was likely that the banking system would experience intensified deposit runs and liquidity pressures during the week of March 13th if the uninsured depositors at SVB and Signature Bank had access to their funds interrupted or were subject to losses.

2. **Please describe all evidence that you had that there were broader financial stability concerns prior to Sunday, March 12? Were there financial stability concerns on Monday, March 6? Tuesday, March 7? Wednesday, March 8? Thursday, March 9? Friday, March 10?**

Please see my response to Question 1.

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[4] *See* First Republic Bank, Press Release: "First Republic Reports First Quarter 2023 Results,"(April 24, 2023) https://ir.firstrepublic.com/static-files/013f57fb-b980-4353-bbb3-0e7a3b27f20a.

[5] *See* Board of Governors of the Federal Reserve System, Statistical Release H.8, "Assets and Liabilities of Commercial Banks in the United States" (March 31, 2023), https://www.federalreserve.gov/releases/h8/20230331/.

[6] For work on contagion against the backdrop of severe financial and economic distress, *see e.g.*, Charles W. Calomiris et al., *Interbank Connections, Contagion, and Bank Distress in the Great Depression*, 51 J. Fin Intermediation 100899 (2022); Erik Heitfield et al., *Contagion During the Initial Banking Panic of the Great Depression*, NBER Working Paper Series (2017); Hal S. Scott, *Connectedness and Contagion*, 5–12 (2016); Gary Gorton & Andrew Metrick, *Getting Up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide*, 50 J. Econ. Lit. 128 (2012); Ted Temzelides, *Are Bank Runs Contagious?*, Federal Reserve Bank of Philadelphia Business Review (1997).

3. **Looking at the Federal Reserve's research papers beginning around March 2022, when the Federal Reserve began its campaign of rapid interest rate hikes, to the present, in terms of research devoted to various risks facing the economy, there do not appear to be any related to interest rate risks per se. There are numerous research papers on climate risks and social issues, but none that we could find focused on interest rate risks. Yet, over a weekend, on March 13, a full analysis of U.S. banks' asset exposure to the Federal Reserve's campaign of increasing interest rates was produced by four analysts from Northwestern, Columbia, and Stanford Universities and the University of Southern California. Was the Federal Reserve not paying attention to and analyzing the effects of the rapid interest rate increases on interest rate risks presented to the banking system?**

Interest rate risk is a foundational risk of banking and is a core area of focus within supervision. As interest rates began to rise beginning in March 2022, Federal Reserve supervision began to focus on the impact of increasing rates on the safety and soundness of banks. Specifically, as highlighted in the November 2022 *Supervision and Regulation Report,* supervisors were prioritizing examinations of interest rate risk management.[7] The February 14, 2023, presentation to the Board described the heightened supervisory engagement applicable to banks with higher interest rate risk exposure.[8] It also described the internal training and additional outreach to supervised firms on interest rate risk given the current environment.

The Federal Reserve's Finance and Economics Discussion Series (FEDS) publications are not a comprehensive reflection of the timely, policy-relevant analysis by Federal Reserve Board (Board) and System staff, nor are they the primary source for such information.

4. **Douglas Diamond, who won a Nobel Prize in economics for his work on banks, financial crises, and bank runs, reportedly has identified the Federal Reserve and its policies as being partly responsible for the collapse of Silicon Valley Bank. Diamond reportedly also does not believe the storyline that an alleged "roll back" of regulations is responsible, as the President started pushing right out of the gate when the recent bank collapses occurred, and regulators pulled out their emergency systemic tools. Do you agree, with the Nobel Prize winning economist, that the 2018 legislation that provides for tailored regulation was not a causal part of the Silicon Valley Bank's failure?**

The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 provides the Federal Reserve Board with substantial discretion to apply prudential standards to bank holding companies with total consolidated assets between $100 billion and $250 billion in a way that is supportive of safety and soundness and financial stability, taking into consideration their capital

[7] *See* https://www.federalreserve.gov/publications/files/202211-supervision-and-regulation-report.pdf.
[8] *See* https://www.federalreserve.gov/supervisionreg/files/board-briefing-on-impact-of-rising-interest-rates-and-supervisory-approach-20230214.pdf.

structure, riskiness, complexity, financial activities, size, and other risk-related factors. In light of recent events, I plan to revisit the application of enhanced prudential standards for these sized firms generally.

In 2019, following the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), the Federal Reserve revised its framework for supervision and regulation. These changes maintained the enhanced prudential standards applicable to the eight U.S. global systemically important banks, but tailored the requirements applicable to many other large banks. For SVB, this change resulted in reduced supervisory and regulatory requirements, including certain capital and liquidity requirements.

The report that was developed under my direction identifies four key takeaways that describe the factors that interacted in complex ways and contributed to SVB's failures. One of those key takeaways was that the Board's tailoring approach impeded effective supervision by reducing standards, increasing complexity and promoting a less assertive supervisory approach.[9] Critically for supervision, the Board raised the threshold for heightened supervision by the LFBO portfolio from $50 billion in assets to $100 billion in assets in July, which delayed application of heightened supervisory expectations to the firm by at least three years. While higher supervisory and regulatory requirements may not have prevented the bank's failure, they would likely have bolstered the resilience of SVB.

5. **A longstanding principle for a lender of last resort dates from the writings of Walter Bagehot in 1873, and that is for a lender of last resort like the Federal Reserve to lend freely in a crisis to illiquid, but solvent, banks at a penalty rate. The newly created Section 13(3) credit facility that the Federal Reserve set up on March 12, called the Bank Term Funding Program breaks away from Bagehot's dictum, which had been adhered to by the Federal Reserve for long periods of history. The new facility lends freely to illiquid, but solvent, banks, but not at a penalty rate. In fact, relative to the market value of collateral that is being accepted, is the Federal Reserve not giving a taxpayer-backed risk subsidy to banks, and, if so, why is the Federal Reserve breaking from longstanding practice?**

Consistent with the Board's Regulation A and other programs authorized under section 13(3) of the Federal Reserve Act, the Bank Term Funding Program (BTFP) charges banks a penalty rate on borrowing. Pursuant to Regulation A, programs established under section 13(3) of the Federal Reserve Act charge a rate set at a "penalty level" that:

- is a premium to market rates in normal circumstances;
- affords liquidity in unusual and exigent circumstances; and

[9] *See* Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (April 28, 2023), https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

- encourages repayment of the credit when conditions normalize.[10]

The rate charged on BTFP loans fits all three criteria set out in Regulation A. First, the rate for BTFP loans is set daily at the one-year overnight index swap rate (OIS)—a floating rate that itself reflects changes in market conditions—plus a premium of 10 basis points. Because the OIS market is deep and liquid, most trades occur at or very near that rate (i.e., the bid-ask spreads are narrow). Consequently, a 10-basis-point premium is notable relative to market rates. Moreover, the one-year OIS rate plus 10 basis points exceeds other similar-term private sources of bank funding. For example, the average one-year jumbo CD yield was reported to be 1.76 percent as of May 9, 2023.[11]

Further, consistent with Regulation A, the Board took into account the collateral supporting the credit and the risks of repayment.[12] The rate reflects the narrow, high-quality collateral accepted at the BTFP. In particular, all BTFP loans are backed by collateral eligible for the Federal Reserve's open market operations—that is, Treasury securities, U.S. government agency securities, and agency mortgage-backed securities. The risk that the underlying collateral will default is negligible.

Second, the rate affords liquidity to help assure banks have the ability to meet the needs of all their depositors. Banks of all sizes have borrowed from the BTFP. In addition, many banks have posted collateral but not borrowed. This latter development suggests that banks are operationally ready to borrow if needed, and so banks are taking prudent steps to ensure the ability to borrow from the BTFP should conditions warrant.

Third, because the rate on BTFP loans is the one-year OIS rate plus 10 basis points, the term on the loan is a year, and there is no penalty for prepayment, banks have appropriate incentives to prepay a loan should rates fall.

6. **Given that banking agencies invoked the systemic risk exception to protect both insured and uninsured depositors at both Silicon Valley Bank and Signature Bank, why did the Federal Reserve believe unusual and exigent circumstances existed beyond these two banks to create the Bank Term Funding Program to give opportunities for banks to unload interest rate risks from their balance sheet and put the risks onto the Federal Reserve's balance sheet and expose taxpayers? Why was the discount window an insufficient option?**

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[10] 12 CFR 201.4(d)(7)(ii).

[11] Bankrate, Current CD Rates (accessed May 9, 2023), https://www.bankrate.com/banking/cds/current-cd-interest-rates/.

[12] 12 CFR 201.4(d)(7)(iii) (contemplating that the Board will take into consideration the following factors in setting a penalty rate: the condition of affected markets and the financial system generally; the historical rate of interest for loans of comparable terms and maturity during normal times; the purpose of the program; the risk of repayment; the collateral supporting the credit; the duration, terms and amount of the credit; and other factors relevant to ensuring that the taxpayer is appropriately compensated for the risks associated with the credit extended under the program.).

Under section 13(3) of the Federal Reserve Act, in unusual and exigent circumstances, the Board can authorize lending facilities, subject to limitations prescribed by the Board with the approval of the Secretary of the Treasury. As discussed above, following the failure of SVB, Signature Bank and First Republic Bank began to experience runs, which ultimately proved fatal. Given the contagion effects already observed, the Board was concerned about further contagion and spillover to other parts of that financial system. In light of these pressures (described in response to question 2 above), the Board determined that "unusual and exigent" circumstances were present and thus that emergency lending could take place. Given that determination, the creation of the BTFP can be understood as an application of the standard central bank response to a banking panic. When threatened by a mass flight of depositors, solvent institutions can be undermined. This causes enormous harm to the economy, businesses, and households.

When considering options to stabilize the financial system, the Board determined that any response would need to provide reliable medium-term funding that would have a stabilizing effect. Additional forms of short-term funding from the Federal Reserve available under the discount window might not ameliorate the uncertainty around bank funding stability during a period of intense deposit withdrawals, because discount window loans generally may not extend past four months.[13] The Board decided to extend advances of up to one year under section 13(3) of the Federal Reserve Act[14] to provide funding certainty and stability.

In addition, the Board determined that, in order to increase confidence in banks' ability to access sufficient liquidity, the program needed to extend funds against the par value of very high-quality securities, some of which have seen their market values decrease as a result of interest rate increases. The Federal Reserve's discount window normally lends at a haircut to the market value of collateral. In the stressed environment on and around March 12, however, lending against securities only at a haircut to fair market value, when banks had booked the securities at a higher amortized cost amount, could have reduced depositors' confidence in their banks. To address the risks to the Federal Reserve from lending against the par value of collateral when the market value of the collateral was below par value, the Board limited eligible collateral to the most high-quality, liquid assets – Treasuries, government agency securities, and agency MBS only. It also limited borrowing only to federally regulated depository institutions. Finally, the Federal Reserve obtained $25 billion in credit protection from the Treasury Department.

Importantly, the BTFP provides recourse loans to eligible depository institutions. A bank that borrows from the program must repay the principal of the loan at a penalty rate of interest at maturity. Therefore, banks continue to bear the costs of financing their assets.

[13] 12 U.S.C. § 347b(a).
[14] 12 U.S.C. § 343(3).

The core goal of the BTFP is to assure bank depositors that their money remains safe, and that businesses will be able to access their deposits when they need the money to meet payroll or otherwise to keep their businesses operating, and that households are able to pay the rent or the mortgage or any other bills. To accomplish that, the BTFP provides liquidity so banks can meet those potential outflows. As we learned from the COVID-19 response, creating a large backstop can restore market functioning and thus, in the end, do more to limit the actual use of that backstop than a less forceful response.

7. **Were any of the Federal Reserve Bank of San Francisco examiners or Federal Reserve Board analysts responsible for Silicon Valley Bank also involved in climate risk assessments, including the firm's investment activities associated with what it described as cleantech and sustainability, or what the SVB described as efforts "to foster and scale business initiatives that move our common environmental, social and governance (ESG) goals forward."**

None of the analysts at the Federal Reserve Board or examiners at the FRBSF responsible for the supervision of SVB or SVB Financial Group oversaw any climate risk assessments for the bank. As part of routine annual loan reviews, FRBSF examiners sampled "investor dependent loans," or loans that were not yet cash flow dependent, given their inherent risk attributes, which may have included loans to cleantech companies. The Reserve Bank also discussed with SVB management the bank's credit risk with respect to several loans to borrowers in the wine industry that faced potential difficulties because of drought and fire hazards in Napa Valley.

SVB Capital, the venture capital non-bank subsidiary of SVB Financial Group, made direct investments in companies whose business models focused on environmental, social, and governance (ESG) goals. For clarity, FRBSF supervision staff did not review SVB Capital's investments in those (or any other category of) companies.

8. **Do you find it concerning that SVB Financial went without a Chief Risk Officer for a year, and would you agree that it is critical for a financial holding company to have a qualified and experienced Chief Risk Officer? Were bank supervision staff at the FRB aware of this?**

As discussed in the Review of the Supervision and Regulation of Silicon Valley Bank, published on April 28, 2023, the chief risk officer (CRO) vacancy at SVB removed a layer of important internal oversight.[15]

Regulation YY (252.33) requires a bank holding company with total consolidated assets of $100 billion or more to appoint a CRO with experience in identifying, assessing, and managing risk exposures of large, complex financial firms. Consequently, any lapse in CRO coverage is considered a supervisory concern and could be cited as a violation of regulation.

[15] Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (April 28, 2023), https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

In light of the bank's broad-based risk management deficiencies, SVB and Federal Reserve supervisors concluded that the CRO did not have the experience necessary for a large bank. In February 2022, the CEO indicated the bank's intent to replace the CRO, and the CRO left SVB in April. In consultation with Board staff, supervisors decided not to cite the violation as an MRA or MRIA since the bank was actively searching for a CRO with the appropriate skills and experience.

9. **In your testimony you noted "The failure of SVB illustrates the need to move forward with our work to improve the resilience of the banking system. For example, it is critical that we propose and implement the Basel III endgame reforms, which will better reflect trading and operational risks in our measure of banks' capital needs."**

   In a low probability tail-risk bank run of the scale as those experienced by Silicon Valley Bank and Signature Bank, is there any level of bank capital ratios under the current prudential capital adequacy framework that would effectively withstand such a level of deposit withdrawals and maintain a bank's solvency?

   a. **If, in your view, there is such a level of bank capital ratios under the current framework that could withstand the level of deposit withdrawals in such a scenario, is the cost created by that level of bank capital ratios during normal economic conditions justifiable given the low probability tail-risk of such an event's occurrence?**

Overall, the U.S. banking system remains sound and resilient. Still, we will continue to closely monitor conditions in the banking system. Recent stress shows the need for us to be vigilant as we assess and respond to risks.

SVB's failure demonstrates that strong bank capital matters. While the proximate cause of SVB's failure was a liquidity run, the underlying issue was concern about its solvency – the bank's ability to absorb the losses on its securities and repay its depositors and other creditors. We should be humble about our ability—and that of bank managers—to predict how losses might be incurred, how a future financial crisis might unfold, and what the effect of a financial crisis might be on the financial system and our broader economy. Stronger capital will guard against the risks that we may not fully appreciate today and protect the public from the extraordinarily high costs of bank failures.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

July 19, 2023

The Honorable Sean Casten
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Michael Barr

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Questions for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Sean Casten:</u>

1. **In January 2019, SVB is notified by the Fed of deficient risk management. A year later, they are notified that their risk management is not up to large bank standards. About 2 years after that, April 2022 to 2023, SVB no longer has a risk officer, that in their 2023 proxy statements they say that they have doubled the number of risk meetings from 9 to 18. From April of 2022 to January of 2023, there was no risk officer but a doubled frequency. Did the Fed participate in any of those risk meetings within SVB during that 9-month period?**

The examination team at the Federal Reserve Bank of San Francisco (FRBSF) participated in routine continuous monitoring regulatory meetings with members of Silicon Valley Bank's (SVB) risk management group, but the examination team did not participate in the specific meetings referenced in the 2023 proxy statements.

2. **Q3 of 2022, SVBs 10-Q showed that their held-to-security bonds were $15.9 billion, undervalued relative to mark-to-market, and they had $15.8 billion in equity at the time. Three months later, their 10-K for the year showed a slight improvement. They only had a $15.1 billion overvaluation of their bonds and $16.3 billion in equity. Was it perceived by the Fed or by management that they were in an improved risk situation at the end of 2023 than they were 3 months earlier?**

While the value of held-to-maturity (HTM) securities and firm equity shifted in the second half of 2022, given a continuously changing market environment, these changes did not alleviate supervisory concerns. Supervisors issued an MRA on November 15, 2022 that highlighted continued concerns about SVB's interest rate risk management. The slight reduction in decline in the unrealized losses did not influence the supervisors' views of the severity of the issue.

3. **January 26th, 2023, about 3 weeks after they finally got a risk officer back, CEO Becker announced that he was going to execute $3.6 million in stock sales. February 22nd, he executed those sales. March 8th of 2023, they announced a sale of all of their available-to-sell equity portfolio to Goldman. The same day it was disclosed the $1.8 billion loss of a security sale apparently also to Goldman. Do you have any visibility on when the security sale and/or the equity sale to Goldman process was initiated? In other words, when was it announced? When internally was the company initiating the process to secure additional cash from those two Goldman processes?**

To staff's knowledge, SVB's management first informed supervision staff at the FRBSF that the bank was considering a restructuring transaction on March 1, 2023. The bank did not provide specific details on the transaction at that time but noted an intention to sell a portion of available-for-sale (AFS) securities and to issue a capital offering. At the time of this initial call, the capital raise was being discussed among a small group at the bank as part of its plan to restructure its balance sheet by selling the AFS securities. FRBSF staff informed FRBSF management and Federal Reserve Board staff of the developments after each call with SVB's management. Only

after the AFS sale had occurred did FRBSF staff learn specific details of the AFS portfolio sale or the restructuring plan and that Goldman was the counterparty and potential advisor.

4. **Do you know whether the January 26th sale was cleared by a risk officer who had been on board for 3 weeks when the January 26th announcement was?**

Staff are not aware of whether stock sales made by Mr. Becker were cleared by the CRO. Executives and other insiders are required to follow Securities and Exchange Commission (SEC) rules and regulations prior to conducting an insider stock sale. Therefore, the SEC would be better positioned to respond to this question.

5. **Was there any outreach to the depositors during this period to ask them either to provide equity infusions to the bank or other forms of capital prior to them, prior to the run of the bank?**

Staff are not aware of specific outreach to SVB depositors to ask for equity infusions or other forms of capital prior to the run on the bank.

6. **Throughout 2022, SVB decreased its hedges to the point where just $563 million of its $26 billion in available-for-sale securities had interest rate hedges as of year-end, down from $15.3 billion a year earlier. The bank didn't report having any swaps on its other $91 billion held-to-maturity securities. When were the bulk of these interest rate hedges sold? Who bought that hedge and what was paid for it?**

As noted in the Report, SVB sold the majority of interest rate hedges in transactions during March 2022 and July 2022.[1] As publicly reported in the Financial Times, the firm booked a net gain of $204 million on the sale in March, and $313 million of gain on the sale in July.[2]

The swaps were centrally cleared through the Chicago Mercantile Exchange. Hedging the interest rate risk of HTM debt securities would not be qualified for fair value hedge accounting. Accounting classification and the applicability of hedge accounting do not preclude banks from practicing sound risk management to mitigate interest rate risk.

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[1] *See* https://www.federalreserve.gov/publications/review-of-the-federal-reserves-supervision-and-regulation-of-silicon-valley-bank.htm.

[2] *See* "How crazy was Silicon Valley Bank's zero-hedge strategy?," Financial Times at https://www.ft.com/content/f9a3adce-1559-4f66-b172-cd45a9fa09d6.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 18, 2023

The Honorable Byron Donalds
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

Questions for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Byron Donalds:

1. **Did the government communicate with the Federal Home Loan Bank System about crypto or crypto banks? If so, which FHLBanks?**

I am not aware of discussions between Board of Governors (Board) staff and staff of the Federal Home Loan Banks (FHLBs) about crypto, or banks that provide services to the crypto-industry. However, there is routine coordination between the Federal Reserve Banks and the FHLBs to discuss collateral pledged at the FHLB's borrowing facilities and the Federal Reserve's Discount Window. At the FHLB's request, the Federal Reserve is permitted by statute to furnish supervisory information to the FHLB.

2. **Did the federal government communicate with any Federal Home Loan Bank enterprise about outstanding advances that were made to either Silvergate or Signature?**

FHLBs provide advances to member firms that are secured by collateral acceptable to the FHLB. Most banks generally consider these FHLB advances to be a source of funding for managing liquidity, including in response to changes to their deposit base. In fact, many institutions utilize FHLB advances as a source of liquidity even in normal environments when funding is not constrained. However, a notable increase in utilization of FHLB advances may be considered a concern depending on the specific firm and circumstances.

In terms of discount window lending operations engagement with FHLBs, there is routine coordination between the Federal Reserve Banks and the FHLBs to discuss collateral pledged at the FHLB's borrowing facilities and the Federal Reserve's Discount Window. At the FHLB's request, the Federal Reserve is permitted by statute to furnish supervisory information to the FHLB. Pursuant to such request, Federal Reserve Bank staff communicated with the Federal Home Loan Bank of San Francisco regarding Silvergate. Specifically in relation to Signature, FRBNY and FHLB NY staff completed a subordination agreement into which the FRBNY entered with the FHLB NY in order for collateral of Signature bank that had been pledged to the FHLB to be used for Discount Window lending on March 10, 2023.

More broadly, as the stress in the banking sector mounted after the failure of SVB and Signature, we heard from a wide range of banks that they were concerned that they would not be able to get the liquidity they needed from the FHLB system. Federal Reserve staff reached out to the FHFA and relevant FHLBs to make sure we were in communication about conditions, and to make sure that FHLBs knew if they could not meet their member demand for liquidity that the discount window was an additional option for firms.

3. **The banks that have failed – Silicon Valley Bank and Signature Bank – are unique in that they have idiosyncratic business models that lacked diversification in their depositors and clients. Chair Powell said last week that the banking system is strong**

and resilient. President Biden said the banking system is safe. Secretary Yellen said our financial system is significantly stronger than 15 years ago and that the banking system is sound. Do you agree the banking system overall is strong and safe?

Yes, overall, the U.S. banking system remains sound and resilient. Still, we will continue to closely monitor conditions in the banking system. Recent stress shows the need for us to be vigilant as we assess and respond to risks.

4. **I believe that our banking system is safe, strong, and resilient. There are a few banks with a unique set of circumstances that have led to their failure. But a rush to judgment here could cause more damage to our financial system in the long run. Overhauling our regulatory system without taking a comprehensive look at the facts would be irresponsible AND could cause further disruption to our banking system. Do you believe it would be prudent to take a pause right now, find out all the facts, and conduct a thorough review of the events that led to the failure of Silicon Valley Bank and Signature Bank before moving forward with any broad sweeping policy response, like your holistic capital review?**

Silicon Valley Bank's (SVB's) failure demonstrates that strong bank capital matters. While the proximate cause of SVB's failure was a liquidity run, the underlying issue was concern about its solvency – the bank's ability to absorb the losses on its securities and repay its depositors and other creditors. We should be humble about our ability—and that of bank managers—to predict how losses might be incurred, how a future financial crisis might unfold, and what the effect of a financial crisis might be on the financial system and our broader economy. Stronger capital will guard against the risks that we may not fully appreciate today and protect the public from the extraordinarily high costs of bank failures.

5. **Why are we insuring uninsured deposits, especially given that there are tools that can help depositors split their deposits among multiple accounts and that many with uninsured deposits tend to be wealthy and sophisticated?**

Overall, the banking system is sound a resilient with strong capital and liquidity, and all depositors should feel that their money is safe and secure. On Sunday, March 12, the Secretary of the Treasury, upon the unanimous recommendation of the boards of the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC), approved systemic risk exceptions for the failures of SVB and Signature Bank. This ensured uninsured depositors would have access to their funds, because it appeared that contagion from SVB and Signature Bank's failure could be far-reaching and cause damage to the broader banking system. The prospect of uninsured depositors not being able to access their funds at SVB and Signature Bank could have prompted depositors to question the overall safety and soundness of U.S. commercial banks.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

The Honorable Young Kim
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Questions for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Young Kim:</u>

1. **Do you find it concerning that SVB Financial went without a Chief Risk Officer for a year, and would you agree that it is critical for a financial holding company to have a qualified and experienced Chief Risk Officer? Were bank supervision staff at the FRB aware of this?**

As discussed in the Review of the Supervision and Regulation of Silicon Valley Bank, published on April 28, 2023, the chief risk officer (CRO) vacancy at SVB removed a layer of important internal oversight.[2]

Regulation YY (252.33) requires a bank holding company with total consolidated assets of $100 billion or more to appoint a CRO with experience in identifying, assessing, and managing risk exposures of large, complex financial firms. Consequently, any lapse in CRO coverage is considered a supervisory concern and could be cited as a violation of regulation.

In light of the bank's broad-based risk management deficiencies, SVB and Federal Reserve supervisors concluded that the CRO did not have the experience necessary for a large bank. In February 2022, the CEO indicated the bank's intent to replace the CRO, and the CRO left SVB in April. In consultation with Board staff, supervisors decided not to cite the violation as an MRA or MRIA since the bank was actively searching for a CRO with the appropriate skills and experience.

2. **The final changes to CET1 capital approved by the Basel committee- a committee of the Bank for International Settlements- could cause increases in capital requirements by as much as 20 percent for our nation's largest banks. Numerous economic studies have found that these increases will drive up borrowing costs, adding a further drag to the economy anywhere between $50 - $200 billion a year. That is a $50-$200 billion cost to the economy year after year after year as long as heightened capital requirements are put into place.**

    a. **Do you believe that raising capital requirements would raise the cost of borrowing and add costs to our economy?**

    b. **What impact on lending and the real economy do you think such swift and strident requirements will have?**

    c. **You have testified that the Federal Reserve is looking at capital requirements through the economic cycle, but does an increase in capital requirements make borrowing costs more expensive for households and small businesses regardless of current or future economic conditions?**

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[2] Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (April 28, 2023), https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

SVB's failure confirms the importance of strong levels of bank capital. While the proximate cause of SVB's failure was a liquidity run, the underlying issue was concern about its solvency – the bank's ability to absorb the losses on its securities and repay its depositors and other creditors. We should be humble about our ability—and that of bank managers—to predict how losses might be incurred, how future financial stress might unfold, and what the effect of financial stress might be on the financial system and our broader economy. Stronger capital will guard against the risks that we may not fully appreciate today, and reduce the costs of bank failures.

Furthermore, better capitalized banks have the capacity to support the economy by continuing to lend to households and businesses through stressful conditions. Thus, higher capital requirements can help ensure that banks maintain lending during economic downturns.

The Board implements regulatory changes through a notice-and-comment process, and generally allows for phase-in periods that allow for a gradual introduction of the new rules. While there are costs associated with banks transitioning to higher capital levels, phase-in periods are designed to minimize these costs and allow covered banks to gradually adjust their business activities to the new rules in a non-disruptive manner.

3. **In 2018, the Federal Reserve and OCC issued a proposal to recalibrate the supplementary leverage ratio (SLR), but that proposal has never been finalized despite the fact that you and a number of other policymakers have spoken publicly about the need to amend the SLR over the years.[1] For example, Treasury Secretary Yellen has said that the leverage ratio "may be having unintended adverse consequences" and you've said that "when leverage requirements are binding, it does skew incentives for firms to substitute low-risk assets for high-risk ones."[2] During the pandemic, regulators responded to the pandemic with temporary exemptions the requirements.[3] In March 2021, after the exemption expired, the Federal Reserve announced that it would "soon" seek comment on measures to adjust the SLR, which would "not erode the overall strength of bank capital requirements."[4] Given this is a demonstrated priority and a demonstrated problem, why has the Federal Reserve not moved forward with finalizing its 2018 proposal, which you supported? If the ratios are not negatively impacting markets, please provide your analysis to justify the Federal Reserve's lack of action, including the Fed's analysis that the ratios have not negatively impacted the United States Treasury markets.**

   [1]https://www.govinfo.gov/content/pkg/FR-2018-04-19/pdf/2018-08066.pdf.

   [2] Yellen testimony before US Senate Banking Committee (Aug 18, 2017); Powell post-FOMC press conference statement on June 16, 2021. You've recognized the need to "look again at the calibration of the leverage ratio" for the largest US banking institutions since 2017. See Q&A Session at the Global Finance Forum (Apr. 20, 2017). You also said in January 2022 that the Federal Reserve "will return to [the SLR]. We want risk-based capital to be binding, not the leverage ratio. We do want to make adjustments … in ways that don't reduce the overall bindingness of the capital

requirements on the largest firms." Powell nomination hearing before Senate Banking Committee (Jan 11, 2022).

[3] https://www.occ.gov/news-issuances/federal-register/2020/85fr32980.pdf.

[4] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20210319a.htm.

Leverage capital requirements, including the supplementary leverage ratio (SLR), serve an important role in our capital framework as a transparent measure of bank resilience and a credible, risk-insensitive backstop and complement to our risk-based capital requirements. As part of the holistic review of the capital framework, we will consider whether changes to the SLR may be appropriate.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

The Honorable Blaine Luetkemeyer
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Question for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Blaine Luetkemeyer:</u>

1. **S. 2155 does not technically prohibit the Federal Reserve Board from applying enhanced prudential standards to banking organizations in the $100 - $250 billion range, but it does require that the Board first determine that applying the standard is appropriate (1) to prevent or mitigate financial stability risks or (2) to promote the safety and soundness of the firm(s) in question. Any such regulation must then take into consideration the "capital structure, riskiness, complexity, financial activities [and] size" of the firm(s) in question, as well as any other risk-related factors the Board determines are appropriate.**

    a. **How much of a barrier, if any, do you believe this statutory language would be to the Board revising its regulation of banking organizations in the below $250 billion asset category?**

    b. **Do you believe this language permits the Board to take an across-the-board approach to firms in this category? For example, can the Board conclude that all firms above the $100 billion threshold should be subject to a particular standard? Or does the language require the Board to take into account even relatively small differences between firms?**

    c. **SVB was clearly an outlier from other regional banks in many ways. How different do two firms have to be before the statutory language poses an obstacle to applying the same standard to both firms?**

The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 provides the Federal Reserve Board with substantial discretion to apply enhanced prudential standards to bank holding companies with total consolidated assets between $100 billion and $250 billion in a way that is supportive of safety and soundness and financial stability, taking into consideration their capital structure, riskiness, complexity, financial activities, size, and other risk-related factors.

In light of recent events, I plan to revisit the application of enhanced prudential standards for these sized firms generally. Changes to the rules applicable to these firms would be made through notice-and-comment rulemaking and would be accompanied by an appropriate phase-in.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

The Honorable Wiley Nickel
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Michael Barr

Enclosure

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Questions for The Honorable Michael Barr, Vice Chairman for Supervision, Board of Governors of the Federal Reserve System, from Representative Wiley Nickel:

1. **The Basel 3 Endgame rule expected later this year will materially increase the capital requirements of the largest banks. This has the potential to limit these banks' ability to lend into the economy and support capital formation in markets. Have you considered the impact that higher capital requirements might have on minority-owned business who already face significant barriers to accessing capital? Studies show that business owners of color are more likely to be disadvantaged when it comes to obtaining start-up funding, growth funding, and capital with affordable interest rates. When we consider these structural barriers for minority entrepreneurs, the rising rate environment, and inflation, is this the right time to raise capital in the system?**

SVB's failure confirms the importance of strong levels of bank capital. While the proximate cause of SVB's failure was a liquidity run, the underlying issue was concern about its solvency – the bank's ability to absorb the losses on its securities and repay its depositors and other creditors. We should be humble about our ability—and that of bank managers—to predict how losses might be incurred, how future financial stress might unfold, and what the effect of financial stress might be on the financial system and our broader economy. Stronger capital will guard against the risks that we may not fully appreciate today, and reduce the costs of bank failures.

Furthermore, better capitalized banks have the capacity to support the economy by continuing to lend to households and businesses through stressful conditions. Thus, higher capital requirements can help ensure that banks maintain lending during economic downturns.

The Board implements regulatory changes through a notice-and-comment process, and generally allows for phase-in periods that allow for a gradual introduction of the new rules. While there are costs associated with banks transitioning to higher capital levels, phase-in periods are designed to minimize these costs and allow covered banks to gradually adjust their business activities to the new rules in a non-disruptive manner.

2. **What do you believe is the optimal level of capital? How do you balance the need to promote the safety and soundness of the system with supporting the capacity of banks to finance economic activity?**

Please see my response to Question 1.

3. **S. 2155 does not technically prohibit the Federal Reserve Board from applying enhanced prudential standards to banking organizations in the \$100 - \$250 billion range, but it does require that the Board first determine that applying the standard is appropriate (1) to prevent or mitigate financial stability risks or (2) to promote the safety and soundness of the firm(s) in question. Any such regulation must then take into consideration the "capital structure, riskiness, complexity, financial**

activities [and] size" of the firm(s) in question, as well as any other risk-related factors the Board determines are appropriate.

a. **How much of a barrier, if any, do you believe this statutory language would be to the Board revising its regulation of banking organizations in the below $250 billion asset category?**

b. **Do you believe this language permits the Board to take an across-the-board approach to firms in this category? For example, can the Board conclude that all firms above the $100 billion threshold should be subject to a particular standard? Or does the language require the Board to take into account even relatively small differences between firms?**

c. **SVB was clearly an outlier from other regional banks in many ways. How different do two firms have to be before the statutory language poses an obstacle to applying the same standard to both firms?**

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In light of recent events, I plan to revisit the application of enhanced prudential standards for these sized firms generally. Changes to the rules applicable to these firms would be made through notice-and-comment rulemaking and would be accompanied by an appropriate phase-in.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

The Honorable Zach Nunn
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Questions for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Zach Nunn:</u>

1. **Should Silicon Valley Bank executives have focused their attention on the safety and soundness of the bank instead of boasting in its 2022 annual investor report as receiving the first outstanding rating from examiners on its Community Reinvestment Act plan, which included billions of dollars to promote a "green economy that builds wealth in communities of color?"**

The Community Reinvestment Act (CRA) requires the federal banking regulatory agencies (agencies) to "assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of such institution." Upon completing this assessment, the statute requires making portions of these written evaluations, referred to by the agencies as performance evaluations, available to the public. Banks often include information about their CRA ratings in their annual reports.

2. **Why did the San Francisco Fed President, Mary Daly, tout the regional Fed's work cataloging climate risks, even assembling a team to study how these issues are likely to impact the Federal Reserve's future mandates? In fact, one of SVB's memos from their "Supervision and Credit Group" claimed they had been working closely with Vice Chair Barr to "inform its agenda and priorities, namely, financial risks to banks from climate change." Were the regulators focused on the wrong risks posed by the administration?**

The Federal Reserve is responsible for ensuring banks operate in a safe and sound manner. Our supervisory staff spend the vast majority of their time focused on traditional banking risks, such as interest rate risk, credit risk, and liquidity risk at individual institutions and across the financial system.

The Federal Reserve's responsibilities with respect to climate change are important, but narrow. These responsibilities are tightly linked to our responsibilities for bank supervision and financial stability. Our work related to the financial risks of climate change is in the early stages and is exploratory in nature. It is focused on understanding how physical and transition risks could impact large supervised institutions and conducting rigorous analytical work to better assess the materiality of these risks.

3. **Vice Chair Barr, your testimony before this Committee states, "Our banking system is sound and resilient, with strong capital and liquidity." You also state, "SVB's failure is a textbook case of mismanagement" and "the bank failed to manage the risks of its liabilities." Yet, despite confirming the banking sector has "strong capital" and SVB was "a textbook case of mismanagement," the conclusion of your testimony calls for more bank capital as a solution to the issues we saw with SVB.**

In light of the Federal Reserve's review of their supervision of SVB, shouldn't the Fed's primary focus be on how they are supervising institutions under the current regulatory framework?

SVB's failure confirms the importance of strong levels of bank capital. While the proximate cause of SVB's failure was a liquidity run, the underlying issue was concern about its solvency – the bank's ability to absorb the losses on its securities and repay its depositors and other creditors. We should be humble about our ability—and that of bank managers—to predict how losses might be incurred, how future financial stress might unfold, and what the effect of financial stress might be on the financial system and our broader economy. Stronger capital will guard against the risks that we may not fully appreciate today, and reduce the costs of bank failures.

4. **Mr. Barr, you are arguing for heightened requirements on financial institutions, while you are currently conducting a review on your ability to supervise and enforce the current requirements? How is that appropriate?**

Please see my response to Question 3.

5. **How exactly would the changes you talk about at the end of your testimony regarding trading risk and operational risk have prevented the stresses we've seen in the banking industry in the last few weeks?**

SVB's failure has emphasized why strong bank capital matters. While the proximate cause of the bank's failure was a liquidity run, the underlying issue was concern about its solvency. As risks in the financial system continue to evolve, we need to continuously evaluate our supervisory and regulatory framework. The risks driving the next stress event may not be—and likely will not be—the same as those in the last one. That is why we need to bolster resiliency broadly in the financial system, including the proposal and implementation of the Basel III endgame reforms, which will better reflect trading and operational risks in capital requirements.

Any changes to our rules would be made through notice-and-comment rulemaking and would be accompanied by an appropriate phase-in.

6. **What role or conversations, did the FHLB of San Francisco, or Federal Housing Finance Agency, have in working with the Federal Reserve Bank of San Francisco in gaining access to the Discount Window of the Federal Reserve?**

Banks can choose a variety of sources from which to get sources of backstop liquidity. Often banks turn to FHLBs before they turn to the Federal Reserve as a source of liquidity. In the case of SVB, SVB had collateral pledged to the FHLB to secure potential advances from the FHLB. When SVB ran into difficulties, we discussed with the firm the potential to move the collateral it had at the FHLB that was not being used to secure FHLB advances to the discount window to secure potential additional borrowing from the discount window.

More broadly, as the stress in the banking sector mounted, we heard from a wide range of banks that they were concerned that they would not be able to get the liquidity they needed from the FHLB system. Federal Reserve staff reached out to the FHFA and relevant FHLBs to make sure we were in communication about conditions, and to make sure that FHLBs knew if they could not meet their member demand for liquidity that the discount window was an additional option for firms.

7. **Former Federal Reserve Governor Tarullo recently spoke on the failure of SVB. In addition to failures of SVB's management, he said, "the failure was in the oversight by supervisors — people who were supposed to be watching whether things like the proportion of uninsured deposits were creating some unusual risks for that particular bank." [1] While we welcome an internal review of what led to SVB's failure, including any role the Fed's own supervision had, a rush to judgment here could cause more damage to our financial system in the long run. As part of the Fed's review, will you commit to testifying on your findings and what went wrong? Further, do you believe it would be prudent to take a pause right now, find out all the facts, and conduct a thorough review of the events that led to the failure of Silicon Valley Bank and Signature Bank before moving forward with any policy response either directly or indirectly related to SVB?**

   [1] https://www.marketplace.org/2023/03/14/former-fed-governor-who-implemented-dodd-frank-reflects-on-svb-collapse/.

As you are aware, I led a review of the supervision and regulation of Silicon Valley Bank and a report on that review was published on April 28, 2023. I welcome the opportunity to discuss the report's findings with members of Congress and their staff either informally or in formal testimony.

I believe we must strengthen the Federal Reserve's supervision and regulation based on what we have learned. The report, and its self-assessment, is a first step in that process.

We continue to evaluate the Federal Reserve's regulatory framework and whether those requirements can be modified to better capture the risks uncovered by this event.

8. **The US calculation of the G-SIB surcharge uses the higher of two methodologies, versus the one under the international standard, which subjects US banks to significantly higher GSIB capital buffers than global peers and is implemented on top of an array of other changes that are also meant to address systemic risk. The Federal Reserve's final rule recognized the need for an ongoing review and re-calibration of the G-SIB surcharge, noting that "to ensure changes in economic growth do not unduly affect firms' systemic risk scores, the Board will periodically review the coefficients and make adjustments as appropriate."[2] When will the Federal Reserve review these methodologies – which have not been reviewed since 2015 when the rule was finalized -- especially in light of GDP growth, an increase in consumer deposits during the pandemic, and the array of new prudential requirements for the US G-SIBs that were not in place when the Board adopted this**

rule (such as Total Loss Absorbing Capacity requirements and the Net Stable Funding Ratio liquidity requirement)? Given these other regulations and experiences throughout Covid, please provide the Federal Reserve's analysis that a standard that is significantly more stringent than the international regime is still appropriate.

[2] https://www.govinfo.gov/content/pkg/FR-2015-08-14/pdf/2015-18702.pdf.

Robust capital and liquidity requirements for the banking system, particularly for the largest and most complex banks, are fundamental to financial stability. A core principle of the regulatory framework developed following the 2007-09 financial crisis is to ensure that the firms that present the most systemic risk are subject to appropriate requirements to ensure the resilience of the financial system and protect the public from the significant harm of another financial crisis. Under this framework, the firms that post the largest systemic risk, the global systemically important banks (GSIBs), are subject to the most stringent capital requirements, including the GSIB surcharge. In general, the GSIB surcharge requirement seeks to ensure that the largest and most complex banking organizations maintain a level of capital commensurate with the risks their failure could present to the financial system.

We are in the process of conducting a holistic review of our capital framework to ensure our requirements, including the GSIB surcharge, are appropriately supporting the resilience of the financial system, and assess whether they can be made more effective. We will also continue to evaluate the resiliency of large banks and monitor financial and economic conditions to ensure our capital framework functions as intended. Soliciting public input is a critical part of our process as we consider any potential adjustments to the capital framework.

9. **In order to mitigate the capital impact on EU banks, and in line with the G20 commitment not to significantly increase bank capital as a result of the Basel reforms, Europe has proposed several material deviations from the Basel accord (e.g., for CVA, SA-CCR, treatment on unrated corporates). In addition, Europe has decided to delay the full capital impact on European banks until at least 2030 (and longer in some areas).[3] Given those developments, will the Federal Reserve and FDIC ensure that any US implementation also takes appropriate divergences and implementation timelines so as to ensure the stated desire of international equivalence and a level playing field?**

[3] https://data.consilium.europa.eu/doc/document/ST-13772-2022-INIT/en/pdf.

It is critical that we propose and implement the Basel III endgame reforms, which will better reflect key risks in our measure of banks' capital needs. Implementation of the Basel III proposal will take into account, among other factors, practices of U.S. firms, U.S. legal requirements, and other domestic policy objectives. Any proposed changes would be adopted through the notice and comment process with appropriate transition periods so that we have the benefit of public perspectives and implemented to achieve the long-term goal of improving the capital framework.

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

MICHAEL S. BARR
VICE CHAIR FOR SUPERVISION

May 16, 2023

The Honorable Ann Wagner
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed is my response to the question you submitted following the March 29, 2023,[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,

Enclosure

[1] Questions for the record related to this hearing were received on April 17, 2023.

<u>Question for The Honorable Michael Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System, from Representative Ann Wagner:</u>

1. **Vice Chair Barr, in your testimony you noted that "The failure of SVB illustrates the need to move forward with our work to improve the resilience of the banking system. For example, it is critical that we propose and implement the Basel III endgame reforms, which will better reflect trading and operational risks in our measure of banks' capital needs." What specifically about the failure of SVB and weaknesses at the bank illustrate the need for higher capital overall regarding trading risk and operational risk?**

Silicon Valley Bank's failure has emphasized why strong bank capital matters. While the proximate cause of the bank's failure was a liquidity run, the underlying issue was concern about its solvency. As risks in the financial system continue to evolve, we need to continuously evaluate our supervisory and regulatory framework. The risks driving the next stress event may not be—and likely will not be—the same as those in the last one. That is why we need to bolster resiliency broadly in the financial system, including the proposal and implementation of the Basel III endgame reforms, which will better reflect trading and operational risks in capital requirements.

Any changes to our rules would be made through notice-and-comment rulemaking and would be accompanied by an appropriate phase-in.

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington, DC 20429

OFFICE OF THE CHAIRMAN

August 23, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairman McHenry:

Please find enclosed my responses to the Questions for the Record from various members of the Committee in connection with the hearing entitled "The Federal Regulators' Responses to Recent Bank Failures" on March 29, 2023.

If you have any questions regarding these responses, please contact me or Andy Jiminez, Director, Office of Legislative Affairs, at (202) 898-6761.

Sincerely,

Martin J. Gruenberg

Martin J. Gruenberg

Questions for the Record from Representative Mike Flood for
The Honorable Martin J. Gruenberg
Chairman, Federal Deposit Insurance Corporation
March 29, 2023 Hearing entitled "The Federal Regulator's Response to Recent Bank Failures"
House Committee on Financial Services

1. Chairman Gruenberg, you indicated during the hearing that you would need to follow-up with your staff regarding whether you could publicly answer the following question: has Silicon Valley Bank ever previously been on the FDIC's "Problem Bank List"? I ask that you please answer that question for the record.

Response: Silicon Valley Bank was placed on the FDIC Problem Bank List in the third quarter of 1992 and removed in the second quarter of 1994.

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1. **In response to questioning during your testimony before this Committee on March 29, 2023, you were asked about whether Treasury at any time discouraged you from taking a loan from the line of credit the FDIC has available at Treasury for the purpose of addressing the debt ceiling limit. You responded that "I think there were discussions in regard to that…" Rather than borrowing from Treasury, the FDIC borrowed from the Federal Reserve, which identified the Federal Reserve loans to FDIC ("the loans," which totaled $180.1 billion in the week ended March 29, 2023) on its H.4.1 Federal Reserve Balance Sheet: Factors Affecting Reserve Balances weekly release under "Other credit extensions" with a new footnote 7, as of the March 16 release:**

   "7. Includes loans that were extended to depository institutions established by the Federal Deposit Insurance Corporation (FDIC). The Federal Reserve Banks' loans to these depository institutions are secured by collateral and the FDIC provides repayment guarantees."

   a. **What is the maximum amount that the FDIC can borrow from Treasury given the FDIC's line of credit at Treasury?**

Response: Per 12 U.S.C. 1824(a), the Federal Deposit Insurance Corporation (FDIC) can borrow up to $100 billion directly from the Treasury. In addition, per 12 U.S.C. 1824(b), the FDIC can also issue and sell the Corporation's obligations to the Federal Financing Bank (FFB), which is under the Treasury. The maximum amount available currently from the FFB is $100 billion.

   b. **Did the FDIC request to access its line of credit with Treasury and, if so, when?**

Response: No, the FDIC did not request to access its line of credit with Treasury.

   c. **Would FDIC borrowing from its line of credit with Treasury be considered an obligation to which the statutory limit on public debt applies?**

Response: Yes, any such loans from the line of credit with Treasury would be treated as public-debt transactions of the United States.

   d. **Was the FDIC denied access to its line of credit by Treasury, or discouraged from accessing its line of credit because of implications of FDIC borrowing for the expected date at which the statutory debt limit binds and Treasury runs out of borrowing authority, operating cash, and headroom under the debt limit afforded by so-called extraordinary measures?**

Response: No, the FDIC was not denied access nor discouraged from accessing its line of credit. In fact, as noted below, the FDIC requested and Treasury funded the FDIC's request to withdraw $40 billion on Friday March 10, 2023. Additionally, Treasury funded the FDIC's

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request to withdraw approximately $28.5 billion on Monday, March 20 to facilitate consummation of the sale of the Signature Bridge Bank to Flagstar Bank, National Association, a subsidiary of New York Community Bancorp, Inc.

e. **The Federal Reserve Board's Vice Chair for Supervision testified that the loans provided to FDIC "is lending through the discount window to the bridge institutions that were established by the FDIC." What type of discount window lending (primary credit, secondary credit, seasonal credit, emergency credit) did the Federal Reserve provide to the FDIC on the loans?**

Response: As open and operating national banks, the Federal Reserve provided primary credit to the bridge banks.

f. **Will the FDIC provide to this Committee the rate for the credit advances from the discount window, along with any fees, collateral valuation and margin, prepayment penalties, whether or not the loans were made with recourse beyond the pledged collateral, termination date of the loans, and the total current value of the collateral pledged by the FDIC bridge institutions to the Federal Reserve's discount window?**

Response: The applicable rate is the Federal Funds rate per the Federal Reserve Banks' Operating Circular No. 10, Section 4.1. While the bridge banks were open, the rate was 5 percent. Once the bridge banks were closed, the borrowings were transferred to the receiverships and were considered in technical default, resulting in a 100 basis point penalty. The current rate, including the penalty, is 6.25 percent. There are no additional fees or prepayment penalties. Per the FDIC's agreement between the receiverships of the bridge banks and the respective Federal Reserve Banks, all loans will be repaid in full before December 31, 2023.

Signature Bank failed with $53.6 billion in borrowings from the discount window against collateral with a book value of $65.3 billion and an estimated collateral value of $42.3 billion. Some of that collateral was sold to the acquiring institution at a discount. Silicon Valley Bank (SVB) failed with $126.5 billion in borrowings from the discount window with a book value of $152.2 billion and an estimated collateral value of $127.8 billion. The FDIC, in its corporate capacity, guaranteed all discount window borrowings, and will repay those loans from proceeds from the sale of collateral and other assets of the receivership, any proceeds from the transaction with the acquiring institution, and the Deposit Insurance Fund (DIF).

g. **Did the FDIC consider methods of obtaining liquidity other than having the bridge banks access the Federal Reserve's discount window, such as sales of securities held in the Deposit Insurance Fund, or accessing other lending options available to the FDIC and, if so, why were those methods rejected?**

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Response: The FDIC did consider various methods of obtaining liquidity including the sales of securities held in the DIF and other lending options such as borrowing from the FFB or the Treasury. As noted above, the FDIC did utilize DIF liquid assets to fund the $28.5 billion required to facilitate consummation of the sale of the Signature Bridge Bank to Flagstar Bank, National Association. Since these bridge banks were open and operating national banks that had access to the Federal Reserve's discount window, it was preferable to use this liquidity option to conserve the funds in the DIF for any potential subsequent resolution activity and/or other needs.

2. **The Department of the Treasury's Bureau of the Fiscal Service recorded, on the Friday, March 10, 2023, Daily Treasury Statement an FDIC withdrawal from Treasury of $40.006 billion. On Tuesday, March 14, 2023, the Daily Treasury Statement recorded a $40.000 billion deposit by the FDIC into the Treasury.**

    a. **Why did the FDIC withdraw $40.006 billion from Treasury on March 10, 2023, and from what account?**

Response: The FDIC withdrew a total of $40.006 billion on Friday, March 10, 2023, from the Deposit Insurance Fund. The withdrawal of $40 billion was related to the failure of SVB and the creation of the Deposit Insurance National Bank of Santa Clara (DINB) on Friday, March 10. Based on the initial resolution strategy, those funds were needed by the DINB on Monday morning both to pay off insured depositors and to provide an advance dividend to uninsured depositors.

The remaining $6 million of the total amount (or $6,457,383.67 to be exact) was our daily funding wire which was used to cover that day's outgoing payments issued in the usual course of business and which were not related to the resolution activity.

    b. **Was the FDIC aware of subsequent interest by outside analysts in possible implications of the withdrawal for the date on which the Treasury department would face a binding statutory debt limit with no available cash and no headroom under the limit afforded by so-called extraordinary measures?**

Response: The FDIC's decision to withdraw these funds was consistent with its mission to pay insured depositors of failed banks up to the insurance limit. In addition, the FDIC determined that an advance dividend would be paid to uninsured depositors to ameliorate the impact of the SVB's sudden closure. The FDIC was aware of the debt limit concerns but it was not a factor in accessing the DIF cash and Treasury funded the request immediately.

    c. **Why did the FDIC not notify this Committee of the withdrawal?**

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Response: The FDIC performed this withdrawal in the course of performing its normal receivership responsibilities and it does not routinely notify the Committee of withdrawals in the usual course of business.

d. Why did the FDIC deposit $40.000 billion into Treasury on March 14, 2023, and what accounts for the $.006 billion difference between the March 10 withdrawal and the March 14 deposit?

Response: The $40 billion was redeposited into the DIF/Treasury on Tuesday, March 14th, following the change in resolution strategy over the weekend from the DINB to a bridge bank. Upon the invocation of the systemic risk exception, the DINB was replaced by an open and operating bridge bank that would not be paying the insured depositors nor funding an advance dividend. Therefore, the funds were returned to the DIF. The open and operating Silicon Valley Bridge Bank had access to the Federal Reserve's discount window, and that was utilized during the two-week pendency of the bridge bank to meet liquidity needs.

As mentioned above, the difference of $6 million was not related to this bank failure but rather to the FDIC's daily funding wire to cover the previous Friday's outgoing payments that had been presented for payment.

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1. **Will you prioritize the April 28, 2023, deadline for responses to the questions contained in this document for the Committee hearing record over the internal review you are performing regarding Signature Bank?**

Response: The Federal Deposit Insurance Corporation (FDIC) is committed to working cooperatively with Congress to respond to questions concerning what brought institutions like Signature Bank to failure and what measures can be taken to prevent similar failures in the future. In that vein, the FDIC conducted an internal review of Signature Bank[1] performed by the FDIC's Chief Risk Officer. The report was released on April 28, 2023, in accordance with the commitment to release the report by May 1. While Congress may find the report helpful in gaining a better understanding of the FDIC's supervision of the bank, the FDIC will also continue to work with Congress and the Financial Services Committee to respond to their questions.

2. **Who among the FDIC, Federal Reserve, and Treasury first raised the possibility of invoking the Systemic Risk Exception for Silicon Valley Bank, and when was this option first raised?**

Response: Given the potential contagion effects from the failures of Silicon Valley Bank (SVB) and Signature Bank, the possibility of invoking the systemic risk exception was under consideration by all three agencies from the outset and was a matter of discussion over the course of the weekend.

3. **When was Signature Bank closed by the Superintendent of the New York State Department of Financial Services on Sunday March 12? When was the Sunday March 12 special meeting of the Financial Stability Oversight Council (FSOC), on which the Superintendent sits as a non-voting member, first announced to members of the FSOC? When did the March 12 FSOC meeting start?**

Response: The New York State Department of Financial Services (NYSDFS) closed Signature Bank and appointed the FDIC as Receiver at 5:35pm on Sunday. The March 12 FSOC meeting was first confirmed by the FSOC Secretariat via email at 4:31pm on the afternoon of March 12. The meeting started at 7:30pm.

4. **What were the specific factors that led you to recommend that the Treasury Secretary invoke the Systemic Risk Exception for Silicon Valley Bank on Sunday, March 12, when many reports prior to that Sunday described the bank's failure as being an "idiosyncratic" event?**

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[1] *See* FDIC, "FDIC's Supervision of Signature Bank" (Apr. 28, 2023), available at https://www fdic.gov/news/press-releases/2023/pr23033 html.

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Response: The FDIC concluded that systemic risk existed based on the failure of SVB, the pending failure of Signature Bank, and evidence of significant liquidity stress and deposit outflows at other similarly situated institutions. Although both institutions had a large number of uninsured depositors, there were no significant financial connections between the two institutions. Nonetheless, it was apparent that depositor withdrawals from Signature Bank on March 10, and pending withdrawals that mounted over the weekend, were precipitated by the failure of SVB.

Shortly after SVB was closed on Friday, March 10, other institutions with large amounts of uninsured deposits reported that depositors had begun to withdraw their funds. Some of these banks drew against borrowing lines collateralized by loans and securities to meet demands and bolster liquidity positions. Due to rising interest rates, these funding costs had increased. With the rapid collapse of SVB and pending collapse of Signature Bank in the space of 48 hours, concerns arose that these outflows could spread to other institutions and that the financial system as a whole could be placed at risk.

Concerns had also begun to emerge that a least-cost resolution of the banks, absent more immediate assistance for uninsured depositors, could have negative knock-on consequences for depositors and the financial system more broadly. There were concerns that the losses to the uninsured depositors who were small- and medium-sized businesses would put them at risk of not being able to make payroll and pay suppliers. Moreover, with the liquidity of banking organizations further reduced and their funding costs increased, banking organizations could become even less willing to lend to businesses and households. These effects would contribute to weaker economic performance, further damage financial markets, and have other material negative effects.

There were concerns that absent further action, businesses and consumers likely would have continued to withdraw uninsured deposits rapidly and in large volumes, likely resulting in a wave of bank failures. As well, there were concerns that investors could begin to doubt the financial strength of similarly situated institutions, making it difficult and more expensive for these banks to obtain needed capital and wholesale funding.

5. **On what date and at what time on that date was the FDIC's recommendation made to invoke the Systemic Risk Exception for Silicon Valley Bank?**

Response: The FDIC Board voted to authorize the FDIC Chairman to provide written recommendations for SVB and Signature Bank to the Secretary of the Treasury at a 5:00 p.m. meeting of the Board of Directors on March 12, 2023. Shortly after the conclusion of the Board meeting, the FDIC provided the Treasury with a certified Board resolution and later that evening

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sent letters to the Secretary of the Treasury per the statutory requirement to provide a written recommendation.

6. **Were there systemic risk issues in the banking sector on Monday, March 6? On Tuesday, March 7? On Wednesday, March 8? On Thursday, March 9? Please describe all the evidence of broader deposit withdrawals from the banking sector or contagion risk at a system-wide level you saw on Sunday March 12 that were not there on Friday March 10 to justify voting in favor of invoking the Systemic Risk Exception, and will you provide the evidence to this Committee?**

Response: As noted above in response to question 4, the FDIC concluded that systemic risk existed based on the failure of SVB, the pending failure of Signature Bank, and evidence of significant liquidity stress and deposit outflows at other similarly situated institutions. For example, at least beginning on March 10, 2023,[2] reports began to highlight, and social media and short seller forums began to amplify, banks and bank holding companies with high levels of uninsured deposits that also had notable differences between the fair value on loans reported in public financial statements and the loans' amortized cost, including First Republic Bank, San Francisco, California. On March 10, First Republic Bank's share price, as with certain other banks, declined by over 50 percent intraday in the wake of significant negative short seller and social media attention, with trading halted several times. Deposit outflows reached approximately $25 billion at the end of the day, or approximately 17 percent of total deposits, requiring significant draws on the bank's Federal Home Loan Bank and Federal Reserve lines. On March 10, the Secretary of the Treasury and leaders from the FDIC, the Federal Reserve and Office of the Comptroller of the Currency held a virtual call to discuss developments around SVB. On March 11, FDIC and Federal Reserve staff began coordinating efforts on their respective recommendations for a systemic risk exception. These efforts continued through March 12, culminating in the issuance of the recommendations by the agencies and the systemic risk determination by the Secretary of the Treasury.

As noted above in response to question 4, shortly after SVB was closed on Friday, March 10, other institutions with large amounts of uninsured deposits reported that depositors began to withdraw their funds, including First Republic Bank, as noted above.[3] At Signature Bank alone,

[2] *See* Erica Jiang, Gregor Matvos, Tomasz Piskorski and Amit Seru, "Monetary Tightening and U.S. Bank Fragility in 2023, Mark-to-Market Losses and Uninsured Depositor Runs?" (Mar. 13, 2023), available at https://www.nber.org/papers/w31048 and Jonathan Weil, Wall Street Journal, "First Republic Hit by SVB Failure, Investors have Grown Wary of First Republic Bank for Reasons Similar to Those that Caused Concern at SVB," (Mar. 10, 2023) available at https://www.wsj.com/articles/first-republic-hit-by-svb-failure-7431495e.

[3] After the collapse of SVB, the FDIC itself and through other banking regulators actively monitored deposit outflows at certain banks with some characteristics in common with SVB. The information received at the time showed large amounts of uninsured deposits being withdrawn from several banks. Some of these banks recovered deposits by March 31, 2023, the end of the Call Report reporting period. Some did not, and their Call Reports for

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the FDIC and NYSDFS received information on total wire requests starting Saturday afternoon (March 11) through Sunday evening (March 12).

Weekend Wire Request Trend	
3/11 as of 4:00 pm	$2.3B
3/11 as of 10:00 pm	$2.3B
3/12 as of 10:50 am	$3.7B
3/12 as of 1:05 pm	$4.1B
3/12 as of 2:40 pm	$4.6B
3/12 as of 4:00 pm	$5.2B
3/12 as of 4:35 pm	$7.2B
3/12 as of 5:05 pm	$7.6B
3/12 as of 5:35 pm	$7.9B

With uninsured depositors at the two banks likely to face an undetermined amount of losses and depositors at other banks beginning to move some or all of their deposits to other banks to diversify their exposures and increase their deposit insurance coverage, there were concerns that investors could begin to doubt the financial strength of similarly situated institutions making it more difficult and more expensive for these banks to obtain needed capital and wholesale funding. These concerns contributed to the FDIC's decision to recommend that the Secretary of the Treasury make a systemic risk determination under the Federal Deposit Insurance Act (FDI Act) with regard to the resolution of SVB and Signature Bank.

7. **What specific criteria were used to determine Signature Bank also met the Systemic Risk Exception? What were the specific liquidity concerns with Signature Bank? Were these concerns different than those seen at SVB?**

Response: A single vote was taken under which the FDIC Board (1) found that the FDIC's compliance with the least-cost provisions of the FDI Act would have serious adverse effects on economic conditions or financial stability and (2) authorized the Chairman to communicate the recommendation to the Secretary of the Treasury to invoke the Systemic Risk Exception for each bank that entered receivership, individually. Two recommendations were then transmitted to the Secretary of the Treasury on March 12, 2023, one for SVB and another for Signature Bank.

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the period ending March 31, securities filings and public statements reflected deposit losses. See, for example, First Republic's Report on First Quarter 2023 Results; https://ir firstrepublic.com/static-files/013f57fb-b980-4353-bbb3-0e7a3b27f20a.

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The criteria for each recommendation were the same and based on facts and circumstances that affected both institutions and the economy as a whole. The Board determined that liquidation of the banks under section 11(e) and 13(c)(4) of the FDI Act would have serious adverse effects on economic conditions or financial stability, that severe financial conditions existed that threatened the stability of a significant number of insured depository institutions, and that actions taken pursuant to a systemic risk exception would avoid or mitigate those adverse effects. Facts leading to this determination included: the presence of rapid and large depositor runs; significant losses in stock price at both institutions (resulting in the halts in trading for these and other institutions); similar losses in stock value at other unrelated institutions[4] (resulting in losses in stock value among regional banks of over $100 billion); and both institutions' heavy reliance on uninsured deposits, which led to bank runs and contagion risk.

8. **Silicon Valley Bank had what has been characterized by regulators as concentrated and "flighty" deposits, some perhaps in the $10 million or more range for individual depositors. Those depositors knew of the FDIC insurance coverage maximum, and there are products available in the marketplace for high-dollar depositors to better protect their uninsured balances. Those depositors ended up getting full deposit coverage from the FDIC and did not have to bear the cost of self-insuring. Do you think that is "fair," and would we have had a fairer outcome if the FDIC had followed through with its plans on March 10 to provide advance dividends instead of blanket FDIC coverage?**

Response: The Secretary of the Treasury, in consultation with the President and following the unanimous recommendations of both FDIC and Federal Reserve Boards, made a systemic risk determination under the FDI Act with regard to the resolutions of SVB and Signature bank. The FDIC Board's decision was based on concerns that a least-cost resolution of the banks, absent more immediate assistance for uninsured depositors, could have had negative knock-on consequences for depositors and the financial system more broadly. Shortly after SVB was closed on Friday, March 10, a number of institutions with large amounts of uninsured deposits reported that depositors had begun to withdraw their funds. The rapid collapse of SVB and Signature Bank in the space of 48 hours and these withdrawals increased concerns that risks could spread to other institutions and that the financial system as a whole could be placed at risk.

The FDIC's recommendation to make a systemic risk determination included consideration of potential market conditions if the Systemic Risk Exception had not been invoked. It was unclear at the time whether providing advance dividends to SVB depositors would have been sufficient to forestall additional deposit withdrawals from SVB, Signature and other banks, or avoid more

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[4] *See* Motley Fool, "*Why Regional Bank Stocks are Getting Crushed Friday*", March 10, 2023: https://www.fool.com/investing/2023/03/10/why-regional-bank-stocks-are-getting-crushed-frida/.

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severe financial market impact. The decision to recommend invocation of the Systemic Risk Exception and insure all deposits of the two banks was made to avoid more serious adverse effects on economic conditions or financial stability.

It is unclear whether allowing the contagion risk to spread at the cost of more bank failures and systemic disruption ultimately would have yielded a more "fair" outcome. Providing coverage for the uninsured deposits at these institutions was a decision undertaken with the utmost seriousness and strictly for the purpose of stopping a nationwide bank run. Providing full coverage reduced the likelihood of cascading failures, and allowed payroll processors and small- and medium-sized companies to meet their obligations, preventing further economic shocks.

9. **Were you concerned about Signature Bank on Monday March 6? Tuesday, March 7? Wednesday, March 8? Thursday, March 9? Can you describe the condition of Signature Bank at the time of its receivership and, in particular, please describe all evidence you had that Signature Bank was also facing a liquidity crunch on or around March 10, like Silicon Valley Bank, and will you provide that evidence to the Committee?**

Response: The FDIC became aware of Signature Bank's liquidity trouble on Friday, March 10. The Bank experienced contagion effects following the March 8, 2023 announcement by Silvergate Bank of its intent to self-liquidate and the March 10, 2023 failure of Silicon Valley Bank. Following these events, the Bank experienced material deposit outflows. On March 10, 2023, deposit outflow totaled approximately $19 billion and, after depleting its liquid assets, the Bank released its collateral at the Federal Home Loan Bank of New York in favor of Federal Reserve Bank of New York Discount Window borrowings to cover a $3.4 billion shortfall in its end-of-day settlement. At the time the bank was placed in receivership, its liquidity risk was at a critical level.

10. **As reported on March 27, the FDIC entered into a purchase and assumption (P&A) agreement for all deposits and loans of Silicon Valley Bridge Bank, N.A. by First-Citizens Bank & Trust Company. Along with the sale, SVB's failure is now estimated to cost the DIF approximately $20 billion dollars. This figure could , increase by an additional $5 billion under the terms of the loss-share agreement.**

    a. **Was this the best possible deal that the FDIC could have arranged?**

Response: The FDIC took prompt steps to market SVB broadly within the short time available, and evaluated the bids received. The bid accepted was the best among the offers received. The bids received on March 24 were substantially better than those received earlier. Extending the marketing process further may have resulted in material erosion of franchise value and loss of key employees.

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b. **Were there other bids that were considered which would have resulted in less of a loss to the DIF?**

Response: No. Based on the available facts and circumstances at the time, First-Citizens Bank & Trust Company's purchase and assumption of all deposits and loans of Silicon Valley Bridge Bank, N.A. was the best transaction option and resulted in the least cost to the Deposit Insurance Fund (DIF) of the offers received.

c. **If the Systemic Risk Exception had not been invoked for SVB and a least cost resolution method used, could the loss to the DIF have been less than $20 billion?**

Response: As described in the response to question 8, the Secretary of the Treasury, in consultation with the President and following the unanimous recommendations of both FDIC and Federal Reserve Boards, made a systemic risk determination under the FDI Act with regard to the resolutions of SVB and Signature Bank. That determination was based, among other things, on the danger of risk to the financial system as a whole and contagion effects to other insured depository institutions. These larger effects may have ultimately resulted in significantly greater costs to the DIF.

d. **Could invocation of the Systemic Risk Exception been avoided given that the Federal Reserve Board decided to provide a new broad-based program under Section 13(3) of the Federal Reserve Act to supply ample liquidity to banks in need of liquidity?**

Response: The decision to utilize the systemic risk exception and establish the Section 13(3) facility were complementary actions implemented at the same time in order to contain the contagion effect on uninsured depositors and, viewed in retrospect, worked in conjunction with one another to address the risks to the financial system.

e. **In both the Signature and SVB P&A agreements, the crypto related assets were not included. Can you provide any insight as to why this decision was made by both acquiring institutions? Did you, or any other Federal Reserve banking regulator, provide any guidance as to those business lines to the acquiring institutions?**

Response: The FDIC did not provide any guidance to bidders, including Flagstar and First-Citizens, regarding crypto related assets in the marketing of Signature and SVB. Flagstar and First-Citizens excluded crypto related assets and other crypto related activity from their bids (for Signature and SVB respectively) without direction from or consultation with the FDIC. Relative

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to other assets of Signature, the digital assets line of business was relatively small. Though any digital assets were excluded from First Citizens bid for SVB, SVB in fact had no digital assets.

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1. **Were you aware and, if so, when, that Silicon Valley Bank (SVB) sold assets at a loss prior to its closure on March 10? Were you aware and, if so, when, SVB Financial Group planned capital raise on March 8?**

Response: The Federal Deposit Insurance Corporation (FDIC) became aware that SVB sold assets at a loss, and of its intended capital raise, on March 8 when the company released a press statement.

2 **When did the FDIC first start marketing Silicon Valley Bank to potential bidders? Will you describe the information that was provided to potential bidders and share it with this Committee?**

Response: Given the speed of the deposit withdrawals and the failure of the institutions there was no opportunity to market SVB prior to its closure. The FDIC began engaging with interested bidders on March 10, immediately after SVB's failure; launched a formal marketing process on March 11; and set an initial bid deadline for March 12, 2023, 3:30pm EDT. Approved bidders were granted access to a virtual data room to conduct due diligence. The virtual data room was populated with information for approved bidders to conduct due diligence, including certain financial reports and schedules.

a. **How did the FDIC identify potential bidders?**

Response: FDIC staff evaluated the bidders and bids pursuant to established policies and processes. It is FDIC policy that bidders are invited to participate in failing institution acquisition opportunities through qualified bidder lists, which expedites the marketing process and ensures there is sufficient time to: create a competitive bid environment; identify an assuming institution; and execute a transaction that is least costly to the Deposit Insurance Fund (DIF). Bidder lists are created for each acquisition opportunity based on the potential bidders' qualifications such as: (1) capital ratios; (2) regulatory ratings; (3) assets in relation to the failing institution's assets; and (4) core deposits, as reported on the institutions' most current Consolidated Reports of Condition and Income. Insured Depository Institutions (IDI) meeting the bidder list criteria and receiving clearance from their primary federal regulator are invited to review the specific acquisition opportunity. Additional consideration may be given to the geographic location of potential bidders and the distance from the failing institution. While potential bidders that are not FDIC-insured depository institutions may not acquire deposits, they may be eligible to bid on certain assets.

b. **Were potential bidders over the weekend of March 10 limited to existing insured depository institutions and bank holding companies?**

Response: Yes.

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c. Was the FDIC involved with identifying potential bidders on Tuesday, March 7, Wednesday, March 8, or Thursday, March 9?

Response: No. Prior to March 10, SVB was an open and operating institution that was regulated by the Federal Reserve and the state of California, which would have had responsibility for approving an open bank acquisition. The FDIC was not aware of any efforts by SVB to seek a merger partner prior to its failure. Given the speed of the deposit withdrawals and failure of the institution there was no opportunity to market SVB prior to its closure.

d. And what about Signature Bank?

Response: No. Given the speed of the deposit withdrawals and failure of the institution, there was no opportunity to market Signature Bank prior to its closure. The FDIC began internal preparations on March 11 and initiated a marketing process for Signature immediately after its failure on March 12, with an initial bid deadline of Friday, March 17, 8:00pm EDT.

3. Did the FDIC consider bids for Silicon Valley Bank over the weekend of March 10 that would not have protected all depositors?

Response: On March 12, 2023, prior to the Board's decision to recommend a systemic risk exception to wind down SVB, the FDIC received three bids from two institutions, Centennial Bank (which made two bids) and First-Citizens Bank & Trust Company ("First-Citizens"). Only the one bid from First-Citizens was valid (i.e., accompanied by a resolution of the bidding institution's board of directors approving the bid) and proposed to assume the insured deposits and some of the assets of SVB. The costs associated with all the bids received, both valid and invalid, would have resulted in recoveries significantly below the estimated recoveries in liquidation. As such, the FDIC was required by statute to reject them as not less costly to the DIF than liquidation.[5]

4. Did the FDIC receive or consider bids or inquiries of interest from the private sector from non-conventional bidders, where the bids or inquiries of interest could involve outcomes that would not have protected all depositors?

Response: As noted in the response to Question 3, in its initial marketing of SVB over the weekend of March 10, and prior to the Board's decision to recommend a systemic risk exception to wind down SVB, the FDIC received three bids from two institutions, Centennial Bank (which made two bids) and First-Citizens. No "non-conventional" bidders accessed the data room or

[5] *See* 12 U.S.C. § 1823 (c)(4).

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submitted a bid on the initial closing weekend. All three bids received, referenced in the response, were from insured depository institutions.

5. **Did the FDIC offer to take any particular liabilities or assets off the books of Silicon Valley Bank to make it more attractive to potential bidders over the weekend of March 10?**

Response: SVB was offered as a Whole Bank over the weekend of March 10. Bidders for a Whole Bank can modify their bid to exclude particular liabilities or assets. This bidding structure allows flexibility for the bidder to determine what assets and liabilities they are interested in acquiring.

6. **Why and exactly when did the FDIC immediately segregate and transfer Silicon Valley Bank's insured deposits into a separate national bank (DINB)? Did doing so complicate the sale of the bank to potential acquirers?**

Response: On March 10, 2023 at approximately 11:25 am EDT, SVB was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. To protect insured depositors, the FDIC created the Deposit Insurance National Bank of Santa Clara (DINB). At the time of closing, the FDIC as receiver immediately transferred to the DINB all insured deposits of the Bank. The DINB would temporarily perform certain functions of the Bank in order to wind up the affairs of the Bank in an orderly fashion. The functions included banking services such as receiving deposits, bill paying, ACH and wires. By using a DINB and announcing an advance dividend, the FDIC hoped to minimize disruption for insured depositors and to provide a measure of immediate relief for the uninsured depositors while the agency worked to resolve the institution. The alternative transaction was a direct payout, which would cut off all bank services to depositors at the time of closing. The marketing of SVB starting on March 10 included all assets and deposits. Therefore, the DINB and Receivership structure did not complicate the sale of the bank to potential acquirers.

7. **When were the assets of SVB divided into two parts and why were different bid window deadlines established for Silicon Valley Private Bank (March 22) and Silicon Valley Bridge Bank, N.A. (March 24)?**

Response: The FDIC extended and modified the bidding process for Silicon Valley Bridge Bank, N.A. (SVBB) on March 18, 2023, in order to bring in a wider pool of bidders and be responsive to feedback through the process to date. The modification allowed bank and non-bank parties to submit separate bids for SVBB, its subsidiary, Silicon Valley Private Bank (SVPB), as well as individual loan portfolios. Further, the initial approach of using different bid deadlines for SVBB and SVPB also helped to address a concern that key employees of SVPB were at risk of leaving. Bids for SVPB were then due March 22, 8:00pm EDT and bids for

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SVBB and loan portfolios were then due March 24, 8:00pm EDT. The deadline for SVPB was further extended to March 24, 2023, to allow bidders the option of bidding on both franchises simultaneously.

8. Why was the decision made to take SVB from a DINB to a bridge bank, and on what date and time was the decision made?

Response: SVBB was chartered on March 13 to accept all deposits of the former SVB, including both insured and uninsured deposits. The Systemic Risk Determination invoked on March 12 enabled the FDIC to take actions to help avoid more serious adverse effects on economic conditions or financial stability, including insuring all depositors of the former SVB. The DINB was chartered on March 10 by the FDIC to only hold the insured deposits from the former SVB. After SVBB was chartered, all of the former SVB's deposits, including those previously transferred to the DINB, were transferred to SVBB, so the deposits could be held in one entity.

9. Did the FDIC receive any bids for Silicon Valley Bank by Saturday March 11 or Sunday March 12? If so, what made the bid unappealing, and what were the details of the bidding process prior to FDIC closing this round of bidding without a buyer?

Response: On March 12, 2023, prior to the Board's decision to recommend a systemic risk exception to wind down SVB, the FDIC received three bids from two institutions, Centennial Bank (which made two bids) and First-Citizens. Only the one bid from First-Citizens was valid (i.e., accompanied by a resolution of the bidding institution's board of directors approving the bid) and proposed to assume the insured deposits and some of the assets of SVB. The costs associated with all the bids received, both valid and invalid, would have resulted in recoveries significantly below the estimated recoveries in liquidation. As such, the FDIC was required by statute to reject them as not less costly to the DIF than liquidation.[6]

On March 12, 2023, the FDIC Board of Directors approved a resolution recommending that the Secretary of the Treasury determine that an exception to the least-cost resolution requirement under the Federal Deposit Insurance Act was needed to avoid or mitigate serious adverse effects on financial stability (e.g. the "Systemic Risk Exception"). Following the systemic risk determination, the marketing window for SVB was reset to allow bidders to bid on an all deposit transaction that was not limited by the least-cost test. The FDIC reopened bidding for SVBB on March 15, and the marketing efforts were expanded to include potential acquirers of the institution on a whole-bank basis.

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[6] *See* 12 U.S.C. § 1823 (c)(4).

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a. **Were concerns of bank size and banking sector concentration taken into account when considering bids? What were the criteria against which you were evaluating bids for SVB?**

Response: FDIC staff evaluated the bidders and bids pursuant to established policies and processes. It is FDIC policy that bidders are invited to participate in failing institution acquisition opportunities through qualified bidder lists, which expedites the marketing process and ensures there is sufficient time to: create a competitive bid environment; identify an assuming institution; and execute a transaction that is least costly to the DIF. Bidder lists are created for each acquisition opportunity based on the potential bidders' qualifications such as: (1) capital ratios; (2) regulatory ratings; (3) assets in relation to the failing institution's assets; and (4) core deposits, as reported on the institutions' most current Consolidated Reports of Condition and Income. IDIs meeting the bidder list criteria and receiving clearance from their primary federal regulator are invited to review the specific acquisition opportunity. Additional consideration may be given to the geographic location of potential bidders and the distance from the failing institution. While potential bidders that are not FDIC-insured depository institutions may not acquire deposits, they may be eligible to bid on certain assets.

10. **Were either Silicon Valley Bank or Signature Bank on any FDIC watch lists or problem bank lists prior to their failures on March 10 and March 12, respectively?**

Response: Signature Bank was added to the FDIC Problem Bank List shortly before it failed since its rating was downgraded due to excessive liquidity risk, critically deficient funds management practices, and inadequate contingency funding plans.

Given the weak condition and supervisory rating, SVB was placed on the FDIC Problem Bank List in the third quarter of 1992 and removed in the second quarter of 1994.

a. **If so, please provide to this Committee any communications between the FDIC and any other Federal Reserve banking agencies or state banking supervisors regarding these watch lists or problem bank lists.**

Response: SVB was on the problem bank list from July 1992 to April 1994. Communications from that time period are not readily available.

Signature Bank's rating under the Uniform Financial Institutions Rating System was downgraded via a joint letter from FDIC and The New York State Department of Financial Services (NYSDFS) on the evening of Saturday, March 11 and the Bank was added to the problem list on Sunday, March 12, which was the date it failed. There were no communications between FDIC and the NYSDFS or other Federal Banking agencies about the Bank's addition to the problem bank list prior to its failure.

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1. **Mechanically describe how the FDIC identified "crypto" deposits at the receiverships/bridge banks specifically for Signature bank?**

Response: Upon opening crypto-related deposit accounts, Signature Bank assigned a specific code in their system to those depositors. The Federal Deposit Insurance Corporation (FDIC) relied on this coding that Signature Bank had in place.

2. **Did the FDIC instruct the bank to tag specific accounts? Under what authority?**

Response: No. The FDIC did not instruct Signature Bank to tag specific accounts.

3. **How is the government ensuring that the disposition of Signature assets is being done in the least cost manner to the Deposit Insurance Fund?**

Response: As receiver of a failed insured depository institution, the FDIC has a statutory obligation, among other factors, to maximize recovery for the benefit of creditors of the receivership and to maximize the preservation of the availability and affordability of residential real property for low– and moderate–income individuals. The FDIC evaluates disposition strategies, including competitive bidding process, to achieve these results.

For the retained Signature Bank loan portfolio, the FDIC has retained Newmark & Company Real Estate, Inc. as an advisor for the sale. Please refer to the FDIC Press Release April 3, 2023 Loan Sales,[7] for additional information.

For the retained Signature Bank securities portfolio, the FDIC has retained Blackrock Financial Market Advisory to evaluate disposition strategies and conduct sales. Please refer to the FDIC Press Release April 5, 2023 Securities Sales,[8] for additional information.

4. **Was Signature Bank subject to any individual minimum capital ratios (IMCR)? a. If so, what was the IMCR and was the bank in compliance with the IMCR prior to its failure?**

Response: The FDIC does not utilize individual minimum capital ratios as a concept of supervision.

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[7] *See* FDIC, "FDIC Announces Upcoming Sale of the Loan Portfolio from the Former Signature Bank, New York, New York", (Apr. 13, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23026 html.

[8] *See* FDIC, "FDIC Announces Retention of Financial Advisor to Assist with the Liquidation of Securities of the Former Signature Bank, New York, NY, and Silicon Valley Bank, Santa Clara, CA", (Apr. 5, 2023), available at https://www.fdic.gov/news/press-releases/2023/pr23029 html.

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5. **The Treasury, FDIC, and Fed have said that losses incurred from insuring previously uninsured deposits will not be borne by the taxpayers but rather by a special assessment on the banks. How will that be apportioned?**

Response: Losses incurred from the coverage of uninsured deposits of Silicon Valley Bank (SVB) and Signature Bank will not be borne by the taxpayer. Such losses will be recovered through a separate, special assessment on banks.

The FDIC issued a notice of proposed rulemaking for a special assessment to recover the cost associated with protecting uninsured depositors following the failures of SVB and Signature Bank. The Federal Deposit Insurance Act (FDI Act) requires the FDIC to take this action in connection with the systemic risk determination announced on March 12, 2023.[9] The proposal was published in the Federal Register on May 22, 2023.[10]

The FDI Act provides the FDIC with discretion in the design and timeframe for any special assessment to cover the losses from the systemic risk determination. Specifically, law requires the FDIC to consider: the types of entities that benefit from the action taken, economic conditions, the effects on the industry, and such other factors as the FDIC deems appropriate and relevant.[11] In general, large banks with large amounts of uninsured deposits benefitted the most from the systemic risk determination.

As proposed, it is estimated that a total of 113 banking organizations would be subject to the special assessment. Banking organizations with total assets over $50 billion would pay more than 95 percent of the special assessment. No banking organizations with total holding company assets under $5 billion would be subject to the special assessment.

The proposed rule provided opportunity for public comment for 60 days following publication in the Federal Register, and the comment period closed on July 21, 2023.

6. **How do you expect banks to pay the special assessment? Who will the cost ultimately fall on? Customers? Shareholders? Employees? How many people in those groups are taxpayers?**

Response: In implementing the special assessment, the law requires the FDIC to consider the types of entities that benefit from any action taken or assistance provided as well as economic conditions, the effects on the industry, and other factors deemed appropriate and relevant.[12] In

[9] 12 U.S.C. §1823(c)(4)(G)(ii)(I).
[10] See 88 FR 32694 (May 22, 2023), available at https://www.govinfo.gov/content/pkg/FR-2023-05-22/pdf/2023-10447.pdf.
[11] 12 U.S.C. §1823(c)(4)(G)(ii)(III).
[12] 12 U.S.C. 1823(c)(4)(G)(ii)(III).

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general, large banks with large amounts of uninsured deposits benefitted the most from the systemic risk determination. Under the proposal, no banking organizations with total holding company assets under $5 billion would pay the special assessment.

Based on data reported as of December 31, 2022, the FDIC estimates that 113 banking organizations, which include Insured Depository Institutions (IDI) that are not subsidiaries of a holding company and holding companies with one or more subsidiary IDIs, would be subject to the special assessment. Banking organizations with total assets over $50 billion would pay over 95 percent of the special assessment.

The total amount collected for the special assessment would be approximately equal to the losses attributable to the protection of uninsured depositors at both SVB and Signature Bank. These losses are currently estimated to total $15.8 billion. As with all failed bank receiverships, this estimate will be periodically adjusted as assets are sold, liabilities are satisfied, and receivership expenses are incurred.

In order to preserve liquidity at IDIs, and in the interest of consistent and predictable assessments, the special assessment would be collected over eight quarters. Because the estimated loss to these receiverships will be periodically adjusted, the FDIC would retain the ability to cease collection early, extend the special assessment collection period one or more quarters beyond the initial eight-quarter collection period, or impose a final shortfall special assessment on a one-time basis after the receiverships for SVB and Signature Bank are terminated.

Consistent with generally accepted accounting principles, it is assumed that the effects of the special assessment on capital and income would be recognized in one quarter only. Given the estimated loss amount, the FDIC estimates that the proposed special assessment would result in an average estimated one-quarter reduction in income of 17.5 percent for banking organizations subject to the special assessment. The FDIC also estimates that the proposed special assessment would decrease the dollar amount of Tier 1 capital of banking organizations that would be required to pay the special assessment by an estimated 0.61 percent, on average. No banking organizations are expected to become less than well capitalized as a result of the special assessment.

The FDIC is proposing to collect the special assessment beginning with the first quarterly assessment period of 2024 (i.e., January 1 through March 31, 2024, with an invoice payment date of June 28, 2024), providing institutions time to prepare and plan for the special assessment.

The proposed rule provided opportunity for public comment for 60 days following publication in the Federal Register, and the comment period closed on July 21, 2023.

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7. **Is there a current standard for what is required to count as "systemic"? If so, what is it? If not, how would such a determination be made in the future?**

Response: Under Section 13(c)(4)(G) of the FDI Act, the decision to invoke the systemic risk exception is made by the Secretary of the Treasury (in consultation with the President) after receiving written recommendations from the FDIC Board and Board of Governors of the Federal Reserve System, upon a vote of not less than two-thirds of the members of each Board. The standard requires that the Secretary determine that the FDIC's compliance with the least cost requirement for a resolution of an insured depository institution for which the FDIC has been appointed receiver would have serious adverse effects on economic conditions or financial stability and that actions taken under section 13(c)(4)(G) would avoid or mitigate such adverse effects. The circumstances which would have serious adverse effects on economic conditions or financial stability that could lead to invocation of the exception can be highly fact specific corresponding to a particular set of existing market conditions. It would not be possible to forecast what specific criteria will be applied to invoke the systemic risk exception in future events, given that the circumstances surrounding those events are also likely to be highly fact specific.

8. **Is there a circumstance where you would allow a bank to fail if it meant uninsured depositors would take a loss?**

Response: Yes, when circumstances are such that resolving a failed bank in a way that causes losses to uninsured depositors is the least costly method to the Deposit Insurance Fund (DIF) and would not cause systemic harm, the FDIC will do so, as is required by law. The last time the FDIC resolved a bank and the acquirer assumed only the insured deposits was the failure of Enloe State Bank, Cooper, TX on May 31, 2019. In that transaction, the least costly bid was submitted by Legend Bank, NA, Bowie, TX for only the insured deposits of the failed bank. The uninsured depositors of Enloe State Bank bore losses.

In a bank closure the bank is closed by the chartering authority and the FDIC is appointed receiver thereafter. In the event of a closure, the FDIC typically acts quickly to protect insured depositors by arranging a sale to a healthy bank, or by paying depositors directly for their deposit accounts to the insured limit. For deposits in excess of $250,000, a depositor would be paid $250,000 through FDIC insurance and would receive a claim against the estate of the closed bank for the remaining amount which is not insured. The depositor would be given a Receiver's Certificate as proof of this claim and would receive payments as the assets of the bank are liquidated.

The least-cost requirement otherwise generally applies in an FDI Act resolution where the Systemic Risk Exception is not invoked, including in circumstances where uninsured depositors may incur losses.

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9. What other resolution methods did the FDIC consider for SVB before adopting its chosen path?

Response: The FDIC considered all available resolution options. On March 10, it made the initial decision to initiate a payout of insured deposit through a deposit insurance national bank, and to provide an advance dividend payment to uninsured depositors based on expected recoveries.

10. Why were these alternatives not used?

Response: Following the systemic risk determination, which provided an exception to the least-cost test requirement, the FDIC determined that transferring all deposits to a bridge depository institution would meet its statutory obligation to maximize recovery of creditors while minimizing systemic risk by maintaining operations, thereby allowing continuity of service to bank customers and maintaining value to allow for orderly marketing of the bridge bank.

11. What options were not considered, and why?

Response: The FDIC considered all available options.

12. If not answered previously, why was Orderly Liquidation Authority not used to allow the SVB holding company to serve as a "source of strength" for the depository?

Response: SVB was a regional bank where nearly all of the assets and liabilities of the group were in the bank. Upon its failure, a resolution under the FDI Act was the most effective option for the FDIC as receiver for several reasons. First, it is the bank itself that failed. The role of the deposit insurance fund is to protect depositors and provide assistance to resolve the failed bank in a manner that minimizes losses and addresses the systemic risk that prompted the exception to the least-cost test. Second, there were not sufficient resources at the holding company to conduct an effective single point of entry resolution by capitalizing the bank and keeping it open and operating in a Dodd-Frank Act Title II (Title II) resolution of the holding company. This could have resulted in a complicated and disorderly resolution of the holding company under Title II with a concurrent resolution of the bank under the FDI Act.

In addition, no operations of the holding company outside the bank chain contributed significantly to systemic risk in the U.S., so a holding company resolution would not have mitigated systemic risk. Finally, the orderly liquidation authorities of Title II are backup authorities, and are available only when resolution under applicable law would pose systemic

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risk and where the application of Title II authorities would mitigate that risk more effectively than under the ordinary insolvency regime, in this case, the FDI Act. The action that the FDIC took under the FDI Act, through the systemic risk exception, was the best option for a bank resolution that mitigated systemic risk.

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1. **Are there banks or bank holding companies under your supervision that would currently not be considered at least well capitalized or adequately capitalized under prompt corrective action standards if you fully adjusted their regulatory capital to recognize unhedged, unrealized losses on securities? If so, how many banks fall into this category? (This request is not for the names of the banks, but only for the number of banks.) Please provide separate numbers for those that would not be considered at least well capitalized, and those that would not be considered adequately capitalized, with a corresponding breakdown of bank size.**

Response:

Regulatory capital ratios can be estimated to show the impact of realizing the current net unrealized loss position in the securities portfolio. It must be noted, however, that due to Consolidated Reports of Condition and Income (Call Report) data limitations, there are several assumptions built into these estimations. Additionally, it is not possible to distinguish between hedged and unhedged unrealized holding loss positions.

The following table is an estimate of the number of insured depository institutions that would fall to less than well capitalized or less than adequately capitalized based on prompt corrective action (PCA) standards if the current level of net unrealized holding losses were included in regulatory capital. These estimates are based on Call Report data as of 3/31/2023 and likely to change in future reporting periods.

Estimated PCA Category	Less than Well Capitalized	Less than Adequately Capitalized
Realizing Unrealized Holding Losses on Available-for-Sale Securities	498	196
Realizing Unrealized Holding Losses on Both Available-for-Sale and Held-to-Maturity Securities	618	248

Additionally, there are approximately 621 insured depository institutions that would have a Community Bank Leverage Ratio of less than 9% at the current level of unrealized losses on available-for-sale securities and 677 at the current level of unrealized losses on both available-for-sale and held-to-maturity securities were included in regulatory capital.

2. **In what ways do U.S. prudential standards, including guidelines for the calculation of risk-weighted assets, encourage the amassing of government-backed securities - and held-to-maturity government-backed securities in particular? For example, regulatory capital risk weights assigned to government-based securities are 0%, regardless of whether they are unhedged available-for-sale securities (appropriately**

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booked at fair market value) or held-to-maturity securities, booked at amortized cost irrespective of the interest rate environment or the proportion of the bank's asset portfolio consisting of these bonds[13]. Furthermore, is it common for your investigators and regulators to suggest that banks should increase their holdings of held-to-maturity securities? What formal or informal steps are you taking to reassess how the federal bank regulatory system may have incentivized Silicon Valley Bank's accumulation of such a significant reservoir of held-to-maturity securities, and what steps are appropriate to reduce such incentives? Finally, is there any pattern of banks shifting classification of securities from available-for-sale to held-to-maturity, and if so, does this appear to be happening in response to growing unrealized losses? If this is the case, how concerning is this for regulators?

Response: In accordance with instructions for the Call Report and U.S. generally accepted accounting principles (GAAP), insured depository institutions must categorize their investments in debt securities as trading, available-for-sale, or held-to-maturity as described in Financial Accounting Standards Board Accounting Standards Codification Topic 320, Investments—Debt Securities. Held-to-maturity securities are debt securities that an institution has the positive intent and ability to hold to maturity and are measured at amortized cost. Held-to-maturity debt securities are not adjusted for changes in fair value unless there is a confirmed credit loss.

While there has been an increase in categorization of securities as held-to-maturity over the past year; the predominant categorization remains available-for-sale. Additionally, due to limitations in Call Report data it is unclear whether the increase in held-to-maturity is from reclassifying the portfolio or increasing the use of the held-to-maturity category for new purchases. It would be inappropriate for an institution to categorize a debt security at purchase or subsequently transfer an available-for-sale debt security to the held-to-maturity portfolio if an institution has the intent to hold the security for only an indefinite period.

Consequently, in accordance with GAAP, a debt security should not be classified as held-to-maturity if an institution anticipates that the security would be available to be sold in response to circumstances such as: changes in market interest rates, needs for liquidity, or changes in funding sources and terms. It would be an inappropriate use of the held-to-maturity portfolio if the

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[13] According to the *Instructions for Preparation of Consolidated Reports of Condition and Income* (FFIEC 051, updated March 2023): "**Column C - 0% risk weight:** All exposures (defined broadly to include securities, loans, and leases) that are direct exposures to, or the portion of exposures that are directly and unconditionally guaranteed y, the U.S. Government or U.S. Government agencies. This includes the portions of deposits insured by the FDIC or the National Credit Union Administration (NCUA)." See https://www.ffiec.gov/pdf/FFIEC forms/FFIEC05 I 202303 i.pdf

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institution does not have the positive intent and ability to hold the debt security to maturity. Any transfers of debt securities from available-for-sale to held-to-maturity should be handled in accordance with GAAP.

Because of the low credit risk of government-guaranteed investment securities, these assets receive a lower risk-weight for regulatory capital regardless of the accounting categorization. For purposes of the Liquidity Coverage Ratio and general liquidity measures, these securities are considered high quality liquid assets. Examiners and supervisory staff evaluate investment securities held at supervised institutions, including the credit quality, liquidity and marketability, and whether the institution is following U.S. GAAP accounting standards appropriately.

The FDIC is committed to working cooperatively with our counterparts at the other federal regulators as well as with policymakers in the Congress to better understand what brought Silicon Valley Bank and Signature Bank to failure and what measures can be taken to prevent similar failures in the future.

Questions for the Record from Representative Michael Lawler for
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1. **When was the most recent examination of Signature bank, whether led by the FDIC or NYDFS, completed prior to the bank's closure? In that examination, was Signature Bank found to be in overall satisfactory condition, and were there any outstanding or new matters requiring board attention (or immediate board attention) at the time the examination closed? When was the next planned FDIC examination (or joint examination with the NYDFS) scheduled to begin?**

Response: As a large state non-member institution, supervisory oversight was conducted on a continuous basis by the Federal Deposit Insurance Corporation (FDIC) and The New York State Department of Financial Services (NYSDFS). All examination activities at Signature Bank were typically established in the third or fourth quarter of the preceding year via a Supervisory Plan. Activities detailed in the plan were performed jointly with NYSDFS in accordance with the December 19, 2018 Joint Supervisory Agreement established by both agencies.

Communication between the two agencies was continuous throughout the supervisory year and mostly included discussions of significant examination activities or supervision as well as any changes to the Supervisory Plan, which were agreed upon jointly by the two agencies.

Joint examination activities were handled as a cooperative effort from the planning stage through completion of the Joint Report and follow-up discussions. Prior to commencement of the examination activity, the examiner-in-charge from each agency met to plan the examination and make assignments.

Examination work papers were also shared between examiners of both agencies. Meetings with management were held jointly with representatives from both agencies, and exit meetings and presentations to the Board of Directors were planned and presented by the examiner-in-charge from each agency. Following an on-site examination activity, the two agencies coordinated completion of the Joint Report and its transmittal to the bank.

Signature Bank was rated 222232/2 for the 2021 examination cycle. The 2022 examination cycle was in process when Signature Bank failed on March 12, 2023.

In 2022, Signature Bank management shifted their strategy and began to deploy the on balance sheet liquidity maintained from the 2020-2021 growth into higher yielding loans and securities as interest rates began to increase. At the same time, deposits began to contract due to volatility in the digital assets market, rising interest rates, declining mortgage financing activity, and a conscious decision on the part of the bank to reduce deposits related to digital asset customers.

The Corporate Governance Targeted Review, dated January 23, 2023, resulted in new Matters Requiring Board Attention (MRBA) related to issues and event management and the organization structure and decision-making processes. The review also resulted in several new

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Supervisory Recommendations (SR) related to the product implementation process, key risk and performance indicators, operational risk management oversight, and risk and control self-assessments and the control environment.

The Information Technology (IT) Targeted Review, dated February 8, 2023, contained SR related to end-of-life management, vulnerability timeframes, configuration management, IT succession plan, project management reporting, risk assessment, asset inventory, and business continuity management.

At the time of failure, Fund Banking, Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT), and Liquidity targets were in process. Preliminarily, these targets identified a number of weaknesses. As a result, initial discussions related to ratings downgrades and potential enforcement actions had started with the FDIC New York Regional Office ("the Region").

The preliminary findings from the Liquidity review included concerns about declining asset liquidity, as well as uncorrected funds management deficiencies related to liquidity stress testing and contingency funding plans. Based on these findings, combined with the corporate governance and AML/CFT findings, the Region was preliminarily in the process of reassessing the ratings for potential downgrades and discussing a related enforcement action.

Given the events of the week of March 6 and management's lack of urgency and reporting weaknesses, the Region began to initiate an interim downgrade to 223242/3 on March 10. Due to management's insufficient response to the events on the evening of March 10, which were further hampered by an inadequate management information system and contingency funding plans, an interim downgrade to 325252/5 was ultimately finalized and communicated to Signature Bank late in the evening on March 11.

At failure, Signature Bank had one outstanding MRBA and eleven open SR related to liquidity risk management. In addition there were the following SR: three for Bank Secrecy Act, one for Current Expected Credit Losses, one for commercial lending, four related to concentration risk management, one on enterprise risk management, eight related to information technology, twelve related to model risk management, four related to sensitivity to market risk, one related to strategic planning, and two MRBA and four SR related to corporate governance.

The MRBA directed the Board to establish adequate contingency funding plans, including a well-developed and supported liquidity stress testing framework. Specifically, the Board was instructed to define and model sufficient stress scenarios, develop appropriate stress test metrics and limits, and establish a process for measuring and monitoring the impact of liquidity stress events on capital.

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The SR instructed management to improve documentation of liquidity stress testing assumptions, including deposit run-off rates and the potential changes in customer behavior. The SR also directed management to improve documentation and support for the deposit modeling framework, including quantitative support for deposit behavior assumptions and depositor sensitivity to potential changes in the bank's financial condition. Further, the SR instructed management to improve internal controls for liquidity risk management, particularly internal audit and model validation, and strengthen effective challenge of the liquidity management process.

Questions for the Record from Representative Andrew Garbarino for
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1. **When was Signature Bank closed by the Superintendent of the New York State Department of Financial Services on Sunday March 12? When was the Sunday March 12 special meeting of the Financial Stability Oversight Council (FSOC), on which the Superintendent sits as a non-voting member, first announced to members of the FSOC? When did the March 12 FSOC meeting start?**

Response: The New York State Department of Financial Services closed Signature Bank at 5:35pm on March 12.

The March 12th FSOC meeting was first confirmed by the FSOC Secretariat via email at 4:31pm on the afternoon of the 12th. The meeting started at 7:30pm.

Questions for the Record from Representative Zach Nunn for
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1. **What role or conversations, did the FHLB of San Francisco, or Federal Housing Finance Agency, have in working with the Federal Reserve Bank of San Francisco in gaining access to the Discount Window of the Federal Reserve?**

Response: Questions regarding the role or conversations of the Federal Home Loan Bank of San Francisco or the Federal Housing Finance Agency in working with the Federal Reserve Bank of San Francisco should be directed to these institutions.

2. **In order to mitigate the capital impact on EU banks, and in line with the G20 commitment not to significantly increase bank capital as a result of the Basel reforms, Europe has proposed several material deviations from the Basel accord (e.g., for CVA, SA-CCR, treatment on unrated corporates). In addition, Europe has decided to delay the full capital impact on European banks until at least 2030 (and longer in some areas).[14] Given those developments, will the Federal Reserve and FDIC ensure that any US implementation also takes appropriate divergences and implementation timelines so as to ensure the stated desire of international equivalence and a level playing field?**

Response: The federal banking agencies requested comment on a proposal to modify the capital requirements applicable to large banking organizations. While the proposal is largely consistent with the final set of "Basel III" standards issued by the Basel Committee on Banking Supervision in December 2017, the proposal differs in some areas to reflect specific characteristics of U.S. markets, requirements under U.S. generally accepted accounting principles (GAAP), practices of U.S. banking organizations, U.S. legal requirements and policy objectives. The proposal includes a number of questions and broadly seeks feedback on issues such as risk capture, calibration, and potential impact. The FDIC, together with the other federal banking agencies, look forward to receiving feedback on the proposal and engaging with all stakeholders to inform the rulemaking process.

[14] **https://data.consilium.europa.eu/doc/document/ST-13772-2022-INIT/en/pdf**

**Questions for the Record from Representative French Hill for
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1. **In the hearing, Representative Emmer asked you whether the Federal Deposit Insurance Corporation (FDIC) intended to sell the intellectual property for Signet, Signature Bank's 24/7 settlement network for its digital asset clients. In your response to Rep. Emmer, you stated it "has already been sold out of the bridge institution," and later you told Rep. Garbarino that "Signet was not acquired in the receivership and is in the process now of being marketed."**

    a. **Please clarify what the current status of Signet is, if and when it was sold, and whether it was offered in the sale of assets out of the bridge institution.**

Response: The Signet Settlement Network (Signet) was not owned by Signature Bank. Signature Bank acquired a license to operate a permissioned payment platform, which is owned by Tassat Group, Inc. (Tassat). The license is through a Master Servicing Agreement between Tassat Group, Inc. and Signature Bank, which includes a monthly fee and revenue sharing provisions. Signature Bank owned 4.99 percent of Tassat stock. Tassat is a privately held company. Signature Bank also held trademarks related to Signet.

Signet was offered to bidders of the bridge institution. Flagstar Bank, National Association excluded the digital asset business from its bid. The Receivership retained the licensing agreement, Tassat stock and trademarks. The Federal Deposit Insurance Corporation (FDIC) evaluated the intellectual property, third-party service contracts, and owned technology, which together make up the Signet platform. It was competitively marketed to banks and non-banks, as described in detail in the response to 1(b) below.

    b. **Since Flagstar Bank agreed to acquire assets from Signature Bridge Bank on March 20, 2023, has any prospective purchaser submitted a bid or notified the FDIC of interest in acquiring Signet?**

        i. **If so, how many and what has the FDIC communicated to these prospective purchasers in response?**
        ii. **If so, how many prospective purchasers were non-bank financial firms?**
        iii. **Does a prospective purchaser's status as a non-bank financial firm factor in any way into the FDIC's response to a bid?**

Response: On May 19, the FDIC announced the opening of the formal marketing process for Signet and began the bidder qualification process. The offering included three separate pools: 528,319 shares of Series A-4 Preferred Stock of Tassat Group Inc., registered and unregistered trademarks and the master servicing contract with Tassat for the Signet platform. On May 31, the virtual data room was opened to permit qualified bidders the opportunity to perform due diligence. Bids were received on June 8. Six entities, four of which were non-bank financial firms, conducted due diligence on the Series A-4 Preferred stock and

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four submitted bids. Thirty-one unique entities expressed an initial interest in the trademarks and the master servicing contract, and went through the preliminary qualification to determine whether they wanted to proceed further with the process. Twelve of those entities, all of which were non-bank financial firms, conducted due diligence on the registered and unregistered trademarks and two submitted bids. Of the 31 entities that expressed an initial interest, 10 entities, all of which were non-bank financial firms, conducted due diligence on the master service agreement, but no bids were received. A prospective bidder's status as a non-bank financial firm did not factor into approving the prospective bidder's ability to bid on the sale. The FDIC closed the sales on June 14, selling the trademarks and preferred stock to the highest bidders for those pools for a total of $152,001. The master servicing contract was subsequently repudiated by the Receiver to extinguish the liability because no bids were received.

2. **It was reported that according to two sources, "...any buyer of Signature must agree to give up all the crypto business at the bank." [see footnote 1] An FDIC spokesperson has denied these claims. Nonetheless, the FDIC's sale of Signature Bank to Flagstar Bank included all of Signature's cash deposits except approximately $4 billion in deposits from digital asset companies. During the hearing, you stated that "the winning bid chose not to bid on the digital assets."**

    a. **Did you or the FDIC in any way discourage, implicitly or explicitly, Signature Bank bidders from including the digital asset company deposits in their bids?**

Response: There were no terms or conditions implicitly or explicitly placed on the digital assets or deposits as part of the bidding process for Signature Bridge Bank.

    b. **Did the winning bidder communicate to the FDIC, at any point, an interest in purchasing the deposits from digital asset companies? If so, what did the FDIC communicate to the winning bidder in response?**

Response: No, the winning bidder did not communicate to the FDIC, at any point, an interest in purchasing the deposits from digital asset companies.

    c. **Since Flagstar Bank agreed to acquire assets from Signature Bridge Bank on March 20, 2023, have any prospective purchasers submitted a bid or notified the FDIC of interest in purchasing the deposits from digital asset companies?**
        i. **If so, how many and what has the FDIC communicated to these prospective purchasers in response?**

Response: Since Flagstar Bank, National Association, agreed to acquire assets from Signature Bridge Bank on March 20, 2023, the FDIC has not received any requests to acquire the deposits from digital asset companies. The FDIC has paid out the deposits from digital asset companies.

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d. Did the FDIC receive any bids that would have included the digital asset company deposits in their bid?

   i. If so, how is this transaction consistent with the FDIC's least-cost resolution if the FDIC estimated the cost of the failure of Signature Bank to its Deposit Insurance Fund to be approximately $2.5 billion? [see footnote 2] Would not have accepting a bid that included Signet and the $4 billion in deposits from digital asset companies resulted in a less costly hit to the Deposit Insurance Fund?

Response: The FDIC received five bids from four bidders. One bid did not exclude the deposits from digital asset companies. The bid that was the least costly to the DIF excluded the deposits from digital asset companies. Because the systemic risk exception covered all deposits, it made no difference to the least costly transaction calculation whether an acquirer assumed those deposits or the FDIC paid those depositors directly.

3. During the hearing, you stated that while Signature Bank "had real difficulty meeting its obligations at the end of the day…[it ultimately] met them by the 5:30 closing time." Shortly after Signature's closing, Signature Bank board member Barney Frank stated that regulators took over Signature to "to send a message to get people away from crypto" and that "[Signature Bank was] singled out to be the poster child for that message." [see footnote 3] Did Signature Bank's digital assets customer base play any role in the FDIC's decision to form a bridge bank?

Response: Signature Bank's digital assets customer base did not play a role in the FDIC's decision to form a bridge bank.

Questions for the Record

House Financial Services Hearing 3/29/2023

Under Secretary Nellie Liang

Questions for Nellie Liang (Treasury Under Secretary for Domestic Finance)

1. Will you treat the questions for the Congressional Record asked today, with responses requested by no later than April 28, 2023, with priority over the unsolicited, self-referential, internal review you have decided to perform regarding Signature Bank and the policy options you have chosen to research and provide for hasty presentation to Congress by May 1?

    - **Answer: The Federal Deposit Insurance Corporation (FDIC) published a review of its supervision of Signature Bank on April 28, 2023, and a review of the deposit insurance system on May 1, 2023. The Department of the Treasury (Treasury) was not involved in the FDIC's reviews.**

2. When did Secretary Yellen make the initial decision to hold a special executive session of the Financial Stability Oversight Council (FSOC) on March 12, and what was the time of that meeting in relation to when the New York Department of Financial Services closed Signature Bank?

    - **Answer: The New York Department of Financial Services closed Signature Bank at approximately 5:30 p.m. on March 12.[1] Treasury staff notified FSOC members of the March 12 FSOC meeting after 6 p.m. on March 12. The FSOC met at 7:30 p.m. on March 12.**

3. On March 10, Secretary Yellen convened leaders of the Federal Reserve, the FDIC, and the Office of the Comptroller of the Currency to discuss the actions the regulators would take following the collapse of Silicon Valley Bank. What time was that meeting held, who attended the meeting, what was discussed, and will Treasury provide this Committee with unredacted minutes or notes of the meeting?

    - **Answer: I attended the March 10 meeting, along with Secretary Yellen, Chair Powell and Vice Chair for Supervision Barr of the Board of Governors of the Federal Reserve System, President Mary Daly of the Federal Reserve Bank of San Francisco, Chairman Gruenberg of the FDIC, and Acting Comptroller of the Currency Michael Hsu. The meeting took place at 1 p.m. by videoconference. As previously relayed to the Committee in Treasury's April 6**

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[1] *See* https://www.dfs.ny.gov/system/files/documents/2023/04/nydfs_internal_review_rpt_signature_bank_20230428.pdf at 39; https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf at 61.

letter, this was an interagency meeting, and consistent with standard practice, minutes were not prepared.

4. Will Treasury provide the Committee with unredacted minutes of the special executive session of the Financial Stability Oversight Council that the Secretary of the Treasury convened on March 12?

    - **Answer: The minutes of the March 12 FSOC meeting are available at https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings/meeting-minutes. These minutes were provided to Committee staff by e-mail on April 21.**

5. Information surrounding the March 12 meeting of the Financial Stability Oversight Council is lacking and limited. Please answer the following:

    a. Did the Secretary consult with the President regarding the Systemic Risk Exception before or after the special executive session of the Financial Stability Oversight Council held on March 12?

    b. How many times did you or the Secretary communicate with the President and/or the White House during the weekend of March 11 and 12?

    c. When did the Secretary consult with the White House on March 10th, March 11th, and March 12th; were other executive-administration officials or White House officials present during the consultation, either personally or virtually; and please identify those individuals if present?

    - **Answer: As previously relayed to the Committee, the Secretary consulted with the President prior to making the systemic risk exception determinations. Treasury officials, including the Secretary, consulted with the White House at various points between March 10 and March 12. The systemic risk exception determinations were both made and publicly announced before the March 12 FSOC meeting. The determinations were announced at 6:15 p.m. on March 12, and as previously relayed to the Committee, the FSOC met at 7:30 p.m. on March 12.**

6. On Friday, March 24, a Financial Stability Oversight Council (FSOC) executive session was convened by Chair Yellen. Why was that meeting called, what did the New York Federal Reserve presenters discuss, were continued movements of deposits within the banking system and interest rates discussed, and will Treasury supply this Committee with unredacted minutes of the meeting and a copy of any presentations made during the meeting?

    - **Answer: The March 24 FSOC meeting was called to discuss market developments, then-current conditions in the banking sector, and ongoing efforts at member agencies to monitor financial developments. For more information, please see the minutes of that meeting, which are available at**

https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings/meeting-minutes. These minutes were provided to Committee staff by e-mail on April 21.

7. On March 24, a special executive session of the Financial Stability Oversight Council (FSOC) was convened by the Treasury Secretary. The press was informed about the meeting early in the day. Despite outreach from this Committee during the day to confirm the accuracy of those reports and, if so, what the meeting was about, Treasury delayed responding. Instead, the Committee had to wait until Treasury decided to post an opaque "readout" of the meeting on its website. What was discussed in the March 24 FSOC meeting and why did Treasury wait to respond to requests from this Committee?

    - **Answer: On March 24, FSOC met in executive session. While FSOC provides notice of its regularly scheduled meetings at least seven days in advance, its bylaws exempt meetings held under exigent circumstances, including the March 24 meeting, from that requirement. Consistent with prior practice, Treasury released a public readout of the FSOC meeting, including a list of the FSOC members in attendance, after the markets closed. Please see the minutes of the March 24 FSOC meeting for more detailed information on what was discussed at that meeting. The minutes are available at https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings/meeting-minutes. The minutes were transmitted to Committee staff on April 21.**

8. On what date and at what time on that date did the Secretary of the Treasury invoke the Systemic Risk Exception for Silicon Valley Bank?

    - **Answer: The Secretary made the systemic risk exception determination for Silicon Valley Bank at 5:56 p.m. on March 12.**

Representative Byron Donalds (R-FL)

1. What is the government's obligation in the disposition of assets being held in a bridge bank versus being held in receivership?

    - **Answer: When the FDIC is appointed as receiver, as with Silicon Valley Bank and Signature Bank, the FDIC is responsible for transactions involving disposition of the failed bank assets and liabilities. Please refer any questions on this topic to the FDIC.**

Representative Andy Barr (R-KY)

1. Were you present at the March 10, 2023, meeting convened by the Secretary of the Treasury of "leaders from the Federal Reserve, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency to discuss developments around Silicon Valley Bank"?

a. If so, please provide a detailed description of what was discussed in the meeting, including greater detail than provided in the terse and opaque readout of the meeting appearing on the Treasury Department's website?

b. If so, please provide a list of attendees of the meeting.

c. If not, who else from the Department of the Treasury attended the meeting?

d. Please provide all documents, handouts, or presentations that were circulated in preparation for the March 10th meeting or during the March 10th meeting.

- **Answer: I attended the March 10 meeting, along with Secretary Yellen, Chair Powell and Vice Chair for Supervision Barr of the Board of Governors of the Federal Reserve System, President Mary Daly of the Federal Reserve Bank of San Francisco, Chairman Gruenberg of the FDIC, and Acting Comptroller of the Currency Michael Hsu. The meeting took place at 1 p.m. by videoconference. This was an interagency meeting, and consistent with standard practice, minutes were not prepared. Treasury did not circulate or receive documents, handouts, or presentations for this meeting.**

2. Were you present at the March 24, 2023, special executive session of the Financial Stability Oversight Council?

a. If so, please provide a detailed description of what was discussed in the meeting, including greater detail than provided in the terse and opaque readout of the meeting appearing on the Treasury Department's website?

b. If not, who else from the Department of the Treasury attended the meeting?

c. Please provide all documents, handouts, or presentations that were circulated in preparation for the March 24th meeting or during the March 24th meeting.

- **Answer: I was present at the March 24 FSOC meeting. Please see the minutes of the March 24 FSOC meeting, which are available at https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings/meeting-minutes.**

3. Were you present at the March 12, 2023, special executive session of the Financial Stability Oversight Council?

a. If so, please provide a detailed description of what was discussed in the meeting, including greater detail than provided in the terse and opaque readout of the meeting appearing on the Treasury Department's website?

b. If not, who else from the Department of the Treasury attended the meeting?

c. Please provide all documents, handouts, or presentations that were circulated in preparation for the March 12th meeting or during the March 12th meeting.

- **Answer: I was not present at the March 12 FSOC meeting, as I was concurrently briefing Members of Congress. Please see the minutes of the meeting, which are available at https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings/meeting-minutes.**

4. Please identify when the Secretary of the Treasury first notified leaders of the Federal Reserve, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency of the March 10, 2023.

   - **Answer: Participants were invited to this meeting the morning of March 10.**

5. Please identify when the Secretary of the Treasury first notified Council members of the March 12, 2023, meeting of the Financial Stability Oversight Council.

   - **Answer: Treasury staff transmitted the March 12 meeting notice to FSOC members in the evening of March 12, after 6 p.m.**

6. Please identify when the Secretary of the Treasury first notified Council members of the March 24, 2023, meeting of the Financial Stability Oversight Council.

   - **Answer: Treasury staff transmitted the March 24 meeting notice to FSOC members on the morning of March 22. Treasury staff had informally notified FSOC member agency staffs on the afternoon of March 20 of the intention to convene the meeting on March 24.**

Representative Brad Sherman (D-CA)

1. Are there banks or bank holding companies under your supervision that would currently not be considered at least well capitalized or adequately capitalized under prompt corrective action standards if you fully adjusted their regulatory capital to recognize unhedged, unrealized losses on securities? If so, how many banks fall into this category? (This request is not for the names of the banks, but only for the number of banks.) Please provide separate numbers for those that would not be considered at least well capitalized, and those that would not be considered adequately capitalized, with a corresponding breakdown of bank size.

   - **Answer: Treasury's Office of Domestic Finance does not supervise banks or bank holding companies. Please refer these questions to the federal banking agencies.**