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OVERSIGHT OF U.S. FINANCIAL REGULATORS: ACCOUNTABILITY AND FINANCIAL STABILITY

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING THE AGENCIES THAT ARE RESPONSIBLE FOR PROTECTING OUR BANKING SYSTEM AND MAKING SURE IT SERVES ALL AMERICANS

MAY 16, 2024

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OVERSIGHT OF U.S. FINANCIAL REGULATORS: ACCOUNTABILITY AND FINANCIAL STABILITY

THURSDAY, MAY 16, 2024

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10 a.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Sherrod Brown, Chair of the Committee, presiding.

OPENING STATEMENT OF CHAIR SHERROD BROWN

Chair BROWN. The Committee on Banking, Housing, and Urban Affairs will come to order.

We will hear testimony today from three key financial regulators whose agencies are responsible for protecting our banking system and making sure it serves all Americans. Hearing comes 1 week after release of the independent review of sexual harassment and workplace misconduct at the FDIC.

The review made clear that FDIC has serious, long-running problems. For far too long its leaders failed to take action to protect the FDIC's most valuable resource, that is, its workers. The review details episodes of harassment and discrimination, other misconduct that no one should ever have to endure, especially in the workplace, and that can never be tolerated, period.

Chair Gruenberg, you owe workers at the FDIC, this Committee, and the American people clear answers and decisive action. That includes your plan for restoring the FDIC's culture and regaining the trust of your employees, the steps you will take to put an end to workplace misconduct, harassment, and discrimination, and to ensure that victims are not silenced, and how you will ensure that perpetrators are finally held accountable.

The FDIC can't fulfil its mission of maintaining stability and public confidence in the Nation's financial system until the issues raised in the independent review are fixed. Failure is not an option.

Chair Gruenberg, I hope you recognize this moment for what it is: a crisis. Every FDIC employee, every American deserves a workplace free of harassment and discrimination. And the public should be able to have confidence that the people at this agency can focus on their jobs.

When workers face a toxic culture, it hurts the agency, it hurts its mission. Workers don't speak up when they spot problems if they are afraid of retaliation. It is not a small, internal problem, it affects the public.

Most Americans don't think much about the FDIC. They shouldn't have to. That is the whole point, for people to have confidence that their money is safe in the bank without having to give it any thought. And that is why the job of this agency is so crucial.

The FDIC prevented the Great Recession from becoming a great depression after the 2008 financial crisis. The FDIC's action was crucial after the collapse of Silicon Valley Bank and Signature Bank threated to create a domino effect of bank failures. We need an effective, strong leader at this agency to ensure that its workers can continue to protect Americans' hard-earned money and savings.

Chair Gruenberg, it is up to you to prove to the public and to your employees that you are that leader and are able to restore confidence at FDIC. The management challenges at FDIC only make it that much harder for the agency to focus on the crucial work it is doing, along with the Federal Reserve and the OCC.

In the last year since the collapse of SVB and Signature Bank, your agencies have helped make our banking system safer and more resilient. The Fed, the FDIC, and OCC issued the Basel III endgame capital proposal to protect Americans from another financial crisis.

We must ensure the largest banks have enough capital to prevent another taxpayer-funded Wall Street bailout. That is what these rules do, and they make sure that banks can continue to lend to their communities in good times and in bad.

The proposal recognizes systemic importance of large banks, like Silicon Valley Bank, that are not as big as Wall Street megabanks but still can do real damage to our economy when they fail. Of course, the industry and its allies on Capitol Hill have trotted out the same old tired, and always well-funded, arguments.

The reality is that the largest banks have been telling their shareholders and Wall Street analysts that they will be able to handle the capital rules without a problem. They have bragged about how they have remained wildly profitable, all the while comfortably meeting the projected capital levels required under the proposed rule.

This all sounds familiar. This Committee hosted the CEOs from the biggest banks last fall. We have done it now 3 years in a row. Not a single CEO, not a single CEO of the country's largest banks told us they would be unable to meet the capital levels required under the proposal. That is why it is imperative that your agency finalize a strong capital rule that protects Americans and doesn't reward Wall Street's whining.

The FDIC and OCC are also working to rein in the risky incentive-based compensation structures that have time and time again brought our banking system to the brink of collapse. Wall Street firms set up a system that rewards traders for exactly the kind of risky behavior that serves no benefit to the economy and just puts other people's money at risk.

We saw it in 2008. This model essentially tanked the economy and ruined people's lives. We saw it again with the failure of SVB last year. This new rule can't go forward without the Federal Reserve joining the process.

The Fed must know what is at stake. Its own report on Silicon Valley Bank noted how incentive-based compensation encouraged excessive risk-taking that eventually led to the bank's failure.

Mr. Barr, I look forward to seeing the Fed join this effort as soon as possible. We have talked extensively about the importance of that. It is also why the Senate must pass our RECOUP Act, while this—which this Committee passed last year. Ranking Member and I and our staffs wrote it together, 21–2, to ensure reckless executives who wreck their banks race real accountability.

Finally, we need action to address alarming trends in the banking industry. Over the last several decades, we have lost thousands of banks, while the largest ones have grown to control hundreds of billions, or even now, trillions in assets. A strong merger review process prevents banks from growing dangerously through acquisitions or mergers.

Americans can't afford mergers that pave the way for banks to take out competitors, to close branches, to lay off employees. We have seen that in Louisiana and North Carolina and South Carolina and South Dakota—you are South Dakota, right?—and Ohio, and Nevada.

Wall Street bankers—the FDIC have begun to review the merger process. I expect them to take steps to fix this. Wall Street bankers crashed the economy in 2008. Americans are still paying for it more than a decade-and-a-half later. It is why your agencies and the women and men who work there remain so important.

It is vital they are able to do their jobs serving the public free from fear of harassment, free from workplace misconduct. And ultimately you as leaders are responsible for what happens at the agencies which you lead.

I expect to hear from Chair Gruenberg specifically on what you plan to do to make fundamental changes to the FDIC and its culture.

Senator Scott.

OPENING STATEMENT OF SENATOR TIM SCOTT

Senator SCOTT. Thank you, Mr. Chairman, and thank you to the witnesses for being here today.

There is no greater responsibility that we have as public servants to make sure that we represent the interests of the American people and that we do it well, that we do it with character and with integrity. No greater responsibility.

That responsibility starts here and now in addressing what your employees, Chairman Gruenberg, describe as a hostile, abusive, and unprofessional workplace.

And Chairman Brown, I think we actually need a single hearing solely focused on the concerns that the employees of the FDIC has with the leadership of Chairman Gruenberg. Because the men and women of the FDIC working to safeguard our financial security deserve a healthy workplace. They deserve to be heard, to be seen. They deserve a safe and equitable workplace. But most of all, they deserve to be treated with respect.

We have all seen the 200-plus pages of the special report. We all saw yesterday morning's grilling across the capitol. And Marty, you

have heard me say this to you directly: you should resign. Your employees do not have confidence in you.

And this is not a single incident. This spans over a decade-plus of your leadership at the FDIC. So, I don't need to go into your failures and the complete lack of management while you have been at the FDIC. I want to talk about the people, your employees, and what they have done and what they have had to go through.

How can you justify allowing supervisors to refer to disabled veterans as Captain McNasty? We are talking about a veteran who lost part of his leg in service to our country. And to work in a hostile work environment where he is referred to as Captain McNasty is just, not just wrong, but disgusting.

To think about the chilling reports that say employees' supervisors were permitted to mock the fact that this employee used a wheelchair. What kind of environment and culture and how long does it have to go on before it becomes commonplace to make fun, to goad veterans who served this Nation at great personal expense?

Or when an employee reported that for a period of 3 years, a senior examiner would sexualize her every time he could. And he behaved similarly with other colleagues and bank employees, including asking to see photos of their daughters and whether or not those daughters were single.

But it is not just your management team. You yourself set the example when you were absolutely irate and attacked your employee. Or another FDIC employee stating that they had a meeting with you, and it was awful and felt very personal. That employees are made to cry, as if it is some badge of honor making your employees cry. And people after person after person wanting to quit.

Others described your conduct as embarrassing and inappropriate. And one person said they will likely be demoted. And if this is what takes, they are out.

One thing I learned from running my own business is that if you don't take care of your employees, they can't take care of the customer. And the customers of the FDIC, they are the American people.

Mr. Gruenberg, during your hearing yesterday, you stated that it doesn't matter if you believe that you can change the FDIC's culture, it matters if the employees believe that you can change the FDIC culture. They don't. Whistleblower after whistleblower, employee after employee have drawn the same conclusion.

I would like to submit for the record a statement, Mr. Chairman, I would like to submit for the record a statement from a collection of FDIC whistleblowers expressing their lack of confidence in Mr. Gruenberg's ability to change the toxicity of the agency and their doubt that he is the right man for the job.

Chair BROWN. Without objection.

Senator SCOTT. Leadership carries with it the responsibility of stewardship. Your sheep are lost and your fields riddled with weeds.

In 2021, President Biden warned his staff, "If you are ever working with me and I hear you treat another with disrespect, I promise I will fire you on the spot", and he did. He fired the Inspector General, Martin Dickman, of the U.S. Railroad Retirement Board for evidence that he created a toxic work environment and engaged

in abusive treatment, including using crude and inappropriate language like slurs and belittling employees.

I know I am out of time. And the FDIC and their special report described you as harsh, aggressive, and interacting with your staff in a demeaning and inappropriate manner, having a temper, and causing employees to feel disrespected, disparaged, and verbally attacked.

I can only conclude with one question. What makes you so different than the Inspector General? Is it politics? Is it the fact that you are a necessary and easy vote for the Biden administration's economic policy agenda? I think the answer is yes.

Chair BROWN. Thank you, Senator Scott. Thank you for your remarks. I think we can agree that no public employee, whether in the White House or the FDIC, should ever criticize of make fun of a disabled veteran.

We will hear testimony today from the heads of three Federal banking agencies: Michael Barr, Vice Chair for Supervision at the Board of Governors, the Federal Reserve System; Martin Gruenberg, Chair of the Federal Deposit Insurance Corporation; and Michael Hsu, Acting Controller of Currency. Chairman Todd Harper of the National Credit Union Administration, excuse me, originally intended to be here but is unable to join us due to extenuating circumstances.

I ask unanimous consent to enter Chairman Harper's statement into the record. Without objection, thank you.

Thank you, my colleagues. Thanks for the witnesses for your service and your testimony.

Vice Chair Barr, please proceed.

STATEMENT OF MICHAEL BARR, VICE CHAIR FOR SUPERVISION, FEDERAL RESERVE

Mr. BARR. Chairman Brown, Ranking Member Scott, and other Members of the Committee, thank you for the opportunity to testify on the Federal Reserve's supervisory and regulatory activities. Accompanying my testimony is the Federal Reserve's semiannual *Supervision and Regulation* report.

Today, I will discuss current conditions in the banking sector, supervisory activities, and some of our recent regulatory proposals.

Overall, the banking system remains sound and resilient. Banks continue to report capital and liquidity ratios above minimum regulatory levels. Overall asset quality remains generally sound. Capital ratios increased throughout 2023, leaving the system better positioned to weather potential losses.

Liquidity conditions overall are stable. Notably, liquid assets on bank balance sheets remained above their 10-year average throughout 2023. Additionally, there has been a decrease in the share of uninsured deposits in the system. However, both supervisors and banks must remain vigilant and ready for expected and unexpected stresses, as presently there are several risks we are monitoring.

For example, delinquency rates are rising among certain commercial real estate loans, such as those backed by offices, and some consumer loan sectors. CRE delinquencies are now at a 5-year high. Credit card and auto loan delinquencies have been rising. In

response to rising delinquencies, banks have increased loan loss provisions.

On this basis, combined with their capital positions, the banking sector as a whole should be prepared to absorb loan losses that may materialize and continue fulfilling its vital role providing credit to households and businesses. The Federal Reserve continues to monitor these conditions carefully.

It has been a little over a year since the sudden failure of SVB and ensuing stress in the banking system, events that highlighted the need to improve the speed, force, and agility of supervision to better align with the risk, size, and complexity of supervised banks, as appropriate. We have been making progress on these goals.

First, we are working to ensure supervision intensifies at the right pace as a bank grows in size and complexity. Second, we are modifying supervisory processes so that once issues are identified, they are addressed quickly by both banks and supervisors. Third, we are finding ways to better incorporate forward-looking risk analysis into supervision.

The lessons learned from SVB are not only applicable to our supervisory framework. Certain aspects of the failure show that enhancements to our regulatory framework would benefit the safety and soundness of our banking system.

One of these enhancements was already in process several months before SVB's failure through an advanced notice of proposed rulemaking—expanding the application of long-term debt requirements to additional large banks. Subsequently, the Board, the FDIC, and the OCC followed up with a proposed rule that would increase the options available within the resolution process and enhance financial stability. We are going through comments now that we received on this proposal carefully.

Another important area is liquidity risk management. A striking feature of last year's bank stress was that SVB, Signature, and First Republic struggled to cope with unprecedented deposit outflows. Banks found it difficult to monetize their held-to-maturity securities through repo transactions under severe stress and were not adequately prepared to utilize the Federal Reserve's discount window. We are exploring targeted adjustments to our regulatory framework that would address each of these concerns.

The Federal Reserve's lending to banks through the discount window plays an important role in supporting the liquidity and stability of the banking system and the effective implementation of monetary policy. We are reaching out to a wide range of depository institutions of all sizes to learn from their experiences with the discount window in order to improve our operations.

Turning to capital, a safe and sound banking system is crucial to a healthy economy and capital is foundational to safety and soundness. A well-capitalized banking system reduces the probability that stressful conditions result in financial crises, which inflict devastating economic costs and suffering for families and businesses all across the country.

Since my last testimony, we have received numerous and meaningful comments on our capital proposal. We also received additional data. We are closely analyzing this information and I expect we will have a set of broad, material changes to the proposal that

allow us to have a broad consensus in moving the proposal forward. The changes will enable us to have a safer financial system that better serves American households and businesses.

Thank you.

Chair BROWN. Thank you, Mr. Barr.

Mr. Gruenberg, welcome. Proceed, please.

STATEMENT OF MARTIN J. GRUENBERG, CHAIR, FEDERAL DEPOSIT INSURANCE CORPORATION

Mr. GRUENBERG. Thank you, Mr. Chairman.

Chairman Brown, Ranking Member Scott, and Members of the Committee, thank you for the opportunity today to appear before you today. I would like to focus my remarks on the FDIC's ongoing efforts to transform its workplace culture.

Let me begin by saying that I am deeply committed to the FDIC and its mission, as well as to the people on whom that mission depends. That is why when news reports of sexual harassment, discrimination, and other misconduct surfaced last year, it was essential to gain a deeper understanding of the agency's workplace culture.

At my direction, the FDIC initiated an independent third-party review to determine the depth and extent of these issues. Last week, the results of that review, which was conducted by the law firm of Cleary Gottlieb, were released. The review found that for an extended period of time, the FDIC has failed to provide a workplace safe from sexual harassment, discrimination, and other personal misconduct.

I accept the findings of the report, and as chairman, I take full responsibility. To anyone who experienced sexual harassment, discrimination, or other misconduct at the FDIC, I again want to apologize and express how deeply sorry I am. I also acknowledge my own failures as chairman, both in failing to recognize how my temperament in meetings impacted others, and for not having identified deeper cultural issues at the FDIC sooner.

I am personally committed to addressing these issues. We accept all the recommendations of this report and are incorporating them into our existing action plan for a safe, fair, inclusive work environment.

To restore credibility with our workforce, we must act swiftly on the report's recommendations and demonstrate a commitment to making fundamental change. For this reason, we have already begun implementing several key recommendations of the report.

The report recommends that we identify and appoint a transformation monitor who will monitor, audit, and report on our implementation of the recommendations. We have already begun that process and will issue a request for proposals as early as this week.

The report also recommends that we engage an independent third-party expert to support our efforts. We have begun that process and will also issue a request for proposals as early as this week.

The report recommends fundamental change to the agency's structure and procedures for receiving and investigating complaints and taking disciplinary action against misconduct in light of the failures of the existing offices delegated those duties.

We will do this by proposing the establishment of an independent Office of Professional Conduct, which will report directly to the FDIC Board of Directors. It will be charged with fulfilling these responsibilities, including through the use of outside third parties to conduct investigations. The transformation monitor and independent third-part expert will advise us on this proposal.

Since December of last year, the FDIC has been focused on implementing its action plan to address all aspects of the issues raised in the news reports last year. The plan represents an agencywide effort. Many of the recommendations outlined in the report recently received are already encompassed in the agency's action plan.

The plan is focused around three core elements: providing more support and resources to victims, strengthening our process for reporting and investigating complaints, and improving accountability for anyone who is found to engage in misconduct, including through separation from the agency. The proposal to establish an independent Office of Professional Conduct would advance all of these goals.

It is my privilege to lead and work alongside everyone at the FDIC. Our people are extraordinarily dedicated to the agency and its mission. They deserve to have a workplace where all feel safe, valued, and respected. There is no higher priority for me than delivering on that commitment.

Thank you.

Chair BROWN. Thank you, Mr. Gruenberg.

Mr. Hsu, welcome.

STATEMENT OF MICHAEL HSU, ACTING COMPTROLLER, OFFICE OF COMPTROLLER OF THE CURRENCY

Mr. HSU. Thank you, Chairman Brown.

Chairman Brown, Ranking Member Scott, and Members of the Committee, I am pleased to appear today to provide an update on the activities and priorities of the OCC.

The overall condition of the Federal banking system is sound. OCC-supervised banks, in aggregate, continue to have strong levels of regulatory capital and sufficient liquidity buffers, though risks from commercial real estate and interest rate exposure continue to warrant attention.

Banks and supervisors need to remain on guard against complacency, one of my top priorities for the agency. The OCC's bank supervision operating plan for 2024 highlights asset liability management, credit risk and allowance for credit losses, cybersecurity, operational risk, and consumer compliance risk as our key areas of focus.

Another priority for the OCC has been promoting fairness in banking. This April marked the 1-year anniversary of OCC guidance to assist banks in managing risks associated with overdraft protection programs. Since the OCC's heightened attention on overdrafts began, the overdraft fees charged by OCC-regulated banks in aggregate have fallen over 40 percent.

Adapting to digitalization has been a third priority for the agency. We recognize, for instance, that community banks may face hurdles in risk-managing their third-party relationships, including

with fintechs. Earlier this month, the OCC, Federal Reserve, and FDIC published a third-party risk management guide for community banks with examples of innovative approaches to conducting due diligence and assessing new fintech companies.

The OCC supports the diverse and dynamic banking system and continues its focus on updating our bank merger analytical frameworks. We remain committed to working with our interagency peers, including the Department of Justice, on this effort. To increase transparency, on January 29, we released for comment a proposed policy statement on bank mergers. We recently extended the comment period to June 15.

My written testimony provides greater detail and other activities of the OCC.

As cochair of the FDIC's special review committee, I would like to address briefly the recently released independent report on harassment and misconduct at the FDIC. The top priority for us all must be protecting the staff of the FDIC and putting people first.

The harassment and misconduct detailed in the report are totally unacceptable. The number and scope of allegations, the patterns of misconduct, and the longstanding culture revealed by the review are highly disturbing and need to be fixed immediately.

The root causes and recommendations cited in the report provide a clear roadmap for what needs to be done and why. That is where our attention must be focused to ensure the FDIC is a safe workplace for all of its employees.

As a member of the FDIC board, I am committed to the transformation called for in the report. I am especially supportive of the report's recommendation to engage an external expert and establish an independent monitor to ensure that the agency's efforts are tracked and that accountability is enforced.

I also believe that Chairman Gruenberg has accepted responsibility for his and the FDIC's past failings, and that he is fully committed to lead the agency in taking the actions necessary to make it a safe place for everyone to work.

Thank you, I'd be happy to answer any questions.

Chair BROWN. Thank you, Mr. Hsu.

Chair Gruenberg, you offered an action plan last year to fix the agency, but last week's report made clear much more is needed. One particularly concerning item is the third-party report that some employees don't believe that last year's action plan will bring about real results. They said, They reported experiencing or observing interpersonal misconduct by a number of the managers currently participating in the action plan. Pretty egregious statement.

Yes or no, can you commit to you today that you will review any accusations of misconduct against the managers, the managers charged with developing the action plan and take strong, appropriate action to hold them accountable?

Mr. GRUENBERG. Yes, Mr. Chairman.

Chair BROWN. OK, thank you. What do you say to the employees who, understandably considering that years of history, this agency, what do you say to the employees who don't trust the steps you're taking to reform the agency?

Mr. GRUENBERG. Mr. Chairman, we are committed to implementing the recommendations of the new report and to making

fundamental structural change in the way misconduct is addressed at the FDIC.

Most fundamentally, and I think this gets to the core of the issues raised, we have to cut the good old boys' network that is serving as an impediment to employees coming forward and reporting experiences of abusive treatment. And we can do that by establishing a new, independent office at the FDIC outside of the existing organizational structure, accountable directly to the board, that would assume all of the responsibilities for dealing with misconduct at the FDIC.

That would include receiving complaints from employees, providing employees the support and protection and assurance against any concerns about retaliation that is necessary for employees to come forward. It would assure independent investigations of complaints by outside third parties. And it would impose a strengthened disciplinary process that would be swift and sure and transparent and have only one focus: justice for the victim.

And if we can do—when we do those three things, that will make a dramatic impact on how these matters are handled at the FDIC. We have, as the report notes, existing offices with those responsibilities. Those offices have failed. And we need to move to a new office outside of the existing structure that will provide the kind of independence and assurance that our employees need to hold individuals accountable for misconduct that may occur.

Chair BROWN. Understand that your credibility starts by ensuring that managers accused of wrongdoing are not allowed to police their own behavior. It starts with that. You understand that?

Mr. Gruenberg, as you know, making the fundamental changes necessary to repair FDIC's reputation, more important than the culture, equally important to culture, is going to take input and action from everyone at the agency.

How do you plan to engage regularly with the entire workforce, particularly employees who have reported harassment, reported discrimination, reported other misconduct to make sure you bring about lasting change in this good old boy network you mentioned, this toxic culture that permeates the agency?

Mr. GRUENBERG. From the outset of our efforts last December to address these issues, we have made this an agencywide effort. We have invited employees across the agency through expressions of interest to volunteer to participate in our efforts to address this issue.

We have had significant response from employees both in Washington and in our regional offices. And we are committed, I think it is critical for employees across the agency to participate and have a sense of ownership in terms of our efforts to address these issues. I think that is critical.

And we have worked closely with all of our employee resource groups. They have had direct input and participation in developing our action plan and in our response to the recommendations of the new report. So, this will be, has been, and will continue to be an agencywide effort.

Chair BROWN. And you, that means you will commit to bringing all the major policy changes necessary to implement the rec-

ommendations of this report, including steps you've outlined here today, to the board for input and approval?

Mr. GRUENBERG. Yes. The board will be the oversight and governance, oversee the governance of this whole effort.

Chair BROWN. I will be watching, this Committee will be watching, Senator Scott will be watching. I was told by a Fed Reserve Governor some years ago that, he said watch what I am doing and make sure you know I am watching you are watching what I'm doing. That's loud and clear, thank you.

Senator Scott.

Senator SCOTT. Thank you, Mr. Chairman.

Let me turn my attention to Vice Chair Barr for a minute here on the, I think the importance of Basel III being reproposed. Honestly, I think slicing it, dicing it, trying to figure out how to make some changes and put it back on the market. I think that is probably the wrong strategy, the wrong approach. From my perspective it would be much better to have a full re-proposal, allowing people to have another window of opportunity to actually have input in the process of the changes.

Frankly, Basel III to me, thankfully, Fed, you, Chairman Powell have made a prudent decision to take another look at the proposal. That is a prudent decision.

I think a better approach is to actually put it back out on the market for comment so that more people have a better engagement in this process. I think anything other than that I think is nibbling around the edges and will not produce the type of product that is in America's best interest.

Thoughts?

Mr. BARR. Thank you very much, Senator Scott. We are really focused right now on the substance. We had a lot of deep and thoughtful comments on the proposal. We are trying to work our way through that substance now, reach agreement across the agencies and with my board on the substance.

And after we are done with that process of understanding where we want to go on the substance, we will then determine what process we think is appropriate. If a re-proposal ends up being appropriate, we will do that. We are not yet at the stage where we're thinking about precisely what process we will use.

Senator SCOTT. I certainly think the more, just obviously you understand this, but for the Americans watching C–SPAN for reasons that go beyond my ability to comprehend, I think it is important for us to note that the capital standards within Basel III park so much capital on the sidelines that those Americans perhaps watching C–SPAN looking for their first mortgage will have less capital to actually become a part of the American dream to actually earn equity in this Nation by having a home.

Those small businesses like me that changed my financial life and the life of my family, specifically my mom's, by starting a business and being successful, that capital that allows folks like me coming from poverty to experience the American dream because you have the ability to get a loan. Parking more capital on the sidelines really is a way of disenfranchising more Americans and not necessarily making the system more fair.

Thank you for your comments and thank you for the call and having a conversation about this really important underlying issue that will have real impact on our economy.

To Chairman Gruenberg, the offices haven't failed. You have. It is that simple. An environment that is so corrosive, so toxic that employees, I just want to read this from the report, because the level of intimidation that is embedded in the culture after a decade of your leadership, you can't just unravel it. You can unscramble that egg.

The going to classes and looking for ways to have anger management and solve that problem, if it takes you a decade to recognize that, perhaps you need a whole few years away from the FDIC to figure that out on your own. But why punish the FDIC and the American people, and frankly, the employees?

Here is a quote from one employee. Nobody trusts those in charge. And even though it is not getting into the hands of senior executive, I am using VPN and someone else's cell phone to write this. I still fear that talking will come back to haunt me.

Those are chilling words. It is—I have so many complaints and concerns through the report that it is just hard to read them all. A woman learned that a field office supervisor had romantic feelings for her and would send her flowers. He would demand to know who she was talking to and what she was talking about.

He called and texted her at work and at home. During mandatory telework, he would insist that she stay on Teams, Team videos for hours on end, directing her to leave the video on when she left to use the restroom. She became so fearful she went to the police and considered seeking a restraining order. She hesitated to file the complaint with the FDIC because she believed the agency would believe him over her if she reported it.

Eventually when she did work up the courage to file, she said managers dismissed her concerns. The report concludes, She continues to live in fear.

You got 5,000 employees, plus, and the strategy is to give them more pay, more promotion, and a transfer for folks maybe in leadership. If after a decade of toxicity and corrosion, 5,000 employees, the best we can do is find a scapegoat and shift the blame, you should resign.

Chair BROWN. Thank you, Senator Scott.

Senator Cortez Masto is recognized.

Senator CORTEZ MASTO. Thank you, thank you, Mr. Chairman.

Thank you, gentlemen, for being here. I am going to focus my questions today with Director Gruenberg.

I appreciate you coming in to visit with me. Let me start here, and you are hearing this constantly. Obviously, this is an opportunity to do right by the employees of the FDIC.

There's almost 6,000 employees of the FDIC. And there is no doubt that an environment, a workplace that is—has longstanding misconduct, harassment, discrimination, and lack of full accountability at the FDIC is absolutely unacceptable.

Now here is the concern that I have: this has been longstanding. This has been longstanding, and words are not enough now. You can come here and testify and talk about what you want to do, but

we have heard that before. I have heard that under previous Administrations, previous chairs, previous leadership.

In fact, we have a previous report that came out that absolutely, from the Office of Inspector General, July 2020, identified these issues. Recommendations were made. And I will say even at that time, the leadership, it wasn't you, but the leadership at the FDIC questioned some of those recommendations.

Now fast forward, we still have an issue. It is not just about structural change; it is about a workplace culture that we need to address. And I do believe that if you are paying attention to what is happening here and you have read the root analysis, you have read the report from Cleary Gottlieb, and you have read the recommendations, there is a clear blueprint for what to do.

And our goal here and mine is to hold you accountable for that. And the entire board and the entire leadership. Because now is the time to focus on the employees and their workplace.

Let me just say this: the root cause analysis, lack of accountability, failure to hold employees accountable for misconduct, that was addressed in a previous report. It still hasn't been addressed.

Employees do not see individuals alleged to have engaged in misconduct face any consequences. They also develop doubts about the integrity of the disciplinary process itself. Fear of retaliation. And that is just the structural changes we need to make.

Now we have workplace issues. Let me just say, the workplace culture has to be addressed. And you are going to have to come forward and tell us how you are going to do that.

Let me just note this, though. In the report, it notes that the FDIC and its leadership have not sufficiently focused on and prioritized workplace culture. And historical efforts to address it have not been sustained in any way to make lasting changes. It is not the case, as some have expressed, that problems related to the workplace culture, including with respect to sexual harassment, only came apparent through the recent media reports.

There have been prior cultural change and improvement initiatives that the FDIC have instituted in part because of some of the same issues identified in the report, going back to 2008. This is a systemic failure, over the years, over the years. And it is time to take action.

So, my first question to you is based on the recommendations from this report, do you anticipate, and I hope you say yes to every single one, that you are going to implement every single recommendation that is in this report, this Gottlieb report?

One of the recommendations to address the cultural transformation is to hire an independent individual to monitor and audit any recommendations the FDIC adopts. Do you agree to that?

Mr. GRUENBERG. Well——

Senator CORTEZ MASTO. Let me just say, OK, that second there is also a recommendation that the FDIC should retain an independent third party with substantial and credible experience in topics recovered by this—uncovered by this report to advise in the implementation of the recommendations. That is a separate independent third party. Do you agree to that?

Mr. GRUENBERG. Yes, and we have begun the process of implementing both of those recommendations, Senator.

Senator CORTEZ MASTO. So how do you anticipate—let me ask both of you, because Director Hsu, you are on the—you are on the board. How do you anticipate not just the cultural changes and the structural changes, excuse me, the structural changes that you were talking about, how do you anticipate changing the culture?

This is not about words anymore; this is about showing action to the Federal employees there that you are doing something about it. So, what are you specifically going to do?

Mr. GRUENBERG. If I may start, and maybe then Mike could add. Those are the hardest because you have to change people's attitudes and behaviors, which is the hardest part of this work. I believe the structural changes are critical, both in independence and giving employees a sense of confidence and protection to utilize them.

We have a key additional structural issue, which is the decentralized nature of our organizational structure. With 3,000 banks, we supervise 70 field offices around the country. Getting control——

Senator CORTEZ MASTO. Let me ask you this, cut to the chase because my time is running out. Have you held anybody accountable so far?

Mr. GRUENBERG. Yes, four employees have been separated this year, and we have made management changes. And as a result of this establishing a new office, there will be additional management changes.

And we have started a program of training, in-person training, for all 6,000 employees at the FDIC. We began with the managers of those 70 field offices, which is the, in some sense, the locus of the issue. We have had all of our senior executives, including myself, go through that training. And we are now working through the rest of our workforce. By November of this year, we will complete that in-person training for every employee.

So, at a minimum, we will have a baseline of understanding for every employee. What is sexual harassment, how to recognize it, and most importantly——

Senator CORTEZ MASTO. I appreciate that, Mr. Gruenberg——

Mr. GRUENBERG. Yes.

Senator CORTEZ MASTO. But it is more than just training.

Mr. GRUENBERG. I understand.

Senator CORTEZ MASTO. It is more than just training. That is the start of it.

Mr. GRUENBERG. I'I agree.

Senator CORTEZ MASTO. So, you have got to do more. And I apologize, I am going over my time. But this is such an important issue.

And Mr. Hsu, you are on the board. What are your thoughts on this? Because there has to be a change in the workplace culture. It is more than just training for individuals.

Mr. HSU. It is imperative that every single recommendation be carried out in full, in a timely manner, immediately. And those have to be actions that are credible to the staff of the FDIC. In particular, the fear of retaliation creates a cycle. Because if there is a fear of retaliation, there is no reporting. If there is no reporting, there is no action.

And so, this is made very clear in the report. And I agree with you, this is all dependent on actions and outcomes. And I think that is where the focus has to be.

Senator CORTEZ MASTO. Well, I am done, and I thank you for allowing me to go over my time. I am just going to say this: this should be the last report we deal with on this particular issue, and we are going to hold you accountable.

The entire board, the entire management FDIC, you need to make changes. And this is something that clearly has happened over years and decades unfortunately, but it is time to make the change, and we need to hold you accountable. From my perspective, I am not going to let go. This has to change, has to change.

Chair BROWN. Thank you, Senator Cortez Masto.

Senator Rounds of South Dakota is recognized.

Senator ROUNDS. Thank you, Mr. Chairman.

Mr. Gruenberg, yesterday, my House colleagues and today my Senate colleagues have all been taking you to task on how under your 19-year tenure, you have failed to protect employees and create a culture of professionalism at the FDIC.

Instead of your—instead of that, your agency is known as a place that fosters a culture that is, in their words, misogynistic, patriarchal, and outdated. A place where favoritism is common and senior executives with well-known reputations of inappropriate workplace behavior enjoy long careers with no consequences.

You, in fact, are one of those senior executives who have subjected employees to bullying and your explosive temper, which are detailed in multiple pages of this report, 91, 92, 93, and 94 are all included. And yet you have faced no consequences.

Culture starts at the top. Now, those aren't my words, Mr. Chair, those are the words of the employees at the FDIC, and you can read that on page 6 of the report. Your employees clearly have no faith that you can meaningfully lead for changes at the FDIC, and quite frankly, neither do I. I think that you should resign for the good of the institution.

Mr. Barr, in agreement with the Chairman Powell, you have stated on page 5 of your written testimony that you expect a series of broad, material changes to the Basel III endgame proposal. I think myself and many Members of this Committee would welcome that.

Do you agree that each section of the proposal, covering all three risk stripes of the market risk, operational risk, credit risk, that they need broad and material revisions based on the comments that you have received?

Mr. BARR. Yes, I think if you look across all three areas, I do expect some significant changes in the proposal.

Senator ROUNDS. And by definition, the material meaning material in this particular case does mean significant change. Would you say the commenters that have made, and I think—and there has been a lot of comments made, do you think you would be able to anticipate all of the potential changes that you are considering?

Mr. BARR. We are going through the substantive work now. If we find an area where the Administrative Procedures Act would suggest that we haven't met that standard, that would be one of the factors we would think about about process going forward.

But right now, we really are just focused on the substance, making sure we get the substance right. And then we will turn to the question of what is the right next step in the process.

Senator ROUNDS. But fair to say, and I believe probably 97 percent of all of the comments that you receive were not favorable to the proposal that you were making. The vast majority of them wanted you to simply eliminate it, or they wanted substantive, significant changes within those proposed regulations. Would that be fair to say?

Mr. BARR. I haven't done that calculation. I have heard that number reported before, but I haven't myself looked at that.

Senator ROUNDS. And actually, the reason why I am asking the question, and I think you are on it, is that you may very well have to withdraw and repropose that proposed regulation if these are significant changes, so that there could be other comments made in the future. Would you agree with that?

Mr. BARR. As I said, we haven't reached the question yet of what the right process is. We are really focused on the substance. We are working our way through that. After we reach a conclusion about the substance, we will turn to the question of what the appropriate process is from that point on.

Senator ROUNDS. But you do expect, as I think both you and the chairman have indicated, that you would probably have significant changes to the proposal.

Mr. BARR. Yes, Chair Powell and I have both said we expect broad, material changes.

Senator ROUNDS. And I noticed that you indicated that that would require—it would trigger additional administrative—or actions under administrative procedures at this time.

Mr. BARR. What I said, Senator, is that we haven't made any decision about the process. We will follow the Administrative Procedures Act. We will take care of whatever the appropriate process is. But we haven't reached any judgment about the process at this time.

Senator ROUNDS. OK. And then just, I am just curious, I think yesterday with the House Financial Services Committee, you indicated that policy changes to the proposal, just as you have indicated here today, that they haven't been finalized yet.

But as you go through and you are trying to identify this, has there been a framework or a term sheet or some sort of a layout laying out the differences or the contours to changes that other agencies that you are working with, that they have been able to see and to work over?

Mr. BARR. We are working very closely, I am working very closely with my sister agencies at the FDIC and OCC on a set of reforms to that proposal, and also in discussions with my board.

Senator ROUNDS. If you do have that, would that be available to this Committee for review as well?

Mr. BARR. That is not a normal process that we would conduct. We go through the process among the agencies. We develop whatever substantive proposal we are, and then put it out for the public to comment.

And then of course we welcome, as we have in this instance, comments from Senators and from Members of Congress. Those com-

ments that we get from this Committee and from others are part of the comments that we review when we evaluate our proposal.

Senator ROUNDS. Well, most certainly as substantive as this may be for changes, it seems like it would be appropriate for this oversight committee to at least have access to the questions that you may very well be asking other committees. Or at least if there is a working sheet, a worksheet of some sort, it seems like that would be fair game to at least share with us as well.

Mr. BARR. Senator, as I said, the normal process year in administrative rulemaking is to conduct it the way we are conduct it the way we are conducting it. And I expect we are going to continue to conduct it according to the normal process.

Senator ROUNDS. Thank you.

Chair BROWN. Thanks everyone.

Senator Warner from Virginia is recognized.

Senator WARNER. Thank you, Mr. Chairman.

Mr. Gruenberg, I'm not going to echo what all my colleagues have said. Behavior has got to change. It needs to be a meaningful plan, and I think some of us have withheld full comments or full calls the way some of my colleagues have. But the plan has to be real and credible. So far, we've not seen that.

Mr. Barr, I'm somewhat aware of where Senator Rounds was going. You know, I've written you separately on the Basel III Accord. I think the reason why there's been such pushback is that, at least early on, there was not kind of the evidence-based documentation of what would be the cumulative effect of these rules, these rule changes, particularly in terms of credit availability.

So, I hope, before the final rules come out, you would make those estimates public. I think, again, echoing what Senator Rounds says, we need that from an oversight standpoint. And I do hope, again, that there will be an evidence-based indication of the risks and benefits of these proposed rules.

I know you're going through a reworking process. I know it has probably caused lots of consternation. I've talked to you and Marty and others about this. But, wherever you come down, we're going to need that evidence-based approach. And I don't think in the initial rule proposal it was there.

This is going to be mostly directed at Mr. Hsu, since I heard from Mr. Barr and Mr. Gruenberg. I asked this the last time. I think one of the things, as we deal with thinking about a world structure for our banks, particularly around liquidity problems the way we saw with SVB, you know, it really taught us that the whole notion of stability deposits and the notion of internet-based runs, you know, that we're way behind where technology has taken us.

Obviously, we need to make sure that we have ability to prevent temporary liquidity issues from turning into solvency crises. And one of the things that has bothered me—and I've shared this with all of you; I've shared it with my colleagues on the Committee—is, you know, the whole beginning of the Fed, the discount window was set up exactly for this circumstance. But what we have seen, at least recently, is it has very rarely played that role.

And I say this to my colleagues on both sides of the aisle. I'm going to be soon introducing a bill—and I've been talking to some of my Republican colleagues, and welcome my Democratic col-

leagues as well—to reform the discount window to fight the so-called stigma that goes about utilization if you use it.

I think this really ought to be—back to the beginnings of the Fed—a more often used tool. Now, the bill will implement a mandatory discount window, test borrowing with different tiers, and an exemption for those institutions under a billion dollars in assets, and again, other safeguards to make sure we don't put too much undue burdens on small depositories.

But it would also require that institutions demonstrate that they can use the window. The SVB didn't even know how, didn't even have procedures set up. And then, give regulators, allow them to give proper credit in liquidity evaluations for institutions that do that.

I think we need to look at how we keep the liquidity window open at a longer basis. And I'm wide open on how we can do other things to try to remove the stigma issue.

And what the legislation will also try to do is promote a more harmonized process across the Federal Reserve Banks and better coordination between the Fed and the Home Loan Bank Boards—again, to make sure that we can get this right.

I've gotten your colleagues' comments on this. We've had a private conversation on this, but I would like you to share, Mr. Hsu, whether you think this kind of approach, in terms of making the liquidity window, destigmatizing it, making sure institutions know how to use it, and modernizing it, would be a step in the right direction.

Mr. HSU. Absolutely. You know, I think it helps to step back and remember what the problem we're trying to solve is, which is that bank runs are faster. And because bank runs are faster, that ability to be able to use the discount window, when a bank has appropriate amounts of collateral in a safe and sound manner—is critical.

So, all the steps you laid out, we are happy to continue engaging with you as to how to frame that, so that it's effective. It's a tricky problem to solve, but we're committed to working with you to solve this problem, because we do need to solve this if we're going to address the speed of bank runs.

Senator WARNER. Well, I have no more time to describe it, but I would invite any of my colleagues to join me on this. I think, before we start adding new regs and rules, we ought to make sure some of the tools that were set up in the first place are more fully used.

Thank you, Mr. Chairman.

Chair BROWN. Thank you, Senator Warner.

Senator Kennedy of Louisiana is recognized.

Senator KENNEDY. I hope Senator Al Franken is watching today. If it weren't for double standards around this place, there wouldn't be any standards at all.

Mr. Gruenberg, have you ever heard the expression "A fish rots from the head down"?

Mr. GRUENBERG. Yes, Senator.

Senator KENNEDY. I listened carefully to your testimony. Do I understand you to assert that you believe you're the person to clean up the FDIC?

Mr. GRUENBERG. I do, Senator.

Senator KENNEDY. Do you also believe that Elvis is alive?

Mr. GRUENBERG. Not to my knowledge, Senator.

Senator KENNEDY. Do you also believe in Bigfoot?

Mr. GRUENBERG. No, sir.

Senator KENNEDY. Have you read this report?

Mr. GRUENBERG. Yes, sir.

Senator KENNEDY. You've been the chairman of the FDIC 10 of the last 13 years, haven't you?

Mr. GRUENBERG. Yes, I have.

Senator KENNEDY. And you've been there for 20 years almost, haven't you?

Mr. GRUENBERG. Nearly, yes, sir.

Senator KENNEDY. And this sleaze has been going on for decades, has it not?

Mr. GRUENBERG. I think the report makes that finding, Senator.

Senator KENNEDY. Did you read the report, the part of the report, where one of your supervisors described one of your young female employees as being, quote, like a grizzly bear with tits, close quote?

Mr. GRUENBERG. I've read the report, Senator.

Senator KENNEDY. Did you read the part of the report where one of your supervisors asked a young female employee, quote, Does your husband eat you? Did you read that?

Mr. GRUENBERG. I have read the report, Senator.

Senator KENNEDY. Did you read the part of the report where one young employee said her supervisor sent her a text? Do you know what the text said? Quote, Get naked, bitch. Did you read that?

Mr. GRUENBERG. Yes, sir.

Senator KENNEDY. Did you read the part of the report where one of your supervisors turned to one of your Hispanic employees and asked him to recite the Pledge of Allegiance to prove that he is an American? Did you read that?

Mr. GRUENBERG. I read it, sir.

Senator KENNEDY. You're not going to be able to clean up the FDIC because you're going to be too busy defending yourself in court.

I'm going to introduce a bill to extend the statute of limitations to allow every employee at the FDIC to file suit over the sexual abuse and the sexual discrimination and this racism. And you're going to be spending all your time in court.

Now, the Cleary Gottlieb report doesn't think you're the person to clean up the FDIC, does it?

Mr. GRUENBERG. I don't know that the report reaches that conclusion, but it certainly has critical comments in regard to me, Senator.

Senator KENNEDY. Well, I mean, the FDIC report says that, it says that, even your senior leaders feel, quote, disrespected, disparaged, and treated unfairly by you. Did I quote that correctly?

Mr. GRUENBERG. Yes, I have read the report, Senator.

Senator KENNEDY. And the Cleary Gottlieb report, it goes on to say that your long tenure and reputation for losing your temper and bullying people, quote, presents unique challenges, close quote, for you to change the agency. Did you read that part?

Mr. GRUENBERG. I have read it, Senator.

Senator KENNEDY. And the Cleary Gottlieb report also says, it questions whether you have the, quote, moral authority to do so. Is that correct?

Mr. GRUENBERG. I have read the report, Senator.

Senator KENNEDY. Yes. You fixing this agency, Mr. Gruenberg, is like asking—it's like asking Alec Baldwin to conduct a course in gun safety. You ought to be ashamed of yourself.

And, Mr. Hsu, you ought to be ashamed of yourself for acting like a lickspittle here today, trying to defend this gentleman.

Have you ever read a worse report, Mr. Gruenberg, in all your years?

Mr. GRUENBERG. It's a bad report, Senator.

Senator KENNEDY. Yeah, it's bad.

Look, I could go through this report. I'm embarrassed to have to even read some of these, some of these allegations.

These folks on the first row behind you, are they FDIC employees?

Mr. GRUENBERG. Some of them are, Senator, yes.

Senator KENNEDY. Would you like to turn around and apologize to the female employees sitting behind you at the FDIC?

Mr. GRUENBERG. I have, Senator.

Senator KENNEDY. Would you like to do that now?

Mr. GRUENBERG. If you ask me to, I will.

Senator KENNEDY. I think you should.

Mr. GRUENBERG. I apologize.

Senator KENNEDY. And now, I think you ought to resign.

I'm done, Mr. Chair.

Chair BROWN. Senator Smith from Minnesota is recognized.

Senator SMITH. Thank you, Mr. Chair.

It's ironic to me that my Republican colleague thinks that Chair Gruenberg can't do his job because he will be in court, when the candidate, his candidate for President, is currently facing multiple indictments and is actually in court.

Chair Gruenberg, you and I have had a conversation about the FDIC. And as I said to you when we last spoke, I believe that it can be your legacy to repair the damage that has been done to employees at the FDIC. And knowing the agency as you do, you have the potential to make the changes that need to be made in this agency for the good of everybody there, and for this agency that I do believe that you care deeply about. And as you have heard, we will all hold you accountable to that.

Mr. Barr, I wanted to direct a question to you, and really to everybody on the panel. And this has to do with what is happening with insurance, home insurance rate surges around the country.

So, homeowners have seen their insurance rates surge in recent years. And why is this happening? It's happening because of bigger, more destructive, and more frequent severe weather events. And this, of course, is the cost of climate change, and it's hitting homeowners hard.

A recent study by LexisNexis found that 97 percent of catastrophic losses to homeowners in 2022 were caused by hail and wind and weather-related events. Now, so you're probably thinking

this is a big problem for States like Florida or Louisiana or South Carolina, and, of course, it is. It is a huge economic problem.

But you may not know that it is a huge issue in the Midwest. From 2016 to 2022, my home State of Minnesota incurred the highest loss cost of any State for severe weather events. And so, what does this mean? It means that insurance companies are not keeping up, and the cost of this rolls down to homeowners in the form of massive rate hikes, high costs to pay for improvements on their properties, or worse case, they just lose their property insurance.

So, my question is, obviously, these spiking costs for property and casualty insurance are an issue for homeowners, but it also seems like it could be a big issue for financial institutions who need to manage this risk. Would you agree with that? And just tell me how you see this issue panning out as a systemic risk?

Mr. BARR. Thank you, Senator. It's an excellent question.

We do look carefully at the way in which the largest banks are managing these kinds of risks. We recently went through an exercise with six of the largest banks to understand their risk measurement and risk management practices.

And one of the things that the banks learned through that process, many of them, is that they did not have complete information about how their properties were covered or not covered——

Senator SMITH. Yes.

Mr. BARR. ——by property and casualty insurance. And that, of course, affects losses to the banking sector. So, it is a really, I think, quite critical issue.

Senator SMITH. The prospect of trillions of dollars of properties becoming uninsurable because of this risk seems to me to be something of significant concern. And I think it's very important that, as regulators, you look at this issue and you think clearly about what that might mean in terms of a systemic risk.

I also want to ask you about the Community Reinvestment Act. You know that this is something that I've been paying a lot of attention to. I care a lot about this. I think that the recently finalized updates to the CRA were important and long overdue.

And so, I am dismayed, of course, that the rulemaking has been struck down by this activist judge in a case where I think plaintiffs were clearly shopping for a friendly judge. I'm not asking you to comment on that and I understand, with pending litigation, you can't comment on that. But I wonder if you could maybe clarify a few things about the rulemaking itself.

First, it is true that this was the first update to CRA regulations in about 29 years, is that right?

Mr. BARR. That's correct.

Senator SMITH. And since the first, since those old rules, there have been many significant changes in banking, correct? I mean, a big shift to mobile and online banking is just one example.

Mr. BARR. Yes, Senator.

Senator SMITH. And these new rules take into account how remote lending works, is that correct?

Mr. BARR. Yes, the rule does do that.

Senator SMITH. And is it also true that these new rules are not, they are not overly inclusive? So, for example, they don't pull in community banks that still largely operate locally?

Mr. BARR. Well, the particular provision with respect to outside lending areas applies to large banks that don't have large branch bases.

Senator SMITH. Right.

Mr. BARR. So, they're doing a lot of remote lending.

Senator SMITH. Right. Thank you.

I think that it is just important that we understand that a very thoughtful, in my view, and tailored approach has been taken with these CRA rules that reflects the realities of banking today, and I hope that they will be allowed to go into effect.

Thank you, Mr. Chair.

Chair BROWN. Thank you, Senator Smith.

Senator Hagerty of Tennessee is recognized.

I will give you five extra seconds, Senator Hagerty.

Senator HAGERTY. Vice Chairman Barr, I understand that last week you spoke to graduates of American University. And I would like to call up part of your remarks for the group today.

Quote: When things go wrong, it's your responsibility. It's not somebody on your team's fault. Having the ability to not point a finger at other people, and to point it at yourself, and understand that you are accountable and responsible is an important part of being a leader.

Does that advice extend beyond college graduates to leaders of Federal agencies?

Mr. BARR. Yes, Senator.

Senator HAGERTY. I agree. I agree. And when a leader's team or agency is fundamentally broken, serious decisions have to be taken—decisions that will provide a stark test of what leadership really is.

So, Chair Gruenberg, I'd like to turn to you to talk about accountability and leadership.

During the independent investigation of your agency, roughly, 1 in 10 FDIC employees reported, quote, experiences of sexual harassment, discrimination, and other interpersonal misconduct. Just the sheer volume of complaints demonstrates serious managerial issues. A workplace culture like this doesn't evolve overnight. This is shaped by years of senior management.

The report even says—and I quote—culture starts at the top. Well, you've been at the FDIC for nearly 20 years. Ten of the past 13 years, you've led the agency.

So, my question is this: if the FDIC's culture is the problem, and you've established this culture for nearly two decades, how could you possibly be the most capable person to fix this rot?

Mr. GRUENBERG. Senator, I have indicated that I take full responsibility. I've also indicated that one of my failures was not recognizing the deep-seated cultural challenge the agency has previously.

Since last December——

Senator HAGERTY. Previously? You've been there for 20 years. I don't know how you could not recognize it.

Mr. GRUENBERG. Since last December when these reports came forward, we have devoted all the resources of the agency in an agencywide effort to address them. The third-party report that was released last week was the result of my direction to have an inde-

pendent third-party review look at the agency as a whole, both Washington and the regions, to try to develop an in-depth understanding of the nature of the challenges the agency has——

Senator HAGERTY. Well, let's get beyond the reports and understanding. Just yesterday—I'm very concerned about this—a report emerged that contains a statement from FDIC employees that very clearly says—and these are employees across the political spectrum—they don't believe current leadership can affect the necessary changes. They even left it unsigned because they're afraid of reprisal. That's precisely one of the issues, one of the deep cultural issues, that we're trying to address here.

Leadership is necessary to do it. They don't believe you can provide it. You know, this is just extraordinarily hard for, I think, all of us to understand.

I want to ask you a different question. If you were to resign your role, who would take your place?

Mr. GRUENBERG. I think, under the statute, the Vice Chairman would become Acting Chairman.

Senator HAGERTY. Is the Vice Chairman a Republican?

Mr. GRUENBERG. I believe so, Senator.

Senator HAGERTY. So, I think now we're getting to the very core of what's happening here. This is what's going on. Just yesterday, in a House hearing, Representative Pressley from Massachusetts said the quiet part out loud. She said that, if you were to resign, it would, quote, jeopardize critical regulations pending finalization at this agency. Just let that sink in.

The need for immediate leadership change here is so obvious. The independent report here is beyond disturbing. It describes abuse, discrimination based on race and sex, uncontrolled anger and retaliation. It even reports instances of sexual harassment and rape that occurred at the so-called FDIC hotel across the river in Virginia.

It's truly remarkable that anybody on this Committee would be willing to ignore this report and what it so obviously requires—all for a few regulations in the Federal Reserve. Does the Me Too movement now have an exception for technical regulations?

Chair Gruenberg, is saving your job more important than protecting the staff and the integrity of the agency that you lead?

Mr. GRUENBERG. Senator, I have no higher priority than addressing these issues and protecting the employees of the FDIC.

Senator HAGERTY. They don't believe you can do it.

Mr. GRUENBERG. We've been working——

Senator HAGERTY. I don't believe you can do it.

Mr. GRUENBERG. I believe we can. We have been working on it and it has been an agencywide effort.

Senator HAGERTY. This is the most damning report I have ever seen. And I can't believe there's a willingness of anybody on this Committee to brush this under the table just to get a regulatory agenda to pass.

Thank you, Mr. Chairman.

Chair BROWN. Senator Butler of California is recognized.

Senator BUTLER. Thank you, Mr. Chairman, for holding today's hearing.

And thank you to all of our witnesses.

First, I do want to note and appreciate, Chair Gruenberg, the number of conversations that you and I have been able to have. And I want to state again that the findings of this report are deeply disturbing and unacceptable.

Now, as has been noted from everyone on the dais today, these are cultural challenges and experiences that have been happening for decades across multiple Administrations—Republicans and Democrat.

The examples that have been provided in the appendix to the Gottlieb report are truly jaw-dropping. Women, people of color, the LGBTQ employees, among others, have been harassed, have been abused—all during their employment.

You've heard from my colleagues that we're expecting more from you, and we expect that you will doing the work and taking the steps to right the ship and to restore the credibility of the agency.

I also expect that my colleagues from both sides of the aisle will be consistent in their commitment to investigating and holding perpetrators to account, perpetrators of sexual harassment to account, and abuse, whether they serve at the FDIC or they seek to occupy the Oval Office.

It's been interesting and a bit perplexing to listen to my colleagues mention the notion of double-standards, but also experience how they have not, and will not, call out the behavior of the former President, who not only is in court today, but finds himself having already been found liable for sexual assault.

It simply cannot be that this behavior is disgusting and unacceptable for a manager at the FDIC, but it's wilfully ignored, and therefore, excused for a person who hopes to actually be the next President of the United States. What incredible hypocrisy.

I do have a question for you, Chair Gruenberg, on the report. As I noted, one of the many tragic elements of this situation is that I fear it sets us back in the progress that we've made to bring more women and people of color into senior roles in banking and financial services.

What are your specific efforts, as a part of the action plan, that speak to those women and people of color and members of the LGBTQ+ community that the FDIC is a safe place for them to work?

Mr. GRUENBERG. Thank you, Senator. That's a crucially important question from my standpoint.

As part of our action plan, as you may know, we have a task force of female leaders at the FDIC developing a strategy for strengthening our recruitment efforts, specifically, for women and employees of color. They have been working diligently on that. It's a supplement to our existing efforts, and we've had extensive recruitment efforts. It's been a priority of mine since I've been at the FDIC to expand diversity and inclusion at the FDIC, and it's a core objective of our action plan.

Senator BUTLER. Thank you for that.

I have noted to you in our previous conversations that, in my opinion and experience, plans are only valuable when they make their way off the shelf. And the oversight that is required, I would expect that we would hear from you, the monitor, and other independent oversight agents that you are employing as a part of the

report, to be reporting back to this Committee, whether formally at the table or in writing, much more frequently, as the implementation moves forward.

Mr. Barr, I would like to offer a question, moving from my responsibility as a national representative here to truly focusing on the people of California.

When the Silicon Valley Bank failed in March of 2023, millions of dollars in loans for community projects, including affordable housing projects across California, were jeopardized. After purchasing SVB, First Citizens Bank committed to expanding its community support in California, including the provision of community reinvestment grants for an affordable home mortgage subsidy program.

Can you talk about how the Fed has been working with the San Francisco branch to ensure that those supervisory failures are actually moving forward in your way as oversight to ensure that those commitments to those affordable housing projects are being followed through?

Mr. BARR. Thank you.

We are taking several steps to improve supervision across the Federal Reserve, including making sure that our risk profile feeds into the way in which institutions are supervised. So that, as institutions grow in size and complexity, they are supervised more intently. We are working on our escalation framework to ensure that matters are escalated promptly and that banks and supervisors take action quickly when that happens.

So, these are the kinds of measures that we're undertaking to make sure that supervision is improved in the future.

Senator BUTLER. Thank you.

Chair BROWN. Thanks, Senator Butler.

Senator Vance from Ohio.

Senator VANCE. Thank you, Mr. Chair, for hosting the hearing.

And thanks to the three witnesses for being here.

I know that most of my colleagues have focused their attention on the report. There's some pretty troubling—pretty troubling—personnel management over at the FDIC, from sexual harassment on down. And I share their concerns.

And what I want to focus on today is whether some of the problems that have been identified at the FDIC, Chair Gruenberg, actually make it harder for the FDIC to do its very important job in our financial system.

And to pick a particular hobby horse, something I've been focused on, as you know in our private conversations and in our public conversations, we have a massive, massive problem and a divergence in public information/public reporting on the failure of First Republic and how it was sold to JPMorgan. And unfortunately, we also have a troubling lack of forthrightness from your agency about some of the underlying justifications for why JPMorgan was allowed to purchase First Republic instead of some of the regional banks that were interested in purchasing it, or instead of another option, more specifically, liquidation.

So, I want to sort of just drill in on something. So, in public and in some of our conversations, Chair Gruenberg, you have said that the difference between the loss, if First Republic went to JPMorgan

versus a regional bank, the loss spread was $20 billion, is that correct?

Mr. GRUENBERG. That was one estimate, Senator.

Senator VANCE. That's one estimate. Other estimates that have been out there have the loss ratio or the loss spread at a billion dollars or substantially smaller. And one of the things that I did with Senator Warren, one of the rare acts of bipartisanship on the Banking Committee, is that we sent your office a letter trying to sort of better understand what estimates and what data points went into the least-cost analysis that you used to give or to ensure that JPMorgan was allowed to buy First Republic Bank.

Now, Chair Gruenberg, what was the FDIC's loss estimate for First Republic's single family residential portfolio? Do you remember that?

Mr. GRUENBERG. Not offhand, Senator.

Senator VANCE. OK.

Mr. GRUENBERG. But I would be glad to follow up with you on it.

Senator VANCE. So, happy to jog your memory. So, FDIC staff turned over information that suggested your estimate for the single-family residential portfolio of First Republic, the loss there was $30.3 billion—a massive, obviously, a massive amount of money.

Now, based on information that my staff has uncovered—sometimes with cooperation of the FDIC and sometimes, Chair Gruenberg, with the absence or the opposite of cooperation from the FDIC—we think there's a good amount of evidence that the actual loss in First Republic's single family residential unit was closer to $11 or $12 billion. In fact, a number of the regional banks who made purchase inquiries for First Republic thought it was it was closer to $11 or $12 billion.

So, if you, on the one hand, think that the loss in that one portfolio was $30 billion, and the actual answer was more like $11 or $12 billion, would that lead to a significant difference in how you evaluate the least-cost test?

Mr. GRUENBERG. It might, Senator. I don't know offhand the basis for the two estimates. We'd, obviously, have to evaluate that.

Senator VANCE. So, one thing I just sort of want to drill down on is your estimate for the loss from liquidation was $16.2 billion and JPMorgan's was—the JPMorgan acquisition was $13.6 billion. Now, that's a difference of less than $3 billion. But if you assume that the loss in the residential portfolio was $11 billion, or even $15 billion, instead of $30 billion, the least-cost test would have led you to liquidation.

And here's the thing that I worry most about: so, Chair Gruenberg, why haven't you responded? Why hasn't the FDIC, why hasn't your staff, responded to so many of the inquiries that we've made?

Some of the information that I just read back to you is based on conversations with your staff. Some of it is based on conversations with banks or with other offices or with other financial regulators—because the FDIC won't actually answer our questions.

And to sort of make this point more specifically, I worry that the culture you've created at the FDIC makes people terrified to answer honestly, and if they're not answering honestly, it's impossible

for us to do our job of overseeing the regulation you guys do in the financial sector.

So, a very basic question: why haven't you guys been more forthright in some of the questions? Are you just ignoring us? Are you just waiting for more time?

Because this is important. I would actually like to know what happened, and I can't figure out what happened because your agency won't give me the answers.

Mr. GRUENBERG. I appreciate the question, Senator.

I believe, as you've indicated, we've had exchanges. I believe we've tried to respond in writing to the questions you've raised. If they haven't been satisfactory, I'm sorry. We're prepared to engage with you and your staff further, if that would be helpful.

Senator VANCE. Certainly, and I would appreciate that.

But, just to recap here, Mr. Chairman—and I know I'm over my time, so give me, if you would, just a minute here. So, to recap, in March of 2023, you and Treasury Secretary Yellen worked with JPMorgan to inject $30 billion into First Republic in a bid to save the bank. It was in complete failure. A month later, First Republic failed, anyway.

You, then, allowed the concentration in the financial sector by allowing JPMorgan to purchase First Republic, based on a wildly offbase estimate of some of the losses that existed in First Republic. And when our offices actually tried to get information to better understand this, very often, we've been steamrolled.

If that doesn't suggest a problem in the culture at the FDIC, I don't know what does. And I certainly would love to work with your staff on this, Mr. Gruenberg. I just don't know if you share that commitment.

Thank you.

Chair BROWN. Senator Van Hollen of Maryland is recognized.

Senator VAN HOLLEN. Chairman, I am going to defer to Senator Warnock.

Chair BROWN. Senator Warnock of Georgia is recognized.

Senator WARNOCK. Thank you so very much. I appreciate the kindness of Senator Van Hollen.

Thank you, Chair Brown.

Chair Gruenberg, when we spoke last week, I was clear with you that I find this report deeply disturbing regarding the workplace environment at the FDIC, the kind of harassment that employees have experienced there. Among other concerning conclusions, the report details the sexual harassment that happens there; culture that certainly didn't seem to push back hard enough; racial discrimination reported by many FDIC employees.

When we last spoke, you told me that you were unaware of these allegations until *The Wall Street Journal* article was published in November of 2023. I have to say to you that I'm confused by this timeline and how that's possible.

Can you clarify this for me? What aspects of this toxic culture at the FDIC were you unaware of before the article? And what, specifically, did *The Wall Street Journal* shed light on?

Mr. GRUENBERG. Thank you, Senator.

I was certainly aware that the FDIC has processes for employees to make complaints, have them investigated, and disciplinary action result if misconduct has taken place.

What I—and I acknowledged that this was a failure on my part—what I did not recognize was that there was a deep-seated workplace culture at the FDIC underlying this. And prior to those news reports, frankly, I did not recognize that. Those news reports brought that to light.

When those reports came forward, we immediately took action. I requested the third-party review to get a deep-seated understanding of the issue, and that report has just come forward. And we also developed a detailed action plan that we have been working on since last December.

But the deep-seated cultural issues that are really at the base of this, that have really now been discussed in the report, I had not appreciated previously.

Senator WARNOCK. Yes, I agree that it's clearly a cultural issue and it's deep-seated. Not only has this kind of workplace sexual harassment and racial discrimination not been discouraged, but one could well argue, when you consider the response, that it's been encouraged, which is, clearly, concerning—not only to me, but anybody who is looking at this.

From 2015 to 2023, of the 92 harassment complaints made through the FDIC's Anti-Harassment Program, not a single one resulted in removal, reductions in grade or pay, or any discipline more serious than a suspension. Of those 92, just 2 resulted in suspensions and 2 in letters of reprimand.

So, one could argue that this encourages abuse; this encourages harassment, which is a very serious issue. So, the FDIC, clearly, needs a culture shift to be an effective regulator. This has implications for the important work that we count on you to do.

Reporting following last year's regional banking crisis detailed a brain drain from the FDIC, and your agency even admits that its persistent staffing shortages have harmed its ability to supervise banks. It's not a nice place to work for a lot of folks.

And so, you can't succeed if your employees experience a toxic working environment. So, I will have more oversight questions for you to answer in writing.

Senator WARNOCK. But, as Chair of the FDIC—I'm sorry—the Financial Institutions and Consumer Protection Subcommittee, which has oversight jurisdiction over your agency, I want to ask about accountability going forward.

This report offered multiple recommendations—all of which you've accepted—but I need a commitment from you to provide me and my Subcommittee a written progress report and briefing on these recommendations within the next 90 days.

Mr. GRUENBERG. We would be happy to do that, Senator.

Senator WARNOCK. Thank you so much. I wish we had more time. This is a critical issue, but it's important that we all remain vigilant.

Mr. GRUENBERG. Agree.

Senator WARNOCK. Thank you.

Chair BROWN. Thanks, Senator Warnock.

Senator Britt from Alabama is recognized.

Senator BRITT. Thank you, Mr. Chairman.

Oh, let's get right to it. As a woman, the findings of the FDIC report are particularly disturbing. Hundreds of instances of gender discrimination, unsolicited sexual advances, harassment and assault, and even difficulty being promoted after having children.

Let me repeat that individuals within a United States agency denied opportunities for women because they chose to have a family. One employee recounted being told by her supervisor, You're a mother now. You don't belong in the workplace. That is completely and totally unacceptable.

In the 234-page report, I do want to point out a few things.

In 2013, OPM analysis said, quote, The culture at the FDIC permits discrimination and in-group favoritism in relation to promotions and job assignments.

Mr. Gruenberg, who was the Chair of the FDIC in 2013?

Mr. GRUENBERG. I was, Senator.

Senator BRITT. Yes, sir.

In 2015, a female employee was sent an explicit photo by her supervisor. She didn't report it after being warned, quote, You don't report; you don't say anything, because you end up getting fired. End quote.

Mr. Gruenberg, who was the Chair of the FDIC in 2015?

Mr. GRUENBERG. I was, Senator.

Senator BRITT. In 2017, a report of, quote, a subtle and not so subtle bias against women in the FDIC, particularly women who speak out or dare to ask a question. This woman is going to dare to ask a question.

Mr. Gruenberg, who was the Chair of the FDIC in 2017?

Mr. GRUENBERG. I was, Senator.

Senator BRITT. I could go on, but you get the point.

The FDIC was created to promote confidence in the American financial sector.

Mr. Hsu, do you believe that an agency described as misogynistic, abusive, toxic instils trust and confidence in the American people?

Mr. HSU. All the recommendations——

Senator BRITT. Yeah, yes or no? Does that, if it is described as that—and you have said that you feel like this was an unbiased, nonpolitical report; I have read your words. So, my question to you is: do you believe an agency described as misogynistic, abusive, or toxic instils trust and confidence in the American people?

Mr. HSU. I believe the right, the issues highlighted in——

Senator BRITT. No, the question is: do you think that instills confidence if that's the way something is described? The answer is no. Can you not say, No? Can you say, No? Can you do that?

Mr. HSU. We need——

Senator BRITT. No, no, no. I heard——

Mr. HSU. ——to protect the people of the FDIC.

Senator BRITT. No, I heard you earlier. This is actually really disturbing. I didn't expect to have to go back and forth with you on this. It is an easy answer.

If an agency is described as those things, the answer is it does not instill trust in the American people. It does not create a culture where women feel like they want to work there, can work there,

can succeed—which means there is a competency issue at the FDIC.

That means, when you just heard Senator Warnock talk about the brain drain, the brain drain is because of the culture. What woman would want to go work under these circumstances? The answer is zero.

If we want to create a place where women can thrive, where women in the workforce feel like they can balance having a family and contributing to the greater good, it is an honor to work at any of the places that you all work—and the answer to the question is no.

So, let's try this again, Vice Chair Barr. Do you believe that the agency described as misogynistic, abusive, or toxic instills trust or confidence in the American public?

Mr. BARR. I think the problems in that report are deeply troubling and unacceptable.

Senator BRITT. So, it's no. Do you agree? No?

Mr. BARR. I agree that the agency has deep problems that they need to resolve.

Senator BRITT. That is—this is really frustrating.

Chair Gruenberg, you have been either the Chair, the Acting Chair, or Vice Chair about 15 of the last 18 years, or 18 years maybe, I guess those three things. And then, the 3 years you weren't one of those three things, you were a member of the Board.

Mr. GRUENBERG. Yes, Senator.

Senator BRITT. As the FDIC Chair, FDIC Chairman, your responsibility is the day-to-day management of this organization. As the Vice Chair, it's to advise the Chairman. As the Board, it's to ensure the day-to-day operations of a qualified management.

It is clear that we need wholesale change, and I hope that these people will stop putting your career above the very people that you all serve. You said this is about people; this is about employees.

In order to restore confidence, literally, it starts at the top. We need a change. The American people deserve a change. The FDIC was actually created to give them confidence in the financial system, and we need a wholesale change starting at the top.

Chair BROWN. Senator Warren of Massachusetts is recognized.

Senator WARREN. Thank you, Mr. Chairman.

Everyone deserves a workplace that is free of discrimination and harassment.

Chairman Gruenberg, the Republicans who have called today for your resignation are engaged in a purely political exercise. They want to replace you with Vice Chairman Travis Hill, who is the righthand man to your Republican predecessor, who allowed the culture problems at the agency to fester. Your resignation would do nothing to improve the toxic culture at the FDIC, but it would give Republicans a veto over bank policy.

Culture starts at the top, and it is your responsibility to fix this. So, let me ask, do you commit to implementing all of the recommendations from the action plan and the independent review?

Mr. GRUENBERG. Yes, Senator.

Senator WARREN. We will be watching you to make sure that you keep your word on this.

So, let me turn to the purpose of this hearing. 2023 was the biggest year for bank collapses in our Nation's history. In a span of 2 months, we saw the second-, third-, and fourth-largest bank failures ever.

Each of you has unfinished business needed to strengthen our financial rules and to prevent another crisis.

First, executive compensation. The CEOs of the banks that failed walked away with millions of dollars each—after they ran their banks into the ground.

The FDIC, under Chair Gruenberg's leadership, and the OCC, under Acting Comptroller Hsu, have finally revived a Dodd-Frank rule that would reform CEO pay packages so they do not incentivize excessive risk-taking, but the Fed has not joined in that.

Vice Chair Barr, will the Fed follow the law and join the FDIC and the OCC's proposed rulemaking on incentive-based compensation?

Mr. BARR. We're committed to following the law, to having an implementing rule under Section 956——

Senator WARREN. OK.

Mr. BARR. ——but we have further work to do.

Senator WARREN. Let's get it done. Your statutory deadline passed 13 years ago. So, I hope you do not allow Chair Powell to stop you from following the law.

Second, let's take a look at mergers. Your agencies have allowed the industry to create more too-big-to-fail banks than after.

Acting Comptroller Hsu, the OCC's new proposal on mergers said nothing about how the OCC will evaluate a merger's impact on competition, which kind of misses the point. Will you strengthen your proposal, so that it actually addresses competition the way the FDIC's proposal does?

Mr. HSU. We're working with the FDIC, the Fed, and the DOJ on exactly that, and we will continue to work on that. We're committed to that.

Senator WARREN. Good. You have a job to do. I think it's really important that we get this done.

Vice Chair Barr, the Fed hasn't put out any update on mergers. When can we expect the Fed to follow through on the President's Executive order to strengthen bank merger guidelines?

Mr. BARR. Senator, we're working with the FDIC and the OCC and the Department of Justice on that matter. I don't anticipate us putting out a separate proposal on this. We're working with the other agencies.

Senator WARREN. OK. Tick tock, we've got to get this done.

Finally, bank capital. These giant banks threaten our entire economy when they collapse, but strong capital requirements allow them to better absorb shocks without needing a bailout from the taxpayers. The Fed released a proposal to strengthen capital requirements on the 37 biggest banks, but the bank lobby has launched an unprecedented campaign to weaken it.

Vice Chair Barr, are you still committed to finalizing a strong rule this fall?

Mr. BARR. I am committed to doing that.

Senator WARREN. Good.

Chair Gruenberg, are you committed?

Mr. GRUENBERG. Yes, Senator.

Senator WARREN. And are you committed, Acting Comptroller Hsu?

Mr. HSU. Yes.

Senator WARREN. Good. I'm going to hold each of you accountable for finishing your unfinished business. The American people need you to get this done. Thank you.

Thank you, Mr. Chairman.

Chair BROWN. Senator Daines is recognized from Montana.

Senator DAINES. Chairman, thank you.

On day one of his Administration, President Biden said, and I quote, "If you're ever working with me and I hear you treat another colleague with disrespect, talk down to someone, I promise you I will fire you on the spot—no if or buts." End quote.

It's interesting, given the findings of a recent investigation into the workplace culture at the FDIC, that, Chair Gruenberg, I find you're still sitting here, still with a job, before this Committee.

How do you reconcile what President Biden said with what's been going on at the FDIC and the fact you still hold your job?

Mr. GRUENBERG. As I've indicated, I accept all the findings of the recent report, including in regard to my conduct. I've committed to addressing the issue personally, as well as to having our workforce on a confidential basis regularly give me feedback, as well as engaging an executive coach and any necessary counselling. I'm prepared to take responsibility on my part for the findings of the report.

Senator DAINES. So, how do you resolve your boss here saying, "I promise I'll fire you on the spot."? Let me start, first of all, with, who's been fired so far at the FDIC?

Mr. GRUENBERG. I can tell you, Senator, that this year there have been four employees separated from the agency for misconduct. We have had changes of senior management responsible in this area.

Senator DAINES. Just to make sure I know what separated means, define that.

Mr. GRUENBERG. It means they've either received termination notices from the agency or, before the disciplinary action takes effect, they've resigned or retired, which they're allowed to do under the law.

Senator DAINES. How many have terminated, been terminated?

Mr. GRUENBERG. I would want to get back to you, but it's several of them, but not all of them. I mean, all of them either received termination notices or other disciplinary action. Before that action took place, at least not—some of them voluntarily left the agency.

Senator DAINES. What I find revealing is that some of the same Senate Democrats who have fought, who have sought to stake their political identities on fighting against sexual harassment and discrimination are sitting here today, and frankly, turning a blind eye to the very same abuses that are happening under your leadership at the FDIC. And I think it's another example on full display for the American people of the Biden administration and Senate Democrats talking out of both sides of their mouth.

If President Biden was serious about the pledge that he made on day one, he would have already called for a change in leadership at the FDIC. However, it's clear that the President and his Party would rather ignore these damning findings out of political expediency. Because, without you, Chair Gruenberg, they lose a key figure in their rush to radically expand the regulatory State for little purpose, other than to target politically disfavored entities.

Chairman Gruenberg, as I alluded in my opening remarks, an independent report investigating the workplace culture at the FDIC found the agency you have led longer than any other FDIC Director in history has been plagued—plagued—with sexual harassment, assault, bullying, discrimination, brazen misconduct.

Additionally, according to interviews with FDIC employees, you were described as someone who is incapable of controlling their temper, and subordinates regularly describe interactions with you—and I quote—as being extremely difficult and volatile.

The findings made clear that serious and systemic reforms are desperately needed at the FDIC. Given your long tenure leading the agency, and your clear inability or unwillingness to address these issues, how is it you can sit here and make the case you have the moral authority to continue leading the agency? If we were consistent, if the President were consistent with what he said about firing people on the spot, this issue would have been addressed a long time ago. But how do you have the moral authority to continue leading the agency with the incredible list of behaviors and allegations—brazen?

Mr. GRUENBERG. Senator, we have been engaged since the news stories came out last year in an all-agency effort, engaging employees across the agency in addressing these deeply, deeply troubling issues. We have a comprehensive action plan we're in the process of implementing.

We've accepted all the findings of the new report and committed to implementing all of the recommendations. We've already started that process. We have engaged, as I've indicated, a broad participation in the agency. We are committed to following through, and I think I can provide the leadership to do that.

Senator DAINES. Has the President asked you to resign?

Chair BROWN. Senator——

Senator DAINES. Yes, but just one last question.

Has the President asked you to resign?

Chair BROWN. Senator Van Hollen, you're recognized for 5 minutes.

Senator VAN HOLLEN. Thank you, Mr. Chairman.

Welcome, everybody.

And, Mr. Gruenberg, let me start with you. And I associate myself with all the deep concerns expressed in the findings of the report, including those expressed by Senator Warnock.

I have been listening to your testimony over C–SPAN before I got here. And I think each of us who asks you this question are repeating the question because we want your personal commitment to following through right away in implementing all of the recommendations. And I just want to say I think we are going to be watching like a hawk to make sure that this happens.

So, do I have your personal commitment that you will immediately implement these reforms, so that we can change the culture at the FDIC?

Mr. GRUENBERG. Yes, Senator.

Senator VAN HOLLEN. I think you hear loudly and clearly that that is going to be an absolute requirement going forward.

Vice Chair Barr, I just want to pick up on a couple of questions that some of my colleagues have asked.

And I want to start with the issue of implementation of Dodd-Frank Section 956. As you know, this was required under the bill that passed over a decade ago now. I'm glad to see the NCUA signal their intent to propose this rule. I know the SEC has indicated they're moving forward.

I've not seen any Notice of Proposed Rule from the Fed. Can we get your commitment today that the Fed will quickly begin the process of implementing this law by issuing a Notice of Proposed Rule in short order?

Mr. BARR. Senator, in discussions with my colleagues, it became apparent that, at the Board, we believe we need to conduct some further analysis before deciding what steps to take. We are committed to following the law, to implementing Section 956, but we have further work to do.

Senator VAN HOLLEN. Well, I know you haven't been at the Fed for the duration of this period, but it has been—we're close to two decades. And you agree that this is a requirement of the law, correct?

Mr. BARR. Yes, Senator, I agree it is required by the law and we are committed to following the law.

Senator VAN HOLLEN. And isn't 20 years way too long to be making good on a legal requirement?

Mr. BARR. Yes, in this case, the exact time period is shorter than that, but it is still a very, very long time.

Senator VAN HOLLEN. Yes, right. Yes, as a matter of years here.

I just want to be clear; this is a case where noncompliance with the requirement is a real problem, and a lot of us have lost patience. So, I hope you'll communicate that back to folks on the Board and your colleagues.

Mr. BARR. I will, Senator.

Senator VAN HOLLEN. On the issue—I think Senator Smith raised the issue of the CRA and the fact that, you know, we've seen a lawsuit filed, a lot of forum shopping going on these days.

But could each of you just take a moment to describe the due diligence you each went through in coming up with a rule? Obviously, this rule was way outdated. A lot of changes have occurred in the banking system. And it's also my understanding that you looked at the comments from all the stakeholders before issuing the rule.

So, if you could just emphasize what process you went through and why you think this upgrade was necessary, starting with you, Mr. Barr?

Mr. BARR. Thank you, Senator.

The Community Reinvestment Act has been absolutely critical for helping low- and moderate-income communities all across the United States. And the rule that we finalized really took into ac-

count comments from communities all over the country—from banks of all sizes, from community organizations and civil rights groups.

Staff worked for several years overall on this process really to get that input in advance and to take it during the comment process. And I think the final rule is really a win for everybody. It really will help bring communities along in ways that have been really just essential for the future of our country. So, I think the staff and the agencies did really extraordinary work to make sure that it was a lawful rule and an impactful rule.

Senator VAN HOLLEN. Thank you.

Just very briefly from the other witnesses.

Mr. GRUENBERG. Yes, Senator. After 25 years and all the changes in the banking industry over that period, it was absolutely essential to modernize and strengthen the Community Reinvestment Act to make it relevant to the changing nature of the banking market today. Failure to do that would make CRA increasingly irrelevant to expanding access to credit, investment, and basic financial services to low- and moderate-income communities and communities of color across the United States.

And the process that went into developing that rule was extraordinary. We went through an Advance Notice of Proposed Rulemaking that was developed by the Fed and took public comment, and then, went through a Notice of Proposed Rulemaking, when we, again, took broad comment. There was an extraordinary review done of every comment received, careful consideration in the final rulemaking, and it is a sound, balanced, and strong rule that will really make a difference in low- and moderate-income communities across the country.

Senator VAN HOLLEN. Thank you.

Mr. Hsu.

Mr. HSU. The only thing I would add is that the efforts of staff on this particular rulemaking were extraordinary. I've seen a lot of different efforts, and I think it's fair to say that a lot of thought and deliberation went into that along with all the efforts that both Vice Chair Barr and Chairman Gruenberg mentioned.

Senator VAN HOLLEN. Thank you.

Thank you, Mr. Chairman.

Chair BROWN. Thanks, Senator Van Hollen.

Thank you to our witnesses for joining us today. I look forward to working with you to strengthen our financial system.

For Senators who wish to submit questions for the hearing record, those questions are due 1 week from today, Thursday, the 23rd of May.

To the agencies, please submit responses to questions for the record within 45 days from the day you receive them.

Thank you again for your testimony.

The Committee is adjourned.

[Whereupon, at 12:03 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIR SHERROD BROWN

Today we'll hear testimony from three key financial regulators whose agencies are responsible for protecting our banking system and making sure it serves all Americans.

This hearing comes 1 week after the release of the independent review of sexual harassment and workplace misconduct at the FDIC.

The review made clear that the FDIC has serious, long-running problems.

For far too long, its leaders failed to take action to protect the FDIC's most valuable resource: its workers.

The review details episodes of harassment, discrimination, and other misconduct that no one should ever have to endure, especially in their workplace, and that can never be tolerated. Period.

Chair Gruenberg, you owe workers at the FDIC, this Committee, and the American people clear answers and decisive action.

That includes your plan for restoring the FDIC's culture and regaining the trust of your employees.

The steps you will take to put an end to workplace misconduct, harassment, and discrimination, and to ensure that victims aren't silenced.

And how you will ensure that perpetrators are finally held accountable.

The FDIC cannot fulfill its mission of maintaining stability and public confidence in the Nation's financial system until the issues raised in the independent review are fixed.

Failure is not an option.

Chair Gruenberg, I hope you recognize this moment for what it is—a crisis.

Every FDIC employee—every American—deserves a workplace free of harassment and discrimination.

And the public should be able to have confidence that the people at this agency can focus on their jobs.

When workers face a toxic culture like this, it hurts the agency and its mission. Workers don't speak up when they spot problems if they're afraid of retaliation.

This is not a small, internal issue. It affects the public.

Most Americans don't think much about the FDIC. They shouldn't have to. That's the whole point—for people to have confidence their money is safe in the bank, without ever having to give it any thought.

And that's why the job of this agency is so crucial.

The FDIC prevented the Great Recession from becoming a Great Depression, after the 2008 financial crisis.

The FDIC's action was crucial after the collapse of Silicon Valley Bank and Signature Bank threatened to create a domino effect of bank failures.

We need an effective leader at this agency to ensure its workers can continue to protect Americans' hard-earned money and savings.

Chair Gruenberg, it's up to you to prove to the public and to your employees that you are that leader, and are able to restore confidence in the FDIC.

The management challenges at the FDIC only make it that much harder for the agency to focus on the crucial work it is doing, along with the Federal Reserve and the OCC.

In the last year—since the collapse of SVB and Signature Bank—your agencies have helped make our banking system safer and more resilient.

The FDIC, Federal Reserve, and OCC issued the Basel III Endgame capital proposal to protect Americans from another financial crisis.

We must ensure that the largest banks have enough capital to prevent another taxpayer-funded Wall Street bailout.

That's what these rules do, and they make sure that banks can continue to lend to their communities in good times and in bad.

The proposal also recognizes the systemic importance of large banks, like Silicon Valley Bank, that are not as big as Wall Street megabanks—but can still do real damage to our economy when they fail.

Of course, the industry and its allies on Capitol Hill have trotted out the same old tired—and always well-funded—arguments.

But the reality is that the largest banks have been telling their shareholders and Wall Street analysts that they will be able to handle the capital rules without a problem.

They've bragged about how they have remained wildly profitable, all while comfortably meeting the projected capital levels required under the proposed rule.

And if this all sounds familiar, this Committee hosted the CEOs from the biggest banks last fall and not a single CEO told us they would be unable to meet the capital levels required under the proposal.

That is why it is imperative that your agencies finalize a strong capital rule that protects Americans and doesn't reward Wall Street's whining.

The FDIC and OCC are also working to rein in the risky incentive-based compensation structures that have time and time again brought our banking system to the brink of collapse.

Wall Street firms set up a system that rewards traders for exactly the kind of risky behavior that serves no benefit to the economy and just puts other people's money at risk.

We saw this in 2008—when this model essentially tanked the economy and ruined people's lives.

And we saw it again with the failure of Silicon Valley Bank last year.

This new rule can't go forward without the Federal Reserve joining the process.

The Fed must know what's at stake here. Its own report on Silicon Valley Bank noted how incentive-based compensation encouraged excessive risk-taking that eventually led to the bank's failure.

Mr. Barr, I look forward to seeing the Fed join this effort as soon as possible.

This is also why the Senate must also pass our RECOUP Act, which this Committee passed last year with overwhelming bipartisan support, 21-to-2, to ensure reckless executives who wreck their banks face real accountability.

Finally, we need action to address alarming trends in the banking system.

Over the last several decades, we've lost thousands of banks, while the largest ones have grown to control hundreds of billions or trillions in assets.

A strong merger review process prevents banks from growing dangerously through acquisitions or mergers.

Americans can't afford mergers that pave the way for banks to take out competitors, close branches, and lay off employees.

The OCC and FDIC have begun to review the merger process, and I expect the Federal Reserve to take steps to ensure it has its own robust review process.

Wall Street bankers crashed the economy in 2008. Americans are still paying for it, more than a decade and a half later.

That is why your agencies—and the women and men who work there—remain so important.

It is vital that they are able to do their jobs serving the public, free from fear of harassment and workplace misconduct.

And ultimately you, as leaders, are responsible for what happens at the agencies you lead.

I expect to hear from Chair Gruenberg, specifically, on what you plan to do to make fundamental changes to the FDIC and its culture.

PREPARED STATEMENT OF SENATOR TIM SCOTT

Thank you, Mr. Chairman. And thank you to the witnesses for being here today. There's no greater responsibility that we have as public servants to make sure that we represent the interests of the American people, that we do it well, and that we do it with character and with integrity. No greater responsibility.

That responsibility starts here and now in addressing what your employees, Chairman Gruenberg, describe as a "hostile, abusive, and unprofessional" workplace.

And Chairman Brown, I think we actually need a single hearing solely focused on the concerns that the employees of the FDIC have with the leadership of Chairman Gruenberg.

Because the men and women of the FDIC, working to safeguard our financial security, deserve a healthy workplace.

They deserve to be heard, to be seen. They deserve a safe and equitable workplace. But most of all—they deserve to be treated with respect.

We've all seen the 200-plus pages of the special report. We all saw yesterday morning's grilling across the Capitol. And Marty—you've heard me say this to you directly—you should resign.

Your employees do not have confidence in you. And this is not a single incident. This spans over a decade-plus of your leadership at the FDIC.

So I don't need to get into your failures and the complete lack of management while you've been at the FDIC.

I want to talk about the people, your employees, and what they have done and what they have had to go through.

How, how can you justify allowing supervisors to refer to disabled veterans as "Captain McNasty?"

We're talking about a veteran who lost part of his leg in service to our country. And to work in a hostile work environment, where he is referred to as "Captain McNasty," is just—not just wrong—but disgusting.

To think about the chilling reports that say employees, supervisors "permitted to mock the fact that this employee used a wheelchair." What kind of environment or culture, and how long does it have to go on, before it comes commonplace to make fun, goad veterans who served this Nation at great personal expense.

Or when an employee reported that for a period of 3 years, a senior examiner would "sexualize [her] every time he could," and he behaved similarly with other colleagues and bank employees, including asking to see photos of their daughters and whether or not those daughters were single.

But it's not just your management team, you, yourself, set the example when you were "absolutely irate and attacked" your employee.

Or another FDIC employee stating that they had a meeting with you and "it was awful and felt very personal." That employees are made to cry—as if it's some badge of honor making your employees cry. And people—after person after person wanting to quit.

Others described your conduct as "embarrassing and inappropriate," and one person said "they'll likely be demoted," and if "this is what it takes, they're out."

One thing I learned from running my own business is that if you don't take care of your employees, they can't take care of the customer. And the customers of the FDIC, they are the American people.

Mr. Gruenberg, during your hearing yesterday, you stated that it doesn't matter if you believe that you can change the FDIC's culture—it matters if the employees believe that you can change the FDIC culture.

They don't. Whistleblower after whistleblower. Employee after employee have drawn the same conclusion.

I would like to submit for the record a statement, Mr. Chairman, I'd like to submit for the record a statement from a collection of FDIC whistleblowers expressing their lack of confidence in Mr. Gruenberg's ability to change the toxicity of the agency and their doubt that he is the right man for the job.

Leadership carries with it the responsibility of stewardship. Your sheep are lost, and your fields riddled with weeds.

In 2021, President Biden warned his staff, "If you're ever working with me and I hear you treat another with disrespect . . . I promise I will fire you on the spot."

And he did, he fired the Inspector General, Martin Dickman, of the U.S. Railroad Retirement Board for evidence that he "created a toxic work environment and engaged in abusive treatment, including using crude and inappropriate language like slurs, and belittling employees."

I know I'm out of time.

At the FDIC, and their special report, described you as "harsh," "aggressive," and "interacting with staff in a demeaning and inappropriate manner," "having a temper," and causing employees to feel disrespected, disparaged, and verbally attacked.

I can only conclude with one question, what makes you so different from the inspector general?

Is it politics? Is it the fact that you are a necessary and easy vote for the Biden administration's economic policy agenda? I think the answer is yes.

PREPARED STATEMENT OF MICHAEL BARR

VICE CHAIR FOR SUPERVISION, FEDERAL RESERVE

MAY 16, 2024

Chairman Brown, Ranking Member Scott, and other Members of the Committee, thank you for the opportunity to testify on the Federal Reserve's supervisory and regulatory activities. Accompanying my testimony is the Federal Reserve's semiannual *Supervision and Regulation Report*. Today, I will discuss current conditions in the banking sector, supervisory activities, and some of our recent regulatory proposals.

Banking Conditions

Overall, the banking system remains sound and resilient. Banks continue to report capital and liquidity ratios above minimum regulatory levels. Overall asset quality remains generally sound. Lending continues to grow but has slowed from the rapid pace of 2022, reflecting decreased demand and tighter lending standards.

Capital ratios increased throughout 2023, leaving the system better positioned to weather potential losses, such as those from defaults on loans, or declines in the

fair value of investment securities, which continued to accumulate at some banks this past year.

Liquidity conditions overall are stable. Notably, liquid assets on bank balance sheets remained above their 10-year average throughout 2023, largely the result of a significant buildup in cash positions. Aggregate deposits were generally stable in the second half of 2023 and have been steadily increasing in the first 3 months of 2024, reaching a level not seen since before the stress of March of last year. Additionally, there has been a decrease in the share of uninsured deposits in the system.

However, both supervisors and banks must remain vigilant and ready for expected and unexpected stresses, and presently there are several risks we are monitoring. For example, delinquency rates are rising among certain commercial real estate (CRE) loans, such as those backed by offices, and some consumer loan sectors. CRE delinquencies are now at a 5-year high. Credit card and auto loan delinquencies have been rising. In response to rising delinquencies, banks have increased loan loss provisions. On this basis, combined with their capital positions, the banking sector as a whole should be prepared to absorb loan losses that may materialize and continue fulfilling its vital role providing credit to households and businesses. The Federal Reserve continues to monitor these conditions closely.

The recovery from the acute stress experienced in March of last year is in no small part due to the success of the Bank Term Funding Program (BTFP). This program was established shortly after the failure of Silicon Valley Bank (SVB) to help assure the stability of the banking system and to support the economy. The BTFP helped to alleviate liquidity pressures, particularly for banks that had experienced significant declines in the value of securities. The BTFP ceased making new loans as scheduled in March without any related liquidity stress in the banking system.

Supervision

It has been a little over a year since the sudden failure of SVB and ensuing stress in the banking system—events which prompted questions about how banks manage risks and how we at the Federal Reserve and other agencies supervise that risk-taking. As noted in my testimonies last year, these events highlighted the need to improve the speed, force, and agility of supervision to align better with the risks, size, and complexity of supervised banks, as appropriate.

As the banking system changes, supervision must adapt with it and appropriately account for banks of different sizes and levels of complexity. Risks can materialize quickly and come from various sources, and in March of last year, we saw that these risks can lead to failure more quickly than ever. Therefore, supervisors must take timely action as risks build up; deploy supervisory tools and escalation effectively; account for changes in market, economic, and financial conditions in their examination priorities and supervisory conclusions; and identify new and different patterns of risks. We have been making progress on these goals.

First, we are working to ensure supervision intensifies at the right pace as a bank grows in size and complexity. This involves more frequently assessing the condition, strategy, and risk management of large and complex banking organizations and engaging more frequently with these firms through the supervisory process. Additionally, supervisors are encouraging growing regional banking organizations to enhance their risk capabilities commensurately with their risk profiles so that the transition to higher standards is more of a gradual slope rather than a cliff.

Second, we are modifying supervisory processes so that once issues are identified, they are addressed more quickly by both banks and supervisors. For example, examiners have been conducting additional supervisory activities for firms with large unrealized losses on securities, high CRE exposures, or other material vulnerabilities. Where weaknesses in risk management have been identified, examiners are requiring firms to address these weaknesses promptly and encouraging them to bolster their capital and liquidity positions.

Third, we are finding ways to better incorporate forward-looking analysis into supervision. A forward-looking view supports the goal of identifying and addressing material risks before they become serious issues. Forward-looking risk analysis also may help to challenge supervisory assessments and foster meaningful action where risks are underappreciated.

Regulation

The lessons learned from SVB are not only applicable to our supervisory framework.

Certain aspects of the failure showed that enhancements to our regulatory framework would benefit the safety and soundness of our banking system.

Long-Term Debt

One of these enhancements was already in process several months before SVB's failure through an advance Notice of Proposed Rulemaking—expanding the application of long-term debt requirements to additional large banks. Subsequently, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (collectively, the agencies) followed up with a proposed rule calibrated to reflect the lower risk profiles of such banks as compared to the largest and most complex. The proposal would increase the options available within the resolution process and enhance financial stability. Losses to the Deposit Insurance Fund related to the bank failures last year could have been mitigated in part by the proposed requirements. We are going through comments we received on this proposal carefully.

Liquidity

Another important area is liquidity risk management. A striking feature of last year's bank stress was that SVB, Signature Bank, and First Republic struggled to cope with unprecedented deposit outflows arising from a loss of confidence by their uninsured depositors. Other banks that experienced spillovers during this period struggled with insufficiently robust liquidity risk management. Banks found it difficult to monetize their held-to-maturity securities through repo transactions under severe stress and were not adequately prepared to utilize the Federal Reserve's discount window. Additionally, the stress revealed that some forms of deposits—such as those from venture capital firms, high-net-worth individuals, crypto firms, and others—may be more prone to faster runs than previously assumed. We are exploring targeted adjustments to our regulatory framework that would address each of these concerns: deposit outflows, held-to-maturity monetization, and discount window preparedness.

Discount Window Operations

Discount window preparedness is essential. The Federal Reserve's lending to banks through the discount window plays an important role in supporting the liquidity and stability of the banking system and the effective implementation of monetary policy. By providing ready access to funding, the discount window helps depository institutions manage their liquidity risks.

Providing liquidity in this way is one of the original purposes of the Federal Reserve System. It is important that we continue to work to improve this tool. To that end, we are reaching out to a wide range of depository institutions of all sizes to learn from their experiences with the discount window. From this outreach, we will identify and prioritize changes to operations that can improve the efficacy of our liquidity provision.

Capital

A safe and sound banking system is critical to a healthy economy, and capital is foundational to safety and soundness. Well-capitalized banks have more capacity to support the economy by continuing to lend to households and businesses through stressful conditions. A well-capitalized banking system reduces the probability that stressful conditions result in financial crises, which inflict devastating economic costs and suffering for families and businesses all across the country. Strong capital also reduces the risk that the Government would need to intervene in unusual and exigent circumstances.

This brings me to the agencies' proposal to enhance capital requirements. Since my last testimony, we have received numerous and meaningful comments on the proposal. We also received additional data from a special data collection. We are closely analyzing this information, and I expect we will have a set of broad, material changes to the proposal that allow us to have a broad consensus in moving the proposal forward. The changes will enable us to have a safer financial system that better serves American households and businesses.

Thank you. I am happy to take your questions.

PREPARED STATEMENT OF MARTIN J. GRUENBERG

CHAIR, FEDERAL DEPOSIT INSURANCE CORPORATION

MAY 16, 2024

Chairman Brown, Ranking Member Scott, and Members of the Committee, I am pleased to appear at today's hearing on "Oversight of U.S. Financial Regulators: Accountability and Financial Stability". I appreciate the opportunity to report on the Federal Deposit Insurance Corporation's (FDIC) recent work in protecting insured

deposits, supervising State-chartered banks that are not members of the Federal Reserve system for safety and soundness and consumer protection, and in resolving failed insured depository institutions (IDIs).

My statement reports on the state of the banking industry and the condition of the FDIC's Deposit Insurance Fund (DIF). The testimony provides an update on FDIC resolution activities and discusses the release of a paper reaffirming the FDIC's preparedness to apply the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) Title II [1] framework in the resolution of a global systemically important bank (GSIB). In addition, I discuss improvements in regulation and bank supervision that could help prevent bank failures like those that occurred in the spring of 2023 or mitigate their impact in the future, such as initiatives to improve banks' management of liquidity and funding risks and a rulemaking to strengthen corporate governance at larger banks.

My testimony discusses other important regulatory activities at the FDIC, including an update on the Basel III Notice of Proposed Rulemaking, the release of an FDIC request for information and comment on revisions to the FDIC's Statement of Policy on Bank Merger Transactions, and steps taken to initiate a joint rulemaking on incentive-based compensation.

First and foremost, my testimony will discuss my top priority, addressing workplace culture issues at the FDIC.

FDIC Workplace Culture

I am deeply committed to the FDIC and its mission, as well as to the people on whom that mission depends. I love this agency, and its people must be protected.

That is why, when news reports of harassment, discrimination, and other misconduct first surfaced last year, it was essential to gain a deeper understanding of the agency's workplace culture. At my direction, the FDIC initiated an independent, third-party review to determine the depth and extent of these issues. Last week, the results of that review, which was conducted by the law firm of Cleary Gottlieb, were released. [2] The review found that for an extended period of time, the FDIC has failed to provide a workplace safe from sexual harassment, discrimination, and other personal misconduct.

I accept the findings of the report and, as Chairman, I take full responsibility. To anyone who has experienced sexual harassment or other misconduct at the FDIC, I again want to apologize and express how deeply sorry I am. I also acknowledge my own failures as Chairman, both in failing to recognize how my temperament in meetings impacted others and for not having identified deeper cultural issues at the FDIC sooner. I am personally committed to addressing these issues. We accept all of the recommendations of this report and are incorporating them into our existing Action Plan for a Safe, Fair, and Inclusive Work Environment. [3]

To restore credibility with our workforce, we must act swiftly on the report's recommendations and demonstrate a commitment to making fundamental change. For this reason, we have already begun implementing several key recommendations.

The report recommends that we identify and appoint a transformation monitor who will monitor, audit, and report on our implementation of the recommendations. We have already begun that process and will issue a Request for Proposals for this purpose as early as this week.

The report also recommends that we engage an independent third-party expert to support our efforts. We have begun that process and will also issue a Request for Proposals for this purpose as early as this week.

The report recommends fundamental change to the agency's structure and procedures for receiving and investigating complaints, and taking disciplinary action against misconduct in light of the failures of the existing offices delegated those duties. We will do this by proposing the establishment of an independent Office of Professional Conduct, which will report directly to the FDIC Board of Directors. It will be charged with fulfilling these responsibilities, including through the use of outside third-parties to conduct investigations. The transformation monitor and independent third-party expert will advise us on this proposal.

Since December, the FDIC has been focused on implementing its Action Plan to address all aspects of the issues raised in the news reports. The Action Plan represents an agencywide effort, with participation by employees at all levels.

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[1] 12 U.S.C. §§5381, et seq.

[2] See PR-35-2024, "FDIC Special Review Committee Releases Independent Report on Workplace Misconduct and Culture" (May 7, 2024) available at *https://www.fdic.gov/news/press-releases/fdic-special-review-committee-releases-independent-report-workplace-misconduct.*

[3] See "Action Plan for a Safe, Fair, and Inclusive Work Environment" (Updated December 4, 2023), available at: *https://www.fdic.gov/about/diversity/pdf/action-plan-12-4-23-v1.pdf.*

Many of the recommendations outlined in the report are already encompassed by the agency's Action Plan, and in some instances, our Action Plan goes beyond the recommendations in the report. The Action Plan is focused around three core elements—providing more support and resources to victims, strengthening our process for reporting and investigating complaints, and improving accountability for anyone who is found to engage in misconduct, including through separation from the agency. The proposal to establish an independent Office of Professional Conduct would advance all of these goals.

It is my privilege to lead and work alongside everyone at the FDIC. Our employees are extraordinarily dedicated to the agency and its mission. The work they do day-in and day-out is critical to maintaining stability and confidence in our banking system, whether by strengthening the safety and soundness and resolvability of U.S. financial institutions, responding to the bank failures of last year, or through financial literacy and inclusion efforts. They deserve to have a workplace where all feel safe, valued, and respected. There is no higher priority for me than delivering on that commitment.

State of the Banking Industry

The banking industry has shown resilience after a period of liquidity stress in early 2023. Full-year 2023 net income remained well above levels reported before the pandemic, overall asset quality metrics were favorable, and the industry's liquidity was stable as of the end of 2023. However, banks reported lower net interest margins and higher funding pressures. Some loan portfolios, such as credit cards, auto loans, and non-owner-occupied commercial real estate loans, are exhibiting increasing delinquency and charge-off rates. Although unrealized losses on securities declined in the fourth quarter, they remain elevated compared to historical levels. While the FDIC Quarterly Banking Profile data will not be available until later this month, early reports from the first quarter of 2024 indicate that net interest margin pressures continued, and higher market interest rates likely have reduced bank securities values, increasing unrealized losses.

In the fourth quarter of 2023, domestic deposits increased for the first time in seven quarters, driven by growth in time deposits. The industry's insured deposits increased by 0.5 percent. Uninsured deposit growth was masked by one large bank that eliminated a significant amount of intercompany deposits. Excluding that bank from the calculations, the industry increased uninsured deposits in the quarter by $92 billion, or 1.4 percent, and growth was widespread among bank size groups. This would have been the industry's first increase in uninsured deposit levels after seven consecutive quarters of decline.

The banking industry continues to face significant downside risks from the continued effects of inflation, volatility in market interest rates, and geopolitical uncertainty. Moreover, the economic outlook remains uncertain, despite sustained economic growth in 2023 that exceeded expectations. These risks could cause credit quality and profitability to weaken, loan growth to slow, provision expenses to rise, and liquidity to become more constrained. Commercial real estate (CRE) loan portfolios, particularly loans backed by office properties, face challenges when loans mature as demand for office space remains weak and property values continue to soften. The FDIC will continue to closely monitor these risk as well as the broader prevailing trends in the banking industry over the coming year.

Condition of the Deposit Insurance Fund

As of December 31, 2023, the Deposit Insurance Fund (DIF) balance declined to $121.8 billion, down $6.4 billion (5.0 percent) from year-end 2022, primarily resulting from an increase in loss provisions associated with five bank failures during the year.[4] Following the failure of two large banks in March of 2023, the banking industry experienced outflows of total deposits, but also experienced strong insured deposit growth. This growth in insured deposits, coupled with the decline in the DIF balance, resulted in a decline in the reserve ratio of 10 basis points from 1.25 percent as of December 31, 2022, to 1.15 percent as of December 31, 2023.[5]

Philadelphia-based Republic First Bank was closed on April 26, 2024, resulting in an estimated loss of $667 million. This is the only bank to fail so far in 2024 and is not reflected in the DIF balance stated as of December 31, 2023. A total of

[4] The decline in the DIF balance does not include the cost of protecting uninsured depositors pursuant to the systemic risk determination announced following the failures of Silicon Valley Bank and Signature Bank in March 2023, as the FDIC is required by statute to recover those losses through special assessments. See 12 U.S.C. 1823(c)(4)(G)(ii).

[5] The reserve ratio is calculated as the ratio of the net worth of the DIF (fund balance) to the value of the aggregate estimated insured deposits at the end of a given quarter. See 12 U.S.C. 1813(y)(3).

five banks failed in 2023, resulting in a combined estimated loss at December 31, 2023, of $40.4 billion.[6] As of December 31, 2023, the FDIC estimated the cost for the failures of Silicon Valley Bank (SVB) and Signature Bank to total $23.6 billion. Of that estimated total cost, the FDIC estimates that approximately $20.4 billion was attributable to the cost of covering uninsured depositors as a result of the systemic risk determination made on March 12, 2023, following the closures of SVB and Signature Bank. By statute, that estimated $20.4 billion cost of covering uninsured depositors must be recovered through a special assessment, which was finalized in November 2023.[7] Accordingly, the impact on the DIF from the five bank failures in 2023 is estimated as a loss of $20 billion as of December 31, 2023,[8] which excludes the cost of protecting uninsured depositors as a result of the systemic risk determination. It should be noted that as with all failed bank losses, loss estimates are periodically adjusted as the FDIC, as receiver of the failed banks, sells assets, satisfies liabilities, and incurs receivership expenses. The final cost will be determined when the FDIC terminates the receiverships.

As required by the Federal Deposit Insurance Act (FDI Act),[9] the FDIC has been operating under a restoration plan since September 15, 2020,[10] which aims to restore the DIF to the statutory minimum reserve ratio of 1.35 percent within 8 years. Notwithstanding the growth in insured deposits and recent losses due to bank failures, including the April 2024 failure of Republic First Bank, the DIF remains on track to meet the statutory minimum reserve ratio of 1.35 percent by the 8-year deadline of September 30, 2028.[11]

Bank Receiverships

Republic First Bank

On April 26, 2024, Republic First Bank (doing business as Republic Bank), Philadelphia, Pennsylvania, was closed by the Pennsylvania Department of Banking and Securities, which appointed the FDIC as receiver. As of January 31, 2024, Republic Bank had approximately $6 billion in total assets and $4 billion in total deposits. To resolve the bank, the FDIC entered into a Purchase and Assumption Agreement with Fulton Bank, National Association of Lancaster, Pennsylvania, to assume substantially all of the deposits and purchase substantially all the assets of Republic Bank.

2023 Regional Bank Receiverships

Since last appearing before the Committee in November 2023, the FDIC, as Receiver, has continued to make progress in managing and selling the assets retained in receiverships of the three regional banks that failed in 2023.[12] The following highlights some significant recent asset transactions.

Silicon Valley Bank

On January 11, 2024, the FDIC, as Receiver, successfully completed a structured sale of a $36 billion purchase money note issued to the receivership by the acquiring institution, as well as a structured sale of approximately $12.4 billion of Ginnie Mae Project Loan Securities to the Federal Financing Bank (FFB), a Government corporation under the general supervision and direction of the Secretary of the Treas-

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[6] Information on all bank failures is available at: *https://www.fdic.gov/resources/resolutions/bank-failures/failed-bank-list/*.

[7] See "Final Rule on Special Assessment Pursuant to Systemic Risk Determination", available at *https://www.govinfo.gov/content/pkg/FR-2023-11-29/pdf/2023-25813.pdf*.

[8] Only the remaining estimated loss from SVB and Signature Bank of $3.2 billion, combined with the estimated losses of the three other banks that failed in 2023, directly impact the December 31, 2023, DIF balance. The three other banks that failed in 2023 include First Republic Bank of San Francisco, CA, at an estimated loss of $16.7 billion, Heartland Tri-State Bank of Elkhart, KS, at an estimated loss of $54.2 million and Citizens Bank of Sac City, IA, at an estimated loss of $14.8 million. Loss estimates are as of December 31, 2023.

[9] Section 7(b)(3)(E) of the Federal Deposit Insurance Act, 12 U.S.C. 1817(b)(3)(E), available at *https://www.fdic.gov/regulations/laws/rules/1000-800.html#fdic1000sec.7b*.

[10] 2020 FDIC Restoration Plan, 85 FR 59306 (Sept. 21, 2020), available at *https://www.fdic.gov/news/board-matters/2020/2020-09-15-notice-dis-a-fr.pdf*.

[11] Section 7(b)(3)(E) of the FDI Act, 12 U.S.C. 1817(b)(3)(E).

[12] On March 20, 2023, the FDIC entered into a purchase and assumption agreement for substantially all deposits and certain loan portfolios of Signature Bridge Bank, National Association, by Flagstar Bank, National Association, Hicksville, NY, a wholly owned subsidiary of New York Community Bancorp, Inc., Westbury, NY. On March 26, 2023, the FDIC entered into a purchase and assumption agreement for all deposits and loans of Silicon Valley Bridge Bank, National Association, by First-Citizens Bank & Trust Company, Raleigh, NC . On May 1, 2023, the FDIC entered into a purchase and assumption agreement with JPMorgan Chase Bank National Association, Columbus, OH, to assume all the deposits and substantially all the assets of First Republic Bank, San Francisco, CA.

ury. These transactions generated approximately $42 billion in net proceeds, which were paid to the DIF, the most senior claimant in the receivership. In brief, the FDIC, as Receiver, retained approximately $90 billion of assets and, as of March 31, 2024, has disposed of approximately $85 billion of assets.

Signature Bank

In December 2023, the FDIC, as Receiver, completed the disposition of approximately $33 billion in commercial real estate (CRE) loans from Signature Bank. This portfolio represents substantially all remaining loans retained in the Signature receivership, which totaled approximately $60 billion at the time Signature failed. The majority of the $33 billion in the CRE loan portfolio is comprised of multifamily properties, primarily located in New York City. A large portion (approximately $15 billion) of the CRE loans are secured by multifamily residences that are rent controlled or rent stabilized (RCRS).

To complete the disposition, the FDIC, as Receiver, conveyed the majority of Signature Bank's CRE loans to joint ventures, three of which included the RCRS loans. The joint venture structure allows the FDIC, as Receiver, to retain a majority ownership interest in the future cash flows of loans contributed to the joint venture. A portion of the equity in each joint venture (between 5 and 20 percent) was widely marketed to banks and nonbank financial institutions through the FDIC's financial advisor, Newmark & Company Real Estate Inc. The winning bidders for each joint venture are responsible for the management, servicing and disposition of loans in the joint venture.

The FDIC, as Receiver, disposed of Signature Bank's CRE portfolio in accordance with its statutory obligations required in the disposition of receivership assets, including the obligations to maximize the net present value return from the sale or disposition of such assets; and, in the case of the RCRS joint ventures, to maximize the preservation of the availability and affordability of residential real property for low-and moderate-income individuals.[13] The winning bidder for the RCRS joint ventures is obligated to facilitate the financial and physical preservation of the underlying collateral, subject to comprehensive monitoring by the FDIC, as Receiver.

In brief, the FDIC, as Receiver, retained approximately $87 billion of assets and, as of March 31, 2024, has disposed of approximately $58 billion of assets.

Resolutions Under Title II of the Dodd-Frank Act

The ability of the FDIC and other regulatory authorities to manage the orderly resolution of large complex financial institutions remains foundational to the stability of the U.S. financial system. While recognizing the progress that has been made toward enabling such a resolution and ending "too big to fail," the FDIC also recognizes that the resolution of a GSIB has not yet been undertaken. When it becomes necessary to do so, carrying out such a resolution will come with a unique set of challenges and risks. However, an orderly resolution is far more preferable to the alternatives, particularly the alternative of resorting to public support to prop-up a failed institution or to bail-out investors and creditors. Last month, the FDIC released a paper entitled, "Overview of Resolution Under Title II of the Dodd-Frank Act",[14] which reaffirms that, should the need arise, the FDIC is prepared to apply the resolution framework that it has worked so hard to develop in cooperation with other domestic and global regulatory authorities. Setting out clear expectations regarding how the FDIC will handle its role in managing failures of systemically important financial institutions is itself a key component supporting the execution of an orderly resolution. The FDIC stands ready to engage with all interested parties to address questions and build further understanding of the FDIC's plans and preparedness for executing our Title II Dodd-Frank Act resolution responsibilities for GSIBs.

Efforts To Strengthen the Regulation and Supervision of Banks

Improving the Management of Liquidity and Funding Risks by Banks

Since the regional bank failures in the spring of 2023, the FDIC has focused on several initiatives to improve liquidity and funding risk management at insured financial institutions. The agency continues to emphasize the importance of sound liquidity risk management practices and robust contingency funding planning for institutions to manage through liquidity stress. Institutions are expected to assess the stability of their funding and maintain a broad range of funding sources that can be accessed during adverse conditions. Contingency funding plans should consider

[13] See 12 U.S.C. §1811(d)(13)(E).

[14] See "Overview of Resolution Under Title II of the Dodd-Frank Act" (April 2024); available at *https://www.fdic.gov/sites/default/files/2024-04/spapr1024b-0.pdf.*

a range of stress scenarios. The FDIC encourages institutions to incorporate the Federal Reserve's discount window as part of their contingency funding arrangements. Effective contingency funding planning encompasses the development of operational capability to use secondary sources, including the discount window, testing these arrangements regularly, and ensuring that collateral is available. Finally, institutions should revise their contingency plans periodically and more frequently as conditions and strategic initiatives change. To underscore and reemphasize these points, the FDIC issued an update to the Interagency Policy Statement on Funding and Liquidity Risk Management in July 2023. [15]

Additionally, the FDIC continues efforts to improve the supervision of interest rate and liquidity risk management, asset growth, and reliance on uninsured and less stable deposits. While the FDIC has regularly monitored uninsured deposit trends across the banking industry, the 2023 bank failures highlight the potential vulnerabilities posed by elevated reliance on uninsured deposits. Across the large regional banks, the FDIC relies on a combination of off-site monitoring and on-site supervisory activities to monitor uninsured deposit concentrations. Since the 2023 bank failures, the FDIC has continued to expand our suite of tools using regulatory reporting data to assess deposit trends across individual banks, develop views of risk posed by uninsured deposits to individual banks, and prioritize supervisory activities. The FDIC has observed many large regional banks reassessing uninsured deposit outflow assumptions used in internal liquidity stress testing informed by the outflow experiences of the bank failures in 2023. Other observations include the establishment by large regional banks of more granular depositor concentration monitoring and efforts to evaluate the impact of social media and new technologies on deposit stability.

Examiner guidance has been updated to be more explicit about analyses of uninsured deposit concentrations and reemphasize to examiners the importance of forward-looking indicators of risk, such as high growth rates and breaches of internal risk limits. The agency also provided examiner training and guidance on interest rate risk and liquidity risk management, including information on discount window operations. [16] The FDIC continues to coordinate with the Federal banking agencies and other financial regulators on liquidity and interest rate risk supervision, training, and policy responses to the stress encountered in the spring of last year.

Strengthening Corporate Governance

The financial crisis of 2008 and the 2023 regional bank failures have taught us that, among other things, IDIs with poor corporate governance and risk management practices are more likely to fail. Reports examining the underlying causes of the 2023 failures noted that poor corporate governance and risk management practices were contributing factors. [17] It is important to note that the failure of an IDI usually imposes costs on the DIF and negatively affects its customers, employees, shareholders, and the public as a whole.

In October 2023, the FDIC published a Notice of Proposed Rulemaking to add a new Appendix C to the FDIC's safety and soundness regulation, 12 CFR 364 (Corporate Governance NPR), [18] to incorporate guidelines on corporate governance and risk management for FDIC-supervised IDIs with consolidated assets of $10 billion

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[15] See "Updated Guidance: Interagency Policy Statement on Funding and Liquidity Risk Management on the Importance of Contingency Funding Plans" (July 28, 2023) available at *https://www.fdic.gov/news/financial-institution-letters/2023/fil23039.html.*

[16] See "FDIC's Supervision of Signature Bank" (April 28, 2023) available at: *https://www.fdic.gov/news/press-releases/2023/pr23033a.pdf* and "FDIC's Supervision of First Republic Bank" (September 8, 2023) available at *https://www.fdic.gov/news/press-releases/2023/pr23073a.pdf.*

[17] The FDIC report on the failure of Signature Bank in 2023 found that the root cause of the failure was poor management without adequate risk management practices and controls. The institution's management did not prioritize good corporate governance practices (FDIC's Supervision of Signature Bank, April 28, 2023, p. 2; available at: *https://www.fdic.gov/sites/default/files/2024-03/pr23033a.pdf.*) The Board of Governors of Federal Reserve System's report on the failure of Silicon Valley Bank also identified governance and risk management deficiencies that led to the failure. (Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank, April 2023, p. 1; available at: *https://www.federalreserve.gov/publications/review-of-the-federal-reserves-supervision-and-regulation-of-silicon-valley-bank.htm.*) Similar findings are contained in the Office of the Inspector General, Board of Governors of the Federal Reserve System, Consumer Financial Protection Bureau's September 25, 2023 Material Loss Review of Silicon Valley Bank; available at: *https://oig.federalreserve.gov/reports/board-material-loss-review-silicon-valley-bank-sep2023.htm.*

[18] 88 FR 70391 (October 11, 2023).

or more.[19] The FDIC accepted public comments through February 9, 2024, and is currently reviewing the comments received.

An effective governance framework is necessary for an IDI to remain profitable, competitive, and resilient through changing economic and market conditions. The FDIC's current safety and soundness standards for FDIC-supervised IDIs, as set forth in Appendix A of the safety and soundness regulation and supervisory guidance on corporate governance and risk management, provide baseline corporate governance and risk management expectations for IDIs of all sizes.

However, the FDIC believes larger, more complex IDIs require more sophisticated and formal corporate governance and risk management structures and practices. The proposed guidelines would clarify the FDIC's longstanding expectation that corporate governance and risk management frameworks need to evolve along with the growth, complexity and changing business models and risk profiles of larger IDIs.

In drafting the Corporate Governance NPR, staff studied both the OCC's and the Federal Reserve Board's rules and guidance, and these Proposed Guidelines are intended to be generally consistent with the goals communicated through the Office of the Comptroller of the Currency's (OCC)[20] and Federal Reserve Board's[21] published issuances in an effort to harmonize corporate governance and risk management requirements for covered institutions that present a higher risk profile with those applicable to entities supervised by the other Federal banking agencies. A notable difference is in the application of the requirements to IDIs over of $10 billion where the other agencies' apply requirements to entities over $50 billion. While the FDIC has long expected that larger banks do need more sophisticated risk management and governance systems and should not wait to develop them, the FDIC is aware and will consider commenters' thoughtful views on this important topic and others before finalizing the guidelines.

The experience of the three large IDI failures last spring demonstrate the need for meaningful action to improve the corporate governance and risk management processes of large IDIs. The governance and risk management standards put forward in this Corporate Governance NPR would be a significant step in that direction.

Basel III Proposal

On September 18, 2023, the FDIC, the OCC and the Federal Reserve published a Notice of Proposed Rulemaking (Basel III NPR) that would revise and strengthen the capital requirements applicable to the largest banking organizations.[22]

The Basel III NPR is a continuation of the Federal banking agencies' efforts to revise the regulatory capital framework for our Nation's largest financial institutions, which were found to be undercapitalized and over-leveraged during the global financial crisis of 2008. Following the 2008 crisis, the Federal banking agencies strengthened the banking system through an initial set of revisions to the capital framework.[23] Those revisions raised the quality and quantity of risk-based capital and included the introduction of an enhanced supplementary leverage ratio for our

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[19] The NPR was issued under the safety and soundness authority provided by Section 39 of the Federal Deposit Insurance Act, which authorizes the FDIC to take formal action if an institution fails to submit and implement, upon FDIC request, an acceptable plan to achieve compliance with safety and soundness standards.

[20] See "OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations", 79 FR 54518 (Sept. 11, 2014), *https://www.federalregister.gov/documents/2014/09/11/2014-21224/occ-guidelines-establishing-heightenedstandards-for-certain-large-insured-national-banksinsured*; OCC, Comptroller's Handbook-Corporate and Risk Governance, *https://www.occ.gov/publications-and-resources/publications/ comptrollers-handbook/files/corporate-riskgovernance/index-corporate-and-riskgovernance.html.*

[21] See 12 CFR 252.22, subpart C-Risk Committee Requirements for Bank Holding Companies With Total Consolidated Assets of $50 Billion or More and Less Than $100 Billion. The Federal Reserve Board initially set the application of risk committee requirements under Regulation YY, among other requirements, for banks with total consolidated assets of $10 billion or more pursuant to Section 165 of the Dodd-Frank Act of 2010. 79 FR 17239, 17248 (Mar. 27, 2014). This threshold was raised from $10 billion to $50 billion pursuant to changes made under the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. 84 FR 59032, 59055 (Nov. 1, 2019). See SR 16-11: Supervisory Guidance for Assessing Risk Management at Supervised Institutions With Total Consolidated Assets Less Than $100 Billion (June 8, 2016; revised and reposted February 17, 2021, p. 3). SR letter 95-51, Rating the Adequacy of Risk Management Processes and Internal Controls at State Member Banks and Bank Holding Companies (Nov. 14, 1995; revised Feb. 26, 2021) remains applicable to State member banks and bank holding companies with $100 billion or more in total assets.

[22] 88 FR 64018 (September 18, 2023).

[23] See, for example, "Regulatory Capital Rules", etc., 78 FR 55340 (September 10, 2013).

largest, most systemic banking organizations. However, there remained areas of the regulatory capital framework that need improvement.

The Basel III NPR would make important changes to address the capital weaknesses identified in the 2008 financial crisis, enhance the resilience and stability of the banking system, and enable the banking system to better serve the U.S. economy. For example, the proposal would address critical areas of the risk-based capital framework related to credit risk, operational risk, market risk, and financial derivative risk. Taken together, these changes would bolster the financial resilience of our Nations' largest banking organizations.

The agencies extended the comment period until January 16, 2024, to allow interested parties additional time to analyze the issues and prepare their comments.[24] The agencies have received over 400 unique comments. The comments have been very helpful in identifying areas of the proposal that may warrant changes in a final rule. For example, concerns have been raised related to the proposed treatment for residential mortgage exposures, certain tax credit equity investments, trading activities, and banking activities that generate large amounts of fee-based revenue. The FDIC continues to consider the comments and engage with our fellow regulators in developing a final rule.

Long-Term Debt and Resolution Planning Proposals

The FDIC, together with the Federal Reserve and the OCC, issued a Notice of Proposed Rulemaking on September 19, 2023, entitled Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions (LTD Proposal).[25] The proposed long-term debt requirement could mitigate resolution challenges encountered in the failure of large regional banks and bolster financial stability. Long-term debt would absorb losses before the depositor class—uninsured depositors and the FDIC—take losses. This would decrease the incentive for uninsured depositors to run. Long-term debt would protect the DIF, helping to make large regional bank resolutions more orderly, and creating additional options for the FDIC in resolution. Long-term debt would make it more likely that a resolution transaction could satisfy the statutory least-cost requirement without the need for a systemic risk exception, whether by a closing weekend sale or the use of a bridge depository institution.

The LTD Proposal's comment period was extended to January 16, 2024.[26] The agencies received 48 comments on the LTD Proposal, which FDIC staff is considering as we work with our colleagues at the Federal Reserve and OCC to finalize this proposal.

In addition to comments received on the LTD proposal, the FDIC is carefully considering comments related to proposed changes to IDI resolution plans,[27] and with the Federal Reserve, the FDIC is carefully considering comments related to proposed guidance for certain firms that submit Title I resolution plans.[28]

Other Regulatory Initiatives

Reviewing the Bank Merger Process

On March 21, 2024, the FDIC Board approved a revised Statement of Policy on Bank Merger Transactions (Proposed Statement of Policy) for publication in the *Federal Register* for a 60-day comment period.[29] [30] The Proposed Statement of Policy would update, strengthen, and clarify the FDIC's policies related to the evaluation of bank merger applications subject to FDIC approval under the Bank Merger

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[24] 88 FR 73770 (October 27, 2023).

[25] 88 FR 64524 (September 19, 2023).

[26] 88 FR 83364 (November 29, 2023).

[27] Resolution Plans Required for Insured Depository Institutions With $100 Billion or More in Total Assets; Informational Filings Required for Insured Depository Institutions With at Least $50 Billion But Less Than $100 Billion in Total Assets, 88 FR 64579 (September 19, 2023).

[28] Guidance for Resolution Plan Submissions of Domestic Triennial Full Filers, 88 FR 64626 (September 19, 2023); and "Guidance for Resolution Plan Submissions of Foreign Triennial Full Filers", 88 FR 64641 (September 18, 2023).

[29] FDIC Press Release "FDIC Seeks Public Comment on Proposed Revisions to Its Statement of Policy on Bank Merger Transactions" (March 21, 2024); available at: *https://www.fdic.gov/news/press-releases/2024/pr24017.html.*

[30] In a separate *Federal Register* notice, the FDIC, as part of its obligations under the Paperwork Reduction Act of 1995, invited comment on the renewal of the existing information collection found in the FDIC Supplement to the Interagency Bank Merger Act application form. 89 FR 17848 (March 12, 2024).

Act (BMA).[31] The Proposed Statement of Policy reflects legislative and other developments that have occurred since the last amendment in 2008, including the establishment of the statutory factor regarding the risk to the stability of the United States banking or financial system. The Proposed Statement of Policy is more principles based; addresses each statutory factor separately; and highlights other relevant matters and considerations, such as related statutes pertaining to interstate mergers, and applications from nonbanks or banks that are not traditional community banks.

The Proposed Statement of Policy reflects consideration of comments received in response to the FDIC's 2022 Request for Information and Comment on Rules, Regulations, Guidance, and Statements of Policy Regarding Bank Merger Transactions (2022 RFI).[32] The 2022 RFI solicited comments regarding the effectiveness of the existing framework of the laws, practices, rules, regulations, guidance, and statements of policy in meeting the statutory requirements of the BMA.

Rulemaking Implementing Section 956 of Dodd-Frank—Preventing Misaligned Incentive-Based Compensation

Section 956 of the Dodd-Frank Act[33] addresses an important lesson from the financial crisis of 2008: poorly designed financial institution compensation programs can provide incentives for short-term risk taking that can jeopardize the safety and soundness of the institution. Misaligned incentive-based compensation for executives continues to play a role in the failure of banks. Material Loss Reviews of the 2023 regional bank failures identified common weaknesses that included an excessive focus on growth and short-term profitability, and a lack of risk metrics in compensation policies and practices that may have encouraged excessive risk taking.[34]

This month, the FDIC took steps to initiate a joint rulemaking implementing Section 956 by approving for publication a notice of proposed rulemaking (Section 956 NPR), as required by statute.[35] Implementation of the section will provide a critical tool to control excessive risk taking by financial institution executives by aligning their compensation with the long-term safety and soundness of their institutions rather than short-term profits.

The Section 956 NPR re-proposes the rule text previously proposed in June 2016,[36] along with proposed alternatives and questions in the preamble. The proposal uses a tiered approach corresponding to the size of the institution.[37] One of the key provisions applicable to larger covered institutions would require deferral of a certain minimum amount of compensation of senior executive officers and other employees who can expose the institution to material levels of risk, known as significant risk-takers. The proposal would also require those deferred amounts to be considered for forfeiture and downward adjustment and clawback, in the event of undue risk taking. Deferral provides an important mechanism to discourage inappropriate risk-taking by allowing time to pass to evaluate the outcomes of risk-taking behavior and to adjust incentive-based compensation accordingly. The FDIC looks forward to reviewing and considering public comments on the Section 956 NPR.

Implementing the CRA Final Rule

On October 24, 2023, the FDIC, together with the Federal Reserve and the OCC, finalized the first comprehensive rewrite of the Community Reinvestment Act (CRA) Regulations in 25 years. The CRA, since its enactment in 1977, has been the foundation of access to credit, investment, and basic banking services on a responsible basis for low- and moderate-income communities and communities of color in the United States. The new CRA rule issued by the Federal banking agencies adapts CRA to the changing nature of the banking business and strengthens its provisions to carry out its critically important public purpose. The FDIC is firmly committed to the support of the rule and believe it is entirely consistent with the statute.

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[31] Section 18(c) of the FDIC Act, 12 U.S.C. §1828(c).

[32] See 87 FR 18740 (March 31, 2022).

[33] Pub. L. No. 111-203, 124 Stat. 1376 (2010).

[34] See, for example, "FDIC Office of Inspector General's Material Loss Review of Signature Bank of New York" (October 23, 2023), available at *https://www.fdicoig.gov/sites/default/files/reports/2023-10/EVAL-24-02.pdf.*

[35] Section 956 of the Dodd-Frank Act requires the FDIC, OCC, Federal Reserve, National Credit Union Administration, Securities Exchange Commission and Federal Housing Finance Agency to jointly issue regulations or guidelines to implement the provision. Once all six agencies have approved the Section 956 NPR, it will be published in the *Federal Register* with a comment period of 60 days following publication.

[36] 81 FR 37670 (June 10, 2016).

[37] "Covered financial institutions" are financial institutions with at least $1 billion in assets. Section 956(e) of the Dodd-Frank Act.

Protecting Consumers From Misrepresentations About Deposit Insurance

To protect consumers from misrepresentations by some crypto companies regarding FDIC insurance, in 2022, the FDIC issued an advisory to FDIC-insured institutions and published consumer educational materials on deposit insurance.[38] In December 2023, the FDIC updated its regulation entitled, Advertisement of Membership, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo.[39] The regulation requires the use of signs that differentiate insured deposits from nondeposit products and that disclose that "nondeposit products" are not insured by the FDIC, are not deposits, and may lose value. Among other changes, the amended regulation now includes crypto assets in the regulatory definition of "nondeposit product."

In connection with crypto-related activities, in 2023 and 2024, the FDIC issued a number of direct letters demanding persons or entities cease and desist from making false or misleading representations about the existence of deposit insurance, misusing the name or logo of the FDIC, or knowingly misrepresenting the extent and manner of deposit insurance.[40]

Eliminating Unnecessary Regulatory Burden—the EGRPRA Process

The FDIC remains keenly aware of the regulatory burden that community banks currently face. In its assessment of regulatory burden in the current environment, the FDIC is cognizant of the importance of balancing safety and soundness and consumer protection regulation with the legitimate business interest of the banks. The FDIC, together with the OCC and the Federal Reserve, initiated the third decennial review under the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA)[41] that requires the agencies to review their regulations to identify those that are outdated, unnecessary, or unduly burdensome and to eliminate such requirements to the extent appropriate.

To facilitate this review, the agencies divided their regulations into 12 categories. On February 6, 2024, the agencies published a solicitation for comment on three categories of regulations: Applications and Reporting, Powers and Activities, and International Operations,[42] asking the public to identify regulations they believe are outdated, unnecessary, or unduly burdensome. The comment period remained open for 90 days and closed on May 6, 2024. Over the next 2 years, the agencies will request comment on the regulations in the remaining categories. In addition, the agencies also plan to hold outreach meetings where interested parties may comment on applicable regulatory requirements directly to the agencies.

At the conclusion of the review, the agencies will publish in the *Federal Register* a summary of the comments received, identifying and discussing the significant issues raised; and submit a report to Congress shortly thereafter. The report will address any significant issues raised by the public, the relative merits of such issues, and whether the agencies have the ability to address regulatory burden through regulation, or whether such burdens must be addressed by legislative action. The FDIC stands ready to address the issues raised during this process in a manner consistent with bank safety and soundness, the protection of consumers, and financial stability.

Enhancing Examiner Resources

In the FDIC Chief Risk Officer's report on the FDIC's supervision of Signature Bank, the Chief Risk Officer identified examiner resources as one of the challenges affecting the timeliness and quality of examinations of Signature Bank. Since the issuance of the Chief Risk Officer Report, to insure adequate examination resources going forward, the FDIC has taken a number of actions. To enhance the attractiveness of dedicated examiner positions, the FDIC elevated several positions and instituted incentive payments for certain key staff. To address the high cost of living in San Francisco, New York, Seattle, and Los Angeles, the FDIC is offering

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[38] See "Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings With Crypto Companies", FIL-35-2022; available at: *https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html*; and "Fact Sheet: What the Public Needs To Know About FDIC Deposit Insurance and Crypto Companies"; available at *https://www.fdic.gov/news/fact-sheets/crypto-fact-sheet-7-28-22.html.*

[39] 12 CFR 328 "Advertisement of Membership, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo".

[40] See, for example, "FDIC's Letter to Organo Payments, Inc." (January 19, 2024): *https://www.fdic.gov/resources/regulations/laws/section-18a4-of-fdi-act/letters/2024-01-19-ogpay.pdf*; and FDIC's Letter to Horizon Globex GmbH (January 19, 2024): *https://www.fdic.gov/resources/regulations/laws/section-18a4-of-fdi-act/letters/2024-01-19-upstream.pdf.*

[41] 12 U.S.C. §3311.

[42] 89 FR 8084 (February 6, 2024).

a payment supplement in those areas. Additionally, to address higher attrition rates among pre-commissioned examiners in 2021 and 2022, the FDIC increased the commissioning payment in return for a 2-year service commitment. Finally, the FDIC is making use of retention payments to retain its retirement-eligible examiner cadre while staffing is bolstered.

These steps are showing positive results, with reduced attrition among pre-commissioned examiners in 2023. The FDIC has also continued to see strong interest among candidates for entry level positions with two of the largest groups of qualified applicants received in the last 6 months. The FDIC continues to bring in a substantial class of examiner candidates each year.

Conclusion

I appreciate the opportunity to appear before you today to report on our efforts to address the workplace culture of the FDIC, create a workplace where every FDIC employees feels safe, valued and respected, and fulfill the FDIC's core mission to maintain stability and public confidence in the U.S. financial system through its responsibilities for deposit insurance, banking supervision, and the orderly resolution of failed banks.

I look forward to answering your questions.

PREPARED STATEMENT OF MICHAEL HSU

ACTING COMPTROLLER, OFFICE OF THE COMPTROLLER OF THE CURRENCY

MAY 16, 2024

Introduction

I am pleased to testify before the Committee on Banking, Housing, and Urban Affairs to provide an update on the activities underway at the Office of the Comptroller of the Currency (OCC) to ensure that national banks and Federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC charters, supervises, and regulates more than 1,000 national banks, Federal savings associations and Federal branches and agencies of foreign banks (collectively "banks"). These institutions range in size from very small community banks to the largest, most globally active banks operating in the United States. The vast majority of these institutions have less than $1 billion in assets, while 55 have greater than $10 billion in assets. Together, OCC-supervised financial institutions hold more than $15 trillion in assets, representing nearly 65 percent of all the assets held in commercial U.S. banks.

My written statement provides an overview of the state of the Federal banking system, an update on the OCC's work to advance the four critical agency priorities that I set forth after becoming Acting Comptroller, and a description of recent key regulatory developments.

State of the Federal Banking system

The overall condition of the Federal banking system is sound. OCC-supervised banks in aggregate continue to have strong levels of regulatory capital and sufficient liquidity buffers, though risks from commercial real estate (CRE) and interest rate exposure warrant attention.

The OCC closely monitors the financial condition of the institutions it supervises and engages directly with them to ensure they are appropriately managing their risks. The OCC's *Semiannual Risk Perspective*[1] highlights the critical elements of credit, market, operational, and compliance risks that banks are expected to manage. The OCC's Bank Supervision Operating Plan for 2024[2] identifies the agency's current examination priorities and highlights asset liability management, credit risk and allowance for credit losses, cybersecurity, operational risk, and consumer compliance risk, among others, as key areas of focus.

Statement Required by 12 U.S.C. §250: The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily present the views of the President.

[1] See "OCC Semiannual Risk Perspective" (Fall 2023).

[2] See "Fiscal Year 2024 Bank Supervision Operating Plan", Office of the Comptroller of the Currency, Committee on Bank Supervision (occ.gov).

Update on Agency Priorities

Guarding Against Complacency

It is critical to build and maintain trust in the Federal banking system that national banks and Federal savings associations guard against complacency. As noted above, key areas banks are expected to manage include capital and liquidity levels and commercial real estate exposures. In recent months, regional and community banks have been particularly vulnerable to risks associated with CRE concentrations and exposures. At the same time, the OCC expects the banks we supervise to remain vigilant and focused on risk management. Banks need to successfully manage traditional risks, such as credit, liquidity, and interest rate risks, as well as prepare for emerging risks and tail risk events.

Another critical area for banks to address is operational resilience, which ensures that banks can adapt to and withstand or recover from disruptions. Both the number of potential disruptions and their possible impact are increasing, and may result from external events like natural disasters, malicious actors, pandemics, or global conflicts, or from weak internal systems, controls, or risk management. These disruptions may impede services, like payments, clearing, and settlement, or adversely impact systems or corrupt data. Ensuring that critical operations and banking services can withstand or recover from disruptive events requires planning, prudent investment, well designed systems, and regular testing. To this end, the Federal banking agencies have been engaged in discussions to consider potential changes to the operational resilience framework.

Promoting Fairness

Ensuring fairness and addressing discrimination in the Federal banking system is an important OCC objective, part of our mission, and critical to safeguarding trust in banks. We remain committed to using all our tools to ensure the institutions we supervise are aware of and comply with their obligations to operate safely, soundly, and fairly.

This April marked the 1-year anniversary of OCC guidance to assist banks in managing the various risks associated with overdraft protection programs.[3] The guidance identified two practices—authorize positive, settle negative and representment—that can result in heightened risk exposure. It also highlighted sound risk management and proconsumer practices that banks can employ to strengthen their overdraft protection programs. Since the beginning of the OCC's heightened attention on overdrafts, the overdraft fees charged by OCC-regulated banks in aggregate have fallen over 40 percent, from $6.5 billion in 2021 to $4 billion in 2023.[4] Current supervisory data continue to show declines in overdraft fees quarter over quarter.[5] Among large banks, many have reduced fees and adopted pro-consumer features, such as grace periods.

Importantly, all OCC-supervised large banks have stopped assessing authorize positive, settle negative fees or insufficient funds fees and most have discontinued collecting sustained overdraft fees. OCC-regulated midsize and community banks have made or are in the process of making various pro-consumer changes to their overdraft protection programs. For example, most have eliminated representment fees or started offering de minimis grace amounts or grace periods. This includes those community banks that derive an outsized amount of revenue from overdrafts. Progress with regard to representment has been more challenging due to the critical role played by the core processors. We understand the largest core processors are taking steps that will allow banks to identify and address representment practices. As those plans develop, we will continue to encourage banks and the core processors to take steps to protect and empower consumers.

I also want to recognize the continued progress of the OCC's Project REACh—or Roundtable for Economic Access and Change—which is focused on removing barriers to financial inclusion. Initiatives targeting credit invisibles have resulted in more than 100,000 new entrants into the mainstream financial system who now have credit scores and access to credit. Investments of more than $500 million in

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[3] See OCC Bulletin 2023-12, "Overdraft Protection Programs: Risk Management Practices", April 26, 2023.

[4] Call report data are available on the Federal Financial Institutions Examination Council (FFIEC) Central Data Repository's Public Data Distribution site. Call report data exclude overdraft-related service charges generated by banks with assets of $1 billion or less as of the reporting quarter, which are not required to report overdraft-related service charges as a separate line item in their call report data. The data also exclude overdraft-related service charges generated by all credit unions.

[5] Banks under $1 billion in assets do not report overdraft fee income on the call report, so the data presented do not include those banks.

Minority Depository Institutions (MDIs) have resulted in increased partnerships, exchange programs, training, and capital. On May 29–30, 2024, the OCC will host the Project REACh Financial Inclusion Summit at our headquarters in Washington, DC, to discuss progress made on several workstreams, as well as to launch new initiatives to increase economic mobility within financially underserved and underresourced communities.

In February, the Federal Financial Institutions Examination Council (FFIEC) released a statement on "Examination Principles Related to Valuation Discrimination and Bias in Residential Lending",[6] which provides principles for the examination of institutions' residential property appraisal and evaluation practices to mitigate risks that may arise due to potential discrimination or bias in those practices and to promote credible valuations. The OCC will consider these principles in the context of consumer compliance and safety and soundness examinations when assessing banks' residential real estate valuation programs.

Adapting to Digitalization

Banks' relationships with third parties, including financial technology (fintech) companies, continue to expand. The use of third parties has significant potential benefits, but poor third-party risk management can hurt consumers, weaken banks, and contribute to an unlevel playing field.

Last year, the OCC and other regulators jointly issued "Interagency Guidance on Third-Party Relationships: Risk Management",[7] to remind banks of their responsibility to operate in a safe and sound manner and in compliance with applicable laws and regulations regardless of whether their activities are performed in-house or outsourced. The guidance also recognizes that not all third-party relationships reflect the same level of risk and thus do not require the same level of risk management.

Effective risk management of third-party relationships is challenging for financial institutions of all sizes, but we recognize that community banks, including MDIs and Community Development Financial Institutions Funds (CDFIs), may need to navigate additional hurdles. Last month, the OCC, Board of Governors of the Federal Reserve System (Federal Reserve), and the Federal Deposit Insurance Corporation (FDIC) sought to address this by publishing "Third-Party Relationships Risk Management: A Guide for Community Banks".[8] This guide provided community banks with examples of innovative approaches to conducting due diligence and assessing new fintech companies.

The OCC expects banks to approach and manage the use of artificial intelligence (AI) consistent with principles of safety, soundness, and fairness. To date, banks have generally approached machine learning prudently across a range of use cases, though we are starting to see a notable increase in the number of generative AI pilots at some of the larger banks we supervise. AI has the potential to enable improvements across a range of domains, but it also has the potential to perpetuate and exacerbate the biases, discrimination, and unfairness that are embedded in the data feeding AI systems. To guard against this, banks need to have appropriate oversight and governance of the models they use. In addition, banks must be attentive to the risk of AI-enabled fraud.

The OCC also has focused on exploring the tokenization of real-world assets and liabilities. In contrast to crypto, tokenization is driven by solving real-world settlement problems and can be developed in a safe, sound, fair, and compliant manner. Earlier this year, the OCC hosted a public symposium on tokenization to discuss developments, explore legal and risk management foundations, and promote public debate. The symposium sparked robust discussion on these issues and highlighted the innovative potential of tokenization.

Managing Climate-Related Financial Risks

Consistent with the OCC's safety and soundness mandate, the agency has continued to be engaged with the large banks it supervises to better understand their climate-related financial risk management capabilities and their efforts to identify, manage and control these risks. In 2023, the OCC initiated discussions with banks with over $100 billion in total assets to understand their climate-related financial risk management programs.

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[6] See FFIEC News Release "FFIEC Issues Statement on Examination Principles Related to Valuation Discrimination and Bias in Residential Lending".

[7] See OCC News Release 2023-53, "Agencies Issue Final Guidance on Third-Party Risk Management".

[8] See OCC News Release 2024-46, "Agencies Issue Guide To Assist Community Banks To Develop and Implement Third-Party Risk Management Practices".

In general, the OCC has observed that large banks have been making progress to incorporate climate-related financial risks into their risk management frameworks and policies. In light of the withdrawal of insurers from higher-risk markets and rising insurance costs, we have recently observed that large banks are considering the impacts of changes in insured limits or deductibles, premium increases, and lack of insurance coverage in credit risk assessments for commercial and residential real estate portfolios in their risk management work. The OCC is committed to open dialogue and constructive engagement with the large banks it supervises around climate-related financial risk management.

Update on Other Regulatory Initiatives

The OCC has been engaged in developing and finalizing several proposals to promote the resiliency, resolvability, and inclusiveness of the Federal banking system.

Revisions to Capital Rules for Large Banks

The OCC remains actively engaged with the Federal Reserve and the FDIC to consider all stakeholder comments received in response to the July 2023 proposal to update the risk-based capital requirements applicable to large banking organizations with significant trading activity. Establishing an appropriate capital framework that adequately captures all of the material risks of these large banks is critically important to the health of the Nation's financial system, and the agencies must get it right. The OCC has welcomed the broad range of thoughtful comments received and continues to approach this rulemaking with an open mind.

Community Reinvestment Act Final Rule

Last October, the Federal banking agencies issued an interagency final rule implementing the Community Reinvestment Act (CRA), which was enacted in 1977, to prevent redlining and to encourage banks and savings associations to help meet the credit needs of all segments of the communities in which they operate, especially low- and moderate-income (LMI) neighborhoods and individuals.

On February 5, 2024, trade groups filed a lawsuit in Federal court against the OCC, FDIC, and Federal Reserve, seeking to block the implementation of the final rule. On March 29, 2024, the presiding district court judge issued a preliminary injunction that currently prevents the Federal banking agencies from enforcing the final rule and extends the effective and applicability dates of the final rule while the injunction is in place. The agencies filed a notice of appeal of this injunction with the U.S. Court of Appeals on April 18, 2024, which is currently pending. At this time, the OCC continues to assess banks' CRA performance under its previous regulatory framework.

Business Combinations Under the Bank Merger Act

The OCC is committed to working with our interagency peers to update our bank merger analytical frameworks, which includes collaboration with the Department of Justice (DOJ) on the competition prong of the Bank Merger Act. This work is ongoing.

In addition, on January 29, 2024, the OCC released a proposal to increase the transparency of the standards that apply to the agency's review of business combinations involving national banks and Federal savings associations. The proposal would amend the OCC's procedures and add a policy statement summarizing the principles the OCC uses when it reviews proposed bank merger transactions under the Bank Merger Act.

To provide greater clarity to financial institutions and transparency to the public, the proposed policy statement would outline general principles the agency uses in its review of applications under the Bank Merger Act and the OCC's consideration of the financial stability, financial and managerial resources and future prospects, and convenience and needs factors. The policy statement would also discuss the criteria informing the OCC's decision on whether to hold a public meeting on an application subject to the Bank Merger Act. We recently extended the comment period on the proposal until June 15, 2024, and we encourage all stakeholders to provide comments.

Incentive Compensation

On May 6, the OCC, FDIC, and the Federal Housing Finance Agency (FHFA) approved a notice of proposed rulemaking (NPR) to fulfill Congress' mandate through the Dodd-Frank Act to address excessive incentive compensation and compensation that could lead to material financial loss. The NPR is based on the proposed rule text issued in 2016, which was supported by six Federal agencies, with a new preamble that acknowledges developments and supervisory learnings and is intended to initiate renewed public dialogue on this topic. While the NPR has not been adopt-

ed by all six agencies to inform a joint rulemaking as required by statute, we are accepting comments on the proposal and look forward to continuing to engage our interagency peers and the public on how we can most effectively curtail problematic incentive compensation practices.

The OCC Supports Community Banks and Minority Depository Institutions

More than 80 percent of the institutions supervised by the OCC are community banks and Federal savings associations. These institutions play a crucial role in providing consumers and small businesses with essential financial services and are a source of credit that is critical to economic growth and job expansion.

We recognize that small institutions face challenges as they work to stay competitive in today's increasingly high-tech financial marketplace. Digitalization has put a premium on online and mobile engagement, customer acquisition, customization, big data, fraud detection, artificial intelligence, machine learning, and cloud management. These activities require expertise and economies of scale that many banks, especially community banks and MDIs, may not have access to. We are also aware of the impact of fraud on community banks and in particular, delays in receiving timely responses to their requests for reimbursements associated with fraudulent returns. The OCC recently initiated a process to receive information from community banks about delays in reimbursements resulting from check fraud so we can determine a supervisory response.

Earlier this year, the OCC, Federal Reserve, and FDIC published the first notice requesting comment on specific regulations pursuant to the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). EGRPRA requires the agencies to review their regulations every 10 years to identify outdated, unnecessary, or unduly burdensome regulations applicable to insured depository institutions. This review will include a series of *Federal Register* notices as well as public meetings inviting stakeholder comments for agency consideration. I look forward to a robust EGRPRA process and support a fulsome review of our regulations with the goal of eliminating unnecessary regulatory burden on community banks.

Conclusion

I am committed to ensuring OCC-supervised banks operate in a safe, sound, and fair manner, meet the credit needs of their communities, treat all customers fairly, and comply with laws and regulations. As we work to ensure that the Federal banking system remains a source of strength to the U.S. economy, we will continue to advance key agency priorities to ensure the Federal banking system is well positioned to respond to community and consumer needs well into the future.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT FROM MICHAEL BARR

Q.1. During the hearing, you responded to me that the joint agencies working on Basel III Endgame were still working on changes to the substance of the rule and that you could not yet say if a re-proposal of the rule would be necessary. Yet, later in the hearing, you indicated to Sen. Warren that a final rule would be published this fall.

Please clarify—are you still considering substantive changes to the proposed rule?

If yes, please explain how you can commit to any timeline for the final rule being published, especially with a timeline of "the fall" placing limits on how quickly a re-proposal could be processed by your agency.

A.1. As I said in my testimony, given the comments we received, I expect we will have a set of broad and material changes to the proposal. We are currently focused on the substance of the proposed rule and, once that work is complete, we will then determine the appropriate process moving forward.

Q.2. On October 20, 2023, the Federal Reserve launched an information gathering effort to conduct a quantitative impact study (QIS) in order to "clarify the estimated effects of the proposal and inform any final rule".[1] Why was a QIS necessary for Basel, but not for any other proposed rules and regulations issued by your agency?

At what threshold do prudential agencies deem a QIS necessary?

Why was a QIS conducted after an NPR, and not as part of an ANPR?

A.2. We included impact analysis in the proposal, and then also asked for and received updated data to better evaluate the capital proposal. Doing so allowed us to gather additional, updated data specific to what was being proposed and further evaluate the proposal's impact. We conducted this additional exercise voluntarily to ensure a thoughtful and transparent approach to this proposal. We are closely analyzing this data and are planning to make it available to the public, with an opportunity for comment.

Q.3. Last October, the Fed took the unprecedented step of issuing principles for climate-related financial risk management. The "principles" function as guidance, instructing financial institutions on how they should be conducting business as it relates to with climate risks. Governor Bowman warned when voting against the guidance, " . . . I am concerned that the guidance could be used by the Federal Reserve and other Federal banking agencies to pursue climate policies leveraging the opacity of the supervisory process."[2]

What safeguards are in place to ensure that this new guidance will not be abused by regulators to push political climate agendas?

A.3. The Federal Reserve neither prohibits nor discourages financial institutions from providing banking services to customers of any specific class or type, as permitted by law or regulation. The

[1] *https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20231024b.htm*
[2] *https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20231024b.htm*

decision regarding whether to make a loan or to open, close, or maintain an account rests with the financial institution, so long as the financial institution complies with applicable laws and regulations. In October 2023, the Federal Reserve, jointly with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, finalized Principles for Climate-Related Financial Risk Management for Large Financial Institutions (the principles) that provide a high-level framework for the safe and sound management of exposures to climate-related financial risks for large financial institutions, those with $100 billion or more in total assets. The principles are squarely focused on prudent and appropriate risk management, reflecting that the Federal Reserve's responsibilities with respect to climate change are narrow and tightly linked to our responsibilities for bank supervision. The Federal Reserve is not—nor do we seek to be—a climate policymaker.

Q.4. According to the Federal Reserve's (Fed) own review of the failure of Silicon Valley Bank (SVB), Fed examination staff failed to identify some risks within the bank, and failed to take appropriate action to address some risks which were identified. Since the failure of SVB, have any members of the examination team assigned to SVB, or other Fed staff been fired for those failures?

What specific actions have been taken to address the failings of those staff and to prevent this failure from reoccurring?

A.4. The Federal Reserve has not dismissed any staff member because of the events leading to the failure of Silicon Valley Bank. We are focused on addressing structural problems in supervision and regulation.

Q.5. The Federal Reserve (Fed) announced in October 2023 that it would undertake a supplemental data collection to better understand the effects of the Basel III Endgame proposal. Subsequently, during a fireside chat on January 9, 2024, Vice Chair Barr indicated that the public would have an opportunity to comment of the results of the Fed's analysis of the data. [3]

Does the Fed intend to reopen the comment period on the Basel III Endgame rule to allow for comments on the data results? If not, how does the Fed plan to provide the public with an opportunity to comment?

What, if any, data does the Fed plan to release as part of the results?

Will independent analysis of the data collected be possible?

A.5. As noted in previously, we included impact analysis in the proposal, and then also asked for and received updated data to better evaluate the capital proposal. Doing so allowed us to gather additional, updated data specific to what was being proposed and further evaluate the proposal's impact. We conducted this additional exercise voluntarily to ensure a thoughtful and transparent approach to this proposal. We are closely analyzing this data and are planning to make it available to the public, with an opportunity for comment.

Given the comments we received on the proposal, I expect we will have a set of broad and material changes to the proposal. We

[3] *https://whfdc.org/events/EventDetails.aspx?id=1812706&group=*

are currently focused on the substance of the proposed rule and, once that work is complete, we will then determine the appropriate process moving forward.

Q.6. On February 15, 2024, the Federal Reserve released for the first time four hypothetical scenarios in addition to its annual stress tests. The Fed contends that these hypothetical scenarios will help provide insight into the resiliency of the U.S. banking system and will not have an impact on bank capital requirements.

Will the results of these scenarios be used by bank examiners in the supervisory process?

Will the results of these scenarios factor into a firm's CAMELs ratings?

A.6. In February 2024, the Federal Reserve Board released the hypothetical scenarios for its annual stress test, which helps ensure that large banks can lend to households and businesses even in a severe recession. Additionally, for the first time, the Board released four hypothetical elements designed to probe different risks through its exploratory analysis of the banking system. The elements of the exploratory analysis will complement the 2024 stress test by providing aggregate banking system results against different economic and financial conditions. The exploratory analysis can inform supervisory analysis and deepen our understanding of the resilience of the banking system. The exploratory analysis will not determine capital requirements or firms' ratings.

Q.7. Given the independent report compiled by Cleary Gottlieb which found that the FDIC is rife with sexism, discrimination, and a toxic workplace, do you believe that Chairman Gruenberg is the right person to lead the agency, even if just for a period of months, during the time when a successor can be named and confirmed?

If similar reports came to light about staff under your leadership at the Federal Reserve, would you resign?

If an identical report was published about a bank under your supervision, would you push to have senior executives removed from power?

If yes, would you require that removal to be immediate?

If no, please explain why you would not push for removal.

What other actions might you take in this situation?

Would this type of report result in a bank's CAMELs rating? If yes, please detail.

A.7. Sexual harassment has no place in our society. At the Federal Reserve Board, we have a zero-tolerance policy for all discriminatory harassment, including sexual harassment. This means that we prohibit all sexual harassment, even if the behavior does not violate the law. We require supervisors and managers to report sexual harassment if they become aware of it and encourage all other employees to report such behavior. We investigate such reports promptly and we discipline employees who violate our zero-tolerance policy. Discipline can—and has—included separating employees who violate our policy.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM MICHAEL BARR

Q.1. Earlier this month, the Federal Reserve released the results from its 2023 pilot scenario analysis, intended to inform regulators and the public as to how America's largest banks "are using climate scenario analysis to explore the resiliency of their business models to climate-related financial risks."[1] Unfortunately, the results revealed deep gaps in six large banks' understanding of the risks posed to them from climate change, including Wells Fargo, Bank of America, and JPMorgan Chase. "For example, participants noted a lack of comprehensive and consistent data related to building characteristics, insurance coverage, and counterparties' plans to manage climate-related risks. In many cases, participants relied on external vendors to fill data and modeling gaps."[2]

Additionally, last month, *Bloomberg* reported significant rifts between American regulators and European Central Bank officials on efforts to tackle climate risk in the global financial system.[3] According to the *Bloomberg* report, "European central bankers have been advocating for the Basel Committee on Banking Supervision (BCBS) to agree on requiring lenders to disclose their strategies for meeting green commitments," but "[i]n closed-door meetings, U.S. officials have" pushed back against these suggestions.[4] These efforts have reportedly been seen by some regulators as an American attempt to "not push for a policy that could accelerate a transition away from fossil fuels."[5]

Please describe your agency's authority and responsibility to combat climate-related financial risks to the financial system.

A.1. Consistent with our statutory mandates, the Federal Reserve's goal is to help ensure supervised institutions are resilient to all material risks, including financial risks related to climate change.

The Federal Reserve is not a climate policymaker and does not prohibit or discourage financial institutions from providing services to law-abiding customers of any specific class or type, as permitted by statute or regulation.

Q.2. Please describe your agency's position on the Basel Committee on Banking Supervision (BCBS) negotiations in the Task Force on Climate-related Financial Risks (TFCR) and provide a list of all meetings related to these negotiations.

A.2. In light of the cross-border nature of climate-related financial risks, the Federal Reserve has been engaging with a wide range of domestic and international stakeholders, including foreign supervisors and international bodies, to better understand the potential impacts of climate-related financial risks on supervised institu-

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[1] Board of Governors of the Federal Reserve System, "Federal Reserve Board Releases Summary of the Exploratory Pilot Climate Scenario Analysis (CSA) Exercise That It Conducted With Six of the Nation's Largest Banks", press release, May 9, 2024, *https://www.federalreserve.gov/newsevents/pressreleases/other20240509a.htm.*

[2] Board of Governors of the Federal Reserve System, "Pilot Scenario Exercise, Summary of Participants' Risk-Management Practices and Estimates", May 2024, *https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf.*

[3] *Bloomberg*, "Fed Blocks Tough Global Climate Rules for Wall Street Banks", Alastair Marsh, April 3, 2024 *https://www.bloomberg.com/news/articles/2024-04-03/fed-blocks-tough-global-climate-risk-rules-for-wall-street-banks.*

[4] Id.

[5] Id.

tions. This includes engagement with the Task Force on Climate-related Financial Risks, which is tasked with undertaking the Basel Committee on Banking Supervision's (BCBS) work on climate-related financial risks.

The BCBS is a consensus-driven organization. As a member, we work with other members to achieve consensus, taking into account that members have different mandates, roles, and financial systems in their respective countries. The Federal Reserve approaches these engagements through the lens of our existing mandates and authorities. We recognize the benefit of engaging with other regulatory agencies, central banks, and international bodies on these issues while accounting for the important differences across jurisdictions and our own domestic mandates.

It is important to note that standards or recommendations agreed to in international organizations are not binding on any jurisdiction or member, including the United States and the Federal Reserve. The Federal Reserve makes decisions about policy on the basis of its own domestic statutory mandates and responsibilities.

Q.3. The BCBS's mandate is to "strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability." Your agency is a member of FSOC, which describes climate change as a systemic risk. Did representatives from your agency express concern that the BCBS was overstepping its mandate with its climate work?

A.3. Please see my response to Question 2.

Q.4. Did representatives from your agency advocate to remove the word "guidance" from TFCR's climate transition plans?

A.4. Please see my response to Question 2.

Q.5. Did representatives from your agency advocate to stop work on Pillar I and implementation monitoring for the BCBS principles for effective management and supervision of climate-related financial risks?

A.5. Please see my response to Question 2.

Q.6. Did representatives from your agency advocate to remove financed emissions from the proposed disclosure framework for banks and advocate for key disclosure standards to be discretionary?

A.6. Please see my response to Question 2.

Q.7. Why did the United States decline to contribute to the BCBS's analysis on incorporating climate risk into credit-risk assessments? Why should U.S.-based Globally Systemic Important Banks be exempt from Globally Systemic Important analyses?

A.7. Please see my response to Question 2.

Q.8. How do you plan to monitor banks' improvements in climate-related financial risk management in light of the Fed's recent pilot scenario analysis?

A.8. The Federal Reserve conducted a pilot climate scenario analysis (CSA) exercise in 2023 and 2024 to learn about large banking organizations' climate risk-management practices and challenges and to enhance the ability of large banking organizations and su-

pervisors to identify, estimate, monitor, and manage climate-related financial risks. The pilot CSA exercise was exploratory in nature and does not have consequences for bank capital or supervisory implications.

The Federal Reserve issued a report in May 2024 summarizing the results of the pilot CSA exercise and lessons learned. The report also discusses how participating financial institutions are using climate scenario analysis to explore the resilience of their business models to climate-related financial risks. Drawing on lessons learned from the exercise, the Federal Reserve Board will continue to engage with participating banks regarding their capacity to measure and manage climate-related financial risks.

Q.9. Please describe what authorities your agency has to improve access to data for banks to address insurance-related data gaps.

A.9. Insurance plays an important role in transferring risk to the financial sector participants best positioned to manage and hold it. While the Federal Reserve does not regulate the way insurance is provided or the types of insurance provided, a significant erosion in the availability and affordability of insurance could have adverse effects on the broader economy. Gaps in insurance protection can have consequences for homeowners, businesses, and State and local governments, as well as for the value of their assets. These effects in turn may impact the safety and soundness of supervised institutions, the stability of the financial system, and the broader economy.

We continue to monitor trends in the availability and affordability of insurance closely and to assess their implications for the safety and soundness of the financial institutions we regulate, as well as the broader economy. We meet frequently with external stakeholders to better understand insurance market dynamics and to hear their perspectives on the potential implications of climate change for the insurance sector. We are working closely with other regulatory agencies, including through the Financial Stability Oversight Council, to understand how developments within the insurance sector could flow through various parts of the financial system.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK FROM MICHAEL BARR

Q.1. On May 10, 2024, U.S. Treasury Secretary Janet Yellen called on Congress [1] to establish a fund for troubled nonbank mortgage companies ahead of the approval of Financial Stability Oversight Council (FSOC)'s report on risks these companies pose to the financial system. [2]

What structural risks do nonbank mortgage companies pose to the U.S. financial system, particularly during economic turmoil?

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[1] Katy O'Donnell, "Yellen Calls on Congress To Establish Fund for Nonbank Mortgage Companies", *Politico* (May 10, 2024), *https://subscriber.politicopro.com/article/2024/05/yellen-calls-on-congress-to-establish-fund-for-nonbank-mortgage-companies.*

[2] "Report on Nonbank Mortgage Servicing", Financial Stability Oversight Council (May 10, 2024), *https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf.*

A.1. Nonbank mortgage companies perform critical mortgage servicing functions for the mortgage market. Borrowers, guarantors, investors, insurers, and local governments depend on servicers to carry out a wide range of loan administration duties in an accurate and timely way. For example, servicers collect and record payments from borrowers and distribute those payments to investors and other parties. Servicers also work with borrowers who are having trouble making their payments and consider whether a loss mitigation plan might allow a borrower to remain in their homes.

Nonbank mortgage companies have increased their share of the mortgage servicing market significantly since 2008, especially for mortgages funded by securitizations guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Nonbank mortgage servicers now handle the servicing on about $6 trillion in mortgage balances on behalf of Fannie Mae, Freddie Mac, and Ginnie Mae. In times of market turmoil, nonbank mortgage companies could face difficulties in carrying out these servicing responsibilities.

Q.2. Are additional Congressional authorities necessary to implement recommendations issued by FSOC?

A.2. The Financial Stability Oversight Council report contains several recommendations that can be implemented under existing authorities. In addition, it identifies areas for Congress to consider to ensure that these crucial servicing responsibilities continue even at times of market turmoil. [3]

Q.3. On April 29, 2024, the FDIC, OCC, NCUA, and FHUA noticed a proposed rulemaking entitled "Incentive-based Compensation Arrangements". [4] The Federal Reserve Board (FRB) has not yet acted on this proposal, as was required by section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. [5]

Why did the FRB not jointly issue this proposed rulemaking with the other prudential regulators?

Is there a timeframe for the FRB to act?

A.3. Incentive compensation practices before the global financial crisis were flawed and an important post-crisis lesson was that compensation programs should provide incentives for employees to act in the long-term interest of the firm. Senior management should be held accountable for managing risks in a manner consistent with the long-term health of the organization. To this end, the Federal Reserve Board (Board), among other Federal banking agencies, provided robust supervisory guidance for banks on incentive compensation to assist them in improving their compensation practices.

Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires six agencies—the Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and the Securities and Exchange

[3] See *https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf.*

[4] Notice of Proposed Rulemaking on Incentive-based Compensation Arrangements, FDIC, OCC, NCUA, and FHFA (April 29, 2024), *https://www.fdic.gov/sites/default/files/2024-05/2024-05-03-incentive-based-compensation-agreements.pdf.*

[5] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203.

Commission—to jointly issue regulations or guidelines implementing prohibitions on certain incentive compensation arrangements at supervised financial institutions and requiring firms to disclose relevant information related to incentive compensation arrangements. The Board is committed to implementing section 956. However, further work on this issue should be based on updated analysis to reflect current banking conditions and practices. We are focused on conducting this analysis to determine the best path forward.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR FETTERMAN FROM MICHAEL BARR

Q.1. How much money has been sent through FedNow to date?

A.1. A diverse group of banks and credit unions across the country have adopted the FedNowr Service. These institutions are in the early stages of implementing new instant payment services for their customers and adjusting to round-the-clock operations. Accordingly, the number of transactions and dollar amounts sent on the FedNow Service since July 2023 is modest, which is in line with what we expected for a new service. Our intention is to publish volume and value information in the future for the FedNow Service as we do for our other payment services. From a longer-term perspective, we expect transaction volumes will follow the typical trajectory of a new payment service and grow steadily over time.

Q.2. When will the Federal Reserve release to the public the dollar amount flowing through FedNow?

A.2. Please see my response to Question 1.

Q.3. Is the Federal Reserve tracking the markups banks charge to customers above and beyond their costs for using FedNow?

A.3. Banks and credit union can use the FedNow Service to deliver new instant payment services for their customers. These could include new payment features on mobile apps, banking websites, or other interfaces such as those used for business payments. The payment products that banks and credit unions offer their customers and potential associated fees are within the domain of the private sector. While we do not systematically track this information, our understanding from years of industry engagement is that the market for financial institution payment services is competitive, and institutions often provide consumer-facing payment services at low or no cost.

Q.4. What action is the Federal Reserve taking to keep costs low for customers and reduce excessive bank markups for using FedNow?

A.4. Please see my response to Question 3.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR HAGERTY FROM MICHAEL BARR

Q.1. The Federal Housing Finance Agency (FHFA) is evaluating Freddie Mac's proposal to purchase and guarantee single-family

closed-end second mortgages.[1] According to preliminary estimates, this proposal could lead Freddie Mac—and likely Fannie Mae—to finance hundreds of billions in additional equity extraction.

Has the Federal Reserve assessed how such significant equity extraction could finance spending and consumption and thereby counteract the effects of tighter monetary policy and contribute to inflation?

Please describe all engagement between the Federal Reserve and the FHFA on this proposal.

A.1. The Federal Reserve was not involved in the development of the Federal Housing Finance Agency's (FHFA) proposal. Questions about the proposal are best directed to the FHFA.

Q.2. Chairman Powell has stated that "policies to address climate change are the business of elected officials. The Fed has received no such charge."[2]

Is the Federal Reserve Board's exploratory pilot Climate Scenario Analysis (CSA) exercise[3] consistent with the Chairman's statement?

A.2. Consistent with our statutory mandates, the Federal Reserve's goal is to help ensure supervised institutions are resilient to all material risks, including financial risks related to climate change. The Federal Reserve is not a climate policymaker and does not prohibit or discourage financial institutions from providing services to law-abiding customers of any specific class or type, as permitted by statute or regulation.

The Federal Reserve conducted a pilot climate scenario analysis (CSA) exercise in 2023 and 2024 to learn about large banking organizations' climate risk-management practices and challenges and to enhance the ability of large banking organizations and supervisors to identify, estimate, monitor, and manage climate-related financial risks. The pilot CSA exercise was exploratory in nature and does not have consequences for bank capital or supervisory implications.

Q.3. The Board's CSA exercise uses the SSP2-4.5/RCP 4.5 and SSP5-8.5/RCP 8.5 climate pathways as reference scenarios for physical risk shocks.[4]

The RCP 8.5 climate pathway assumes a fivefold increase in the use of coal by 2100. However, the U.S. Energy Information Administration has found that coal consumption has declined in most years since 2005.[5] On what basis does the Board believe that current trends in coal use will reverse to such a significant degree?

A.3. The scenarios selected for the pilot CSA exercise were neither forecasts nor policy prescriptions. They did not necessarily represent the most likely future outcomes or a comprehensive set of possible outcomes. Rather, they were chosen to represent a range of future outcomes that could help build understanding of how certain climate-related financial risks could manifest for large banking organizations and how these risks may differ from the past.

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[1] *https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Freddie-Mac-Proposed-Purchase-of-Single-Family-Closed-End-Second-Mortgages-Comment-Request.aspx*
[2] *https://www.federalreserve.gov/newsevents/speech/powell20240403a.htm*
[3] *https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf*
[4] Ibid.
[5] *https://www.eia.gov/energyexplained/coal/use-of-coal.php*

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BRITT FROM MICHAEL BARR

Q.1. On January 17, 2024, I sent a letter with nine of my colleagues to the Federal Reserve, FDIC, and OCC outlining significant concerns regarding the long-term debt (LTD) proposed rule. Specifically, that the LTD proposal is not tailored as required by S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act. S. 2155 provides that if the Federal Reserve applies enhanced prudential standards to firms with between $100 billion and $250 billion in assets, then it "shall . . . differentiate amongst companies on an individual basis or by category," in prescribing such prudential standards. Moreover, the Federal banking agencies are required to make a formal determination that the proposed application is appropriate to prevent or mitigate risks to U.S. financial stability, or to promote safety and soundness of the bank.

Did the Federal Reserve make this formal determination? If so, can you share it?

The letter also urges your agencies to conduct, and publicly release for comment, a comprehensive economic impact and cost-benefit analysis of the LTD proposal in conjunction with the Basel III endgame proposal and other expected rulemakings before pursuing a LTD requirement for Category II–IV banks. Does the Federal Reserve plan to conduct this type of comprehensive economic impact and cost-benefit analysis? If so, when will the findings be available? If not, why?

Additionally, in the preamble to the LTD proposal, the agencies state that if adopted as proposed, the Basel III endgame changes would "lead mechanically to increased requirements for LTD under the LTD proposal." While we continue to believe the Basel III endgame proposal should be withdrawn and rewritten, if this is the case, do you believe it is premature to pursue interrelated rulemakings, like the LTD proposal, until the capital impacts can be calculated after the proposal is finalized?

A.1. I am committed to maintaining the strength and diversity of the banking system, so that it can continue to provide financial services and access to credit for households and businesses. Community and regional banks serve important sectors of the economy that are often not the focus of many other financial institutions, including small businesses, middle market businesses, and consumers in rural communities. I am attentive to making sure we retain this diversity, and that our regulation and supervision reflect the size and risks associated with different firms.

The long-term debt (LTD) proposal only applies to firms over $100 billion and preserves significant regulatory differences among the firms that would be subject to the rule and global systemically important banks (GSIBs). For example, the firms subject to the proposal would be required to hold a lower level of LTD than GSIBs. In addition, the firms subject to the proposal would have no total loss-absorbing capacity minimum requirements. The calibration of the proposed LTD requirement also increases in stringency based on the size and risk profile of the assets held by a bank that would be subject to the proposal. All else equal, institutions are required to issue more LTD when they increase in size or their assets become riskier.

The proposal invited the public to comment on the Board of Governor's (Board) proposed differentiation of the LTD requirements, and whether the Board should adjust the proposed application and scope of the rule. The Board is carefully reviewing feedback from the public on these issues.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT FROM MARTIN J. GRUENBERG

Questions for the Record from Ranking Member Tim Scott for
The Honorable Martin J. Gruenberg
Chair, Federal Deposit Insurance Corporation
May 16, 2024, Hearing entitled "Oversight of U.S. Financial Regulators: Accountability and Financial Stability."
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1. **In your testimony before the Committee, you indicated that you believed you were the right person to lead change at the FDIC to address the toxic culture. Yet, four days later, you offered your resignation.**

   a. **What changed in those four days?**

   b. **If you felt the need to offer your resignation, why do you believe you should be able to retain your position until a successor is nominated and confirmed?**

Response to Question 1:
Since last appearing before the Committee in May, I announced that I would step down as Chairman once a successor had been confirmed as Chair. Until that time, however, I continue to fulfill my responsibilities as Chairman. I believe that the interests of the FDIC and the American public are best served if the FDIC has a full complement of five Directors to lead the important work of carrying out its core mission while continuing to build a strong workplace culture free from harassment and discrimination. Many of the proposed rules and other matters acted upon by the Board over the past several months have directly supported these goals.

2. As part of the resolution of Silicon Valley Bank, Signature Bank, and First Republic Bank, the FDIC borrowed billions of dollars from the Federal Reserve in lieu of other borrowing options, such as from the U.S. Treasury, Federal Financing Bank, or other options. Federal Reserve reports detail that the loans extended to the FDIC were charged an interest rate 100 basis points above the primary credit rate.

   a. **Why did the FDIC choose to borrow from the Federal Reserve?**

Response:
The FDIC did not borrow from the Federal Reserve. The failed financial institutions (prior to their failures) and the bridge banks borrowed from the Federal Reserve in the usual course of business.

   b. **Has the FDIC ever previously borrowed from the Federal Reserve in connection with the resolution of an insured depository institution?**

Response:
The FDIC's borrowing authorities are defined by statute and the Federal Reserve is not included in those authorities.

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c. Given that the loans had an explicit government guarantee, what was the rationale for the interest rate charged on the loans extended to the FDIC?

Response to Question 2:
The applicable interest rate charged by the Federal Reserve on these types of borrowings is per the Federal Reserve Banks' Operating Circular No. 10, Section 4.1. Once the banks were closed, the FRB borrowings were transferred to the receiverships and were considered in technical default. In instances of technical default, Operating Circular No. 10, Section 4.2 permits the FRB to add a penalty rate of up to 500 basis points to the base rate of the borrowings. These FRB borrowings inherited by the receiverships incurred a 100-basis point penalty.

3. In a whistleblower statement from current FDIC employees, these employees indicated the following: "We came together to write this statement because we are disappointed, frustrated, and heartbroken that the egregious issues documented in the Cleary report by over 500 employees have become a partisan issue. The issues identified are heinous, and our elected officials need to put politics aside and do what is right on behalf of their constituents. FDIC employees who joined together to draft this statement have a wide range of political views, ranging from far left to far right, and holding our current leadership accountable should not be a political issue and should not be about furthering political agendas. This is an issue of people, of morals, of safety, of accountability, and of the effectiveness of the agency to complete its mission."

a. Since the writing of this statement, you have stated that you are "prepared to step down from my responsibilities once a successor is confirmed.[1] Until that time, I will continue to fulfill my responsibilities as Chairman of the FDIC, including the transformation of the FDIC's workplace culture." Prior to making this statement, did you discuss with anyone in the White House any plan or decision to not step down immediately, but rather to wait until another Democrat can be confirmed as FDIC Chairman? Please answer "yes" or "no."

i. If yes, when did this discussion occur, who did you have it with, and please explain whether stepping down was conditional on your successor being confirmed.

[1] https://finance.yahoo.com/news/fdic-chair-martin-gruenberg-to-step-down-as-new-bank-rules-loom-213403177.html

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b. Prior to making your statement that you intended to resign upon a successor being confirmed, did you discuss with any Democrats in Congress any plan or decision to not step down immediately, but rather to wait until another Democrat can be confirmed as FDIC Chairman?

i. If yes, when did this discussion occur and who did you have it with?

Response to Question 3:
The decision to resign once a successor has been confirmed was mine alone.

4. In a whistleblower statement from current FDIC employees, these employees stated that they "do not have confidence that the Chairman and executive management have the willingness to truly make the cultural and structural changes necessary to fully address the [issues] identified in the report." Their lack of confidence in your ability to change the culture at the FDIC accords with the finding of the Cleary report, which noted that: "leading cultural transformation at an agency that he has led for so long presents unique challenges for Chairman Gruenberg, as do the incidents of—and resulting reputation for— losing his temper and expressing anger with staff. These attributes may hinder his ability to establish trust and confidence in leading meaningful culture change, and so too may his apparent inability or unwillingness to recognize how others experience certain difficult interactions with him."

a. Given your long tenure at the agency and the incidents of you losing your temper and expressing anger with staff cited in the Cleary report, do you understand why FDIC employees would not have confidence in your ability to "truly make the cultural and structural changes necessary to fully address the identified in the report"? Please answer "yes" or "no."

i. If no, why not?

b. Isn't it true that there is already a clear succession plan in place if you were to resign immediately, which would allow the current Vice Chairman to carry out the duties of Chairman and the agency's operations to continue without delay? Please answer "yes" or "no."

i. If no, please explain.

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c. Given the fact that the Vice Chairman can serve immediately as Chairman if you were to promptly resign, why should FDIC employees have to wait another day—let alone several weeks as a new nominee is nominated, vetted, and confirmed—to have an agency head they can have confidence in to "truly make the cultural and structural changes necessary to fully address the identified in the report"?

Response to Question 4:
I believe that the interests of the FDIC and the American public are best served if the FDIC has a full complement of five Directors to lead the important work of carrying out its core mission while continuing to build a strong workplace culture free from harassment and discrimination.

5. In a whistleblower statement from current FDIC employees, these employees stated the following: "The FDIC employees behind this statement do not have confidence that the Chairman and executive management have the willingness to truly make the cultural and structural changes necessary to fully address the [issues] identified in the report. The Chairman has communicated the action plan that he oversaw the creation of as proof of his commitment to improving conditions at the FDIC. We, however, do not have confidence that this action plan is meaningful. Executives who have held their positions for long periods of time, who were in these positions when the events from the report took place, some who directly supervised individual perpetrators from the report, hold key roles as members of this action plan. The head of the Division of Administration (DOA), who has been in that division for 30 years, holds a key role in the action plan, even though the Cleary report detailed material deficiencies within DOA, including not investigating claims, not documenting claims, not reporting claims to management, and not tracking claims. Finally, there is at least one member of management with a role in the action plan who has a reputation for bullying employees with numerous complaints filed against them with no action taken. Meaningful change for the FDIC needs to start at the very top, and we do not believe the actions of the Chairman and creation of this action plan will lead to meaningful changes."

a. Is it true that "[e]xecutives who have held their positions for long periods of time, who were in these positions when the events from the report took place, some who directly supervised individual perpetrators from the report, hold key roles as members of this action plan"? Please answer "yes" or "no."

i. If no, please explain what aspects of this statement is false.

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ii. If yes, which executives were in their positions "when the events from the report took place, some who directly supervised individual perpetrators from the report, hold key roles as members of this action plan"?

b. Do you understand why employees would lack faith in an action plan carried out by such executives?

c. Do you intend to remove any and all such executives from key roles in this action plan? Please answer "yes" or "no."

i. If no, why not?

ii. If yes, which employees will you remove from such roles, and when will you do so?

d. What material changes do you intend to make to the leadership of the Division of Administration ("DOA"), if any, following the release of the Cleary report?

i. Do you understand why employees would lack faith in the Director of DOA following the release of the Cleary report? Please answer "yes" or "no."

ii. If no, why not?

e. Do any FDIC executives or senior-level employees with a role in the action plan have any complaints filed against them by current or former FDIC employees?

i. If so, how many? Please list their names and titles.

ii. Do you intend to continue to allow such employees to have a role in the action plan? Please answer "yes" or "no."

iii. If yes, why?

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Response to Question 5:
No executive who has been found to have engaged in harassment or discriminatory behavior can serve as an executive sponsor for any action area or initiative of the FDIC's Action Plan for a Safe, Fair, and Inclusive Work Environment. In August, the FDIC Board of Directors selected Carrie H. Cohen, partner at Morrison Foerster LLP, to serve as the agency's independent transformation monitor. In this capacity, Ms. Cohen will audit the FDIC's ongoing efforts to implement its Action Plan for a Safe, Fair, and Inclusive Work Environment, including recommendations from an independent third-party review of the agency's workplace culture, and report monthly to the Board and employees. Additionally, in September, the FDIC Board of Directors selected Boston Consulting Group (BCG) Federal Corporation to advise and assist the agency as it implements the Action Plan for a Safe, Fair, and Inclusive Work Environment, including recommendations from the independent third-party review and the Office of the Inspector General (OIG).

6. **According to both news reports and several whistleblowers who have reached out to my Committee staff, you have a "penchant for sticking his fingers in the waistband of his pants during meetings, according to statements reviewed by the Journal—a move that current and former employees said isn't sexual but made some feel uncomfortable and demonstrated a lack of awareness." Whistleblowers have reported similar behavior to my Committee staff.**

   a. How do you explain the allegations from FDIC whistleblowers that you have been observed putting your hands down the front of your pants during FDIC work meetings?

   b. Do you deny that at least one female employee was offended after observing you doing this at an FDIC business meeting? Please answer "yes" or "no."

      i. If yes, please explain.

   c. Do you deny that at least one FDIC executive or senior-level employee advised you not to put your hands down your pants at work, after at least one female employee expressed that she was offended by this behavior? Please answer "yes" or "no."

      i. If yes, please explain.

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Response to Question 6:
All aspects of the FDICs workplace culture and allegations of harassment, discrimination, or interpersonal misconduct, including aspects of my leadership were reviewed as part of the report conducted by the law firm Cleary Gottleib Steen & Hamilton LLP.[2]

7. How many executives or senior-level FDIC employees have you fired in connection with the release of the Cleary report and the incidents described in it?

a. Please list the titles and names of all such employees.

Response:
8. How many executives or senior-level FDIC employees are you in the process of firing, or intending to fire but have not yet fired, in connection with the release of the Cleary report and the incidents described in it?

a. Please list the titles and names of all such employees.

Response to Questions 7 and 8:
As I testified to the Committee in May, several employees have been subject to discipline, including separation from the agency, and management changes have been made as a result of our examination of the workplace issues raised in news reports last year and the findings of the Cleary Gottleib Report.

9. On October 20, 2023, the Federal Reserve launched an information gathering effort to conduct a quantitative impact study (QIS) in order to "clarify the estimated effects of the proposal and inform any final rule" for the Basel III Endgame proposal.[1] Why was a QIS necessary for Basel III Endgame, but not for any other proposed rules and regulations issued by your agency?

[2] See Report for the Special Review Committee of the Board of Directors of the Federal Deposit Insurance Corporation available at https://www.fdic.gov/sites/default/files/2024-05/cleary-report-to-fdic-src.pdf.

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Response to Question 9:
When the proposal was announced, the Federal Reserve indicated that it would undertake a supplemental data collection[3]. Per the Federal Reserve, the additional data will further clarify the estimated effects of the proposal and inform any final rule, with summaries to be made public.

The Federal Deposit Insurance Corporation (FDIC) carefully considers the expected effects of all of its regulatory actions. The FDIC's Statement of Policy titled, "Development and Review of FDIC Regulations and Policies" (Statement),[4] states that the FDIC will evaluate the benefits and costs, based on available information, and consider reasonable possible alternatives. The FDIC also carefully considers all public comments and information it receives on the potential impact of regulations during the rulemaking process. The agency collects information and conducts analysis in accordance with the facts and circumstances of each rulemaking until the agency believes it has carefully considered the expected effects of such rulemakings.

a. At what threshold do prudential agencies deem a QIS necessary?

b. Why was a QIS conducted after an NPR, and not as part of an ANPR?

Response to Questions 9 a. and 9 b.:
The QIS was conducted and administered by the Federal Reserve. The FDIC defers to the Federal Reserve to address this question.

10. On May 6, the FDIC and the OCC, issued a proposal on Section 956 of Dodd-Frank.[1]Section 956 of Dodd-Frank requires that six federal agencies jointly issue a rule, a fact that is acknowledged in your agency's press releases. Now your agency is asking the public to submit comments directly to each of your websites, as the rule is not being published in the Federal Register.

a. Why did your agency move forward with this action without the other legally required agencies?

[3] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231020b.htm

[4] 78 FR 22771 (Apr. 17, 2013), available at https://www.govinfo.gov/content/pkg/FR-2013-04-17/pdf/2013-08986.pdf.

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b. Did your agency move forward with this effort as an attempt to pressure the other agencies to promulgate their own versions of Sec. 956, or to adopt your proposal?

Response to Question 10:
As I indicated in testimony before the Committee, the agencies are working toward a rulemaking to implement Section 956 of the Dodd-Frank Act. At various times during the rulemaking process, the staffs of all six agencies have coordinated on timelines to address assignments and project planning, review and approval processes, and publication processes. It is common for the agencies to discuss timelines for the development of rules, taking into consideration the various agencies' approval processes. Such timelines are dynamic, in that they are adjusted for a variety of factors, including negotiation and resolution of diverse interagency views, and other factors which may not be foreseen. Once the proposal is adopted by all six agencies, it will be published in the Federal Register with a comment period of 60 days following publication.

11. According to an FDIC whistleblower statement received by my Committee staff, "[Chairman Gruenberg] was only able to do what he did for so many years because the people directly under him actively covered up his atrocious behavior." In light of this statement and the various incidents described in the Cleary report of FDIC managers covering up and otherwise failing to prevent harassment and other unacceptable workplace issues, do you believe that the FDIC can be reasonably expected to improve its culture with a senior management team that was complicit in such behavior? Please answer "yes" or "no."

a. If yes, please explain.

Response to Question 11:
No executive who has been found to have engaged in harassment or discriminatory behavior can serve as an executive sponsor for any action area or initiative of the FDIC's Action Plan for a Safe, Fair, and Inclusive Work Environment. In August, the FDIC Board of Directors selected Carrie H. Cohen, partner at Morrison Foerster LLP, to serve as the agency's independent transformation monitor. In this capacity, Ms. Cohen will audit the FDIC's ongoing efforts to implement its Action Plan for a Safe, Fair, and Inclusive Work Environment, including recommendations from the independent third-party review of the agency's workplace culture, and report monthly to the Board and employees. Additionally, in September, the FDIC Board of Directors selected Boston Consulting Group (BCG) Federal Corporation to advise and assist the agency as it implements the Action Plan for a Safe, Fair, and Inclusive Work Environment, including recommendations from the independent third-party review and the Office of the Inspector General (OIG).

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The agency has already reached other key milestones in implementing the Cleary Gottleib recommendations, including the creation of two new offices to investigate harassment claims, the appointment by the Board of Directors of highly qualified and experienced directors from outside the FDIC to lead those offices and the aforementioned independent transformation monitor and independent third-party expert. I am certain that a fully committed FDIC staff with the assistance of these third-party resources will transform the workplace culture of the FDIC.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM MARTIN J. GRUENBERG

Questions for the Record from Senator Elizabeth Warren for
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Earlier this month, the Federal Reserve released the results from its 2023 pilot scenario analysis, intended to inform regulators and the public as to how America's largest banks "are using climate scenario analysis to explore the resiliency of their business models to climate-related financial risks." Unfortunately, the results revealed deep gaps in six large banks' understanding of the risks posed to them from climate change, including Wells Fargo, Bank of America, and JP Morgan Chase. "For example, participants noted a lack of comprehensive and consistent data related to building characteristics, insurance coverage, and counterparties' plans to manage climate-related risks. In many cases, participants relied on external vendors to fill data and modeling gaps."

Additionally, last month, Bloomberg reported significant rifts between American regulators and European Central Bank officials on efforts to tackle climate risk in the global financial system. According to the Bloomberg report, "European central bankers have been advocating for the Basel Committee on Banking Supervision (BCBS) to agree on requiring lenders to disclose their strategies for meeting green commitments," but "[i]n closed-door meetings, US officials have" pushed back against these suggestions. These efforts have reportedly been seen by some regulators as an American attempt to "not push for a policy that could accelerate a transition away from fossil fuels."

1. Please describe your agency's authority and responsibility to combat climate-related financial risks to the financial system.

Response:
The FDIC's core mission is to maintain stability and public confidence in the U.S. financial system. The agency carries out this mission through its responsibilities for deposit insurance, banking supervision, and the orderly resolution of failed banks, including systemically important financial institutions. The agency's role with respect to climate change is centered on the financial risks that climate change may pose to the banking system, and the extent to which those risks impact the FDIC's core mission and responsibilities.

2. Please describe your agency's position on the Basel Committee on Banking Supervision (BCBS) negotiations in the Task Force on Climate-related Financial Risks (TFCR) and provide a list of all meetings related to these negotiations.

Response:
The mission of the FDIC is to maintain stability and public confidence in the nation's financial system. The FDIC advocates for policy positions in support of this goal, including with its foreign counterparts through international organizations such as the BCBS. Policy objectives that have been advanced by the FDIC through these interagency dialogues solely reflect the FDIC's

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mandate. The FDIC attends meetings of the TFCR, which have generally occurred five to seven times per year, often virtually.

3. The BCBS's mandate is to "strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability." Your agency is a member of FSOC, which describes climate change as a systemic risk. Did representatives from your agency express concern that the BCBS was overstepping its mandate with its climate work?

Response:
The FDIC supports the BCBS's mandate to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability.[11] In fulfilling this mandate, the FDIC also supports the BCBS's holistic approach to assessing, measuring and mitigating climate-related financial risks, which is considering potential supervisory, regulatory and disclosure-related measures for the banking system. The FDIC advocates for policy positions in support of its core mission to maintain stability and public confidence in the U.S. financial system, including with its foreign counterparts at the BCBS. Policy objectives that have been advanced by the FDIC through these interagency dialogues solely reflect the FDIC's mandate.

4. Did representatives from your agency advocate to remove the word "guidance" from TFCR's climate transition plans?

Response
The FDIC advocates for policy positions in support of its core mission to maintain stability and public confidence in the U.S. financial system, including with its foreign counterparts at the BCBS. Unlike some supervisory authorities in other jurisdictions, the U.S. banking agencies do not have a mandate to promote or facilitate a transition to a low carbon economy. The U.S. banking agencies are responsible for ensuring the safety and soundness of individual financial institutions and promoting the stability of the financial system more broadly. To the extent that other members of the BCBS have different mandates with respect to climate-related matters, the FDIC has remained, and will continue to remain, strictly within its mandate.

[11] https://www.bis.org/bcbs/charter.htm

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5. Did representatives from your agency advocate to stop work on Pillar I and implementation monitoring for the BCBS principles for effective management and supervision of climate-related financial risks?

Response:
The FDIC supports the BCBS's holistic approach to assessing, measuring and mitigating climate-related financial risks, which is considering potential supervisory, regulatory and disclosure-related measures for the banking system. For example, in June 2022, the BCBS published Principles for the Effective Management and Supervision of Climate-Related Financial Risks (Basel Principles).[12] In October 2023, the FDIC, Federal Reserve and OCC published interagency Principles for Climate-Related Financial Risk Management for Large Financial Institutions that provide a high-level framework for the safe and sound management of exposures to climate-related financial risks, similar to the Basel Principles.[13] The FDIC will continue to support the BCBS's work to address climate-related financial risks through the TFCR, consistent with the FDIC's mandate. This includes consideration of potential supervisory, regulatory and disclosure-related measures for the banking system.

6. Did representatives from your agency advocate to remove financed emissions from the proposed disclosure framework for banks and advocate for key disclosure standards to be discretionary?

Response:
In November 2023, the BCBS published consultative document on a Pillar 3 disclosure framework for climate-related financial risks.[14] This consultative document included potential disclosures related to financed and facilitated emissions, among other potential disclosures. The BCBS received over 60 comments on this consultative document.[15] The FDIC is carefully considering comments received, including those relating to financed and facilitated emissions.

7. Why did the United States decline to contribute to the BCBS's analysis on incorporating climate risk into credit-risk assessments? Why should U.S.-based Globally Systemic Important Banks be exempt from Globally Systemic Important analyses?

Response:
The Federal Reserve is generally responsible for matters relating to U.S.-based Globally Systemic Important Banks.

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[12] https://www.bis.org/bcbs/publ/d532.htm
[13] https://www.fdic.gov/news/financial-institution-letters/2023/fil23056.html
[14] https://www.bis.org/press/p231129.htm
[15] https://www.bis.org/bcbs/publ/comments/d560/overview.htm

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8. How do you plan to monitor banks' improvements in climate-related financial risk management in light of the Fed's recent pilot scenario analysis?

Response:

The FDIC understands that expertise in climate risk and the incorporation of climate-related financial risks into risk management frameworks remain under development in many large financial institutions and will continue to evolve over time. The FDIC also recognizes that the incorporation of material climate-related financial risks into various planning processes will be iterative, as measurement methodologies, models, and data for analyzing these risks continue to mature. The FDIC encourages large financial institutions to take a risk-based approach in assessing the climate-related financial risks associated with individual customer relationships and to take into account the financial institution's ability to manage the risk.

In October 2023, the agencies adopted the Interagency Principles to promote a consistent understanding of the effective management of climate-related financial risks.[16] The guidance provides a high–level framework for the safe and sound management of exposures to climate–related financial risks and is designed to help financial institutions make progress toward incorporating climate–related financial risks into risk management frameworks in a manner consistent with safe and sound practices. The FDIC will continue to engage with other regulatory bodies and the industry to understand developments in climate-related financial risk management and may consider providing additional resources or guidance, as appropriate, to support financial institutions in prudently managing these risks.

9. Please describe what authorities your agency has to improve access to data for banks to address insurance-related data gaps.

Response:

Sound climate-related financial risk management depends on the availability of timely, accurate, consistent, complete, and relevant data. The FDIC recognizes measurement methodologies, models, and data for analyzing climate-related financial risks continue to mature. The Climate-related Financial Risk Committee (CFRC) of the FSOC has identified work on data and methodologies as a priority, and the FDIC is working with other FSOC member agencies to identify shared data needs, gaps, and limitations, as well as to facilitate the sharing of climate-related data among FSOC members.

Additionally, the Interagency Principles acknowledge that available data, risk measurement tools, modeling methodologies, and reporting practices continue to evolve at a rapid pace and

[16] https://www.fdic.gov/news/financial-institution-letters/2023/fil23056.html

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that financial institution management should monitor these developments and incorporate them into the institution's climate-related financial risk management as warranted.[17]

The FDIC will continue to engage with other regulatory bodies and the industry on developments in climate-related financial risk management, including potential improvements in available data. The FDIC may consider providing additional resources or guidance, as appropriate, to support financial institutions in prudently managing these risks.

[17] https://www.fdic.gov/sites/default/files/2024-03/2023-10-24-notice-dis-b-fr.pdf

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK FROM MARTIN J. GRUENBERG

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1. **In April 2024, the law firm Cleary Gottlieb Steen & Hamilton LLP released a report detailing the misconduct and poor workplace culture at the FDIC.[6] In your written testimony before the Senate Banking, Housing, and Urban Affairs Committee, you noted that you "accept the findings of the report" and "take full responsibility".[7] The FDIC has released an Action Plan to internally address the toxic culture at the FDIC.[8]**

    a. **What actions is the FDIC taking to properly administer all recommendations found within the Cleary Gottlieb report?**

Response:
The following action items describe some of the significant progress being made as part of our Action Plan efforts.

Selection of a Transformation Monitor

The FDIC Board selected Carrie H. Cohen, partner at Morrison Foerster LLP, to serve as the agency's independent Transformation Monitor. The Transformation Monitor will monitor and audit the FDIC's ongoing efforts to implement its Action Plan, including recommendations from the Cleary Gottlieb Report. This important work will provide a valuable, independent evaluation of the FDIC's efforts to address workplace cultural issues and ensure employees feel safe, valued, and respected.

At Morrison Foerster LLP, Ms. Cohen serves as global co-chair of the firm's DEI strategy and Defense group, Investigations and White-Collar Defense practice, and Women's Strategy Committee. Ms. Cohen formerly served as an Assistant U.S. Attorney for the Southern District of New York and as an Assistant Attorney General for the New York State Attorney General's office. She has extensive experience with monitorships through her service on a monitorship team in private practice and prior roles in which she helped design monitorships, both in private practice and in government.

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[6] Joon H. Kim, Jennifer Kennedy Park, and Abena Mainoo, Report for the Special Review Committee of the Board of Directors of the Federal Deposit Insurance Corporation (May 7, 2024), https://www.fdic.gov/sites/default/files/2024-05/cleary-report-to-fdic-src.pdf.

[7] *Oversight of U.S. Financial Regulators: Accountability and Financial Stability Before the Committee on Banking, Housing, and Urban Affairs,* 118th Cong. (May 16, 2024) (statement of the Honorable Martin Gruenberg, Chair, Federal Deposit Insurance Corporation), https://www.banking.senate.gov/imo/media/doc/gruenberg_testimony_5-16-24.pdf.

[8] *Action Plan for a Safe, Fair, and Inclusive Work Environment.* Federal Deposit Insurance Commission, https://www.fdic.gov/about/diversity/pdf/action-plan-12-4-23-v1.pdf

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The Transformation Monitor is meeting with FDIC officials and staff, reviewing pertinent documents and interviewing staff, conferring with other independent third-party experts, including those from the Boston Consulting Group, and assessing the FDIC's overall progress in transforming its culture. To promote transparency and trust, the Transformation Monitor has begun reporting monthly to the Board and to employees.

Selection of an Independent Third-Party Expert and Advisor

The FDIC Board selected the Boston Consulting Group (BCG) to serve as an independent third-party expert and advisor (the "Expert Advisor") to assist the agency as it implements the Action Plan and other initiatives to improve the culture, policies, procedures, and structures affecting harassment and interpersonal misconduct.

BCG is coordinating closely with agency leadership and staff to provide advice and guidance surrounding initiatives in process and planned. Among other tasks, the Expert Advisor will (1) recommend a shared vision for the FDIC's organizational culture; (2) recommend a culture assessment instrument to periodically assess the FDIC's culture and changes over time; (3) evaluate the effectiveness of specific culture change outcomes; (4) propose a strategic approach that turns feedback into actions in a measurable, impactful, and sustainable manner; and (5) work with the FDIC's Corporate University (CU) to recommend additional leadership development training and coaching for executives, corporate experts, and corporate managers.

Board Approval of the Office of Professional Conduct (OPC)

In June 2024, the FDIC Board approved the creation of a new independent Office of Professional Conduct (OPC) that reports directly to the Board. It is led by Hansel J. Cordeiro who was recently appointed by the Board. The OPC is independent from, and organizationally aligned outside of, the existing management structure of the agency. The OPC is responsible for implementing the FDIC's Anti-Harassment Program Directive and serves as a single point of entry for employee complaints of harassment and interpersonal misconduct. The OPC receives all harassment complaints from employees, utilizes third party independent firms to investigate complaints, and reports on complaints of harassment and interpersonal misconduct, as well as claims of retaliation. The OPC also determines and enforces discipline against anyone violating the FDIC's anti-harassment or anti-retaliation policies.

Board Approval of the Office of Equal Employment Opportunity (OEEO)

Also in June 2024, the Board approved the creation of the FDIC's Office of Equal Employment Opportunity (OEEO). The OEEO receives, investigates, and reports complaints of discrimination and retaliation under the laws enforced by the Equal Employment Opportunity

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Commission. The OEEO is led by Amanda J. Lavis, who was recently appointed by the Board and will report directly to the Board.

Selection of Directors for the Office of Professional Conduct (OPC) and Office of Equal Employment Opportunity (OEEO)

The FDIC announced the appointment of Hansel J. Cordeiro as Director of the agency's new OPC on October 16, 2024. Mr. Cordeiro joined the FDIC on October 21, 2014. Mr. Cordeiro was Executive Director of Accountability & Strategic Business Management at the U.S. Department of Transportation's Federal Aviation Administration (FAA). Mr. Cordeiro led the FAA's anti-harassment program, the largest program within the Department of Transportation; established FAA anti-harassment policies; oversaw the receipt and investigation of allegations of harassment, sexual misconduct, and reprisal involving FAA employees and contractors, as well as management actions on substantiated allegations; and identified trends and made recommendations to the FAA Administrator on ways to improve FAA policies and procedures to address systemic harassment issues. He also oversaw anti-harassment training for FAA's more than 45,000 employees and contractors.

Prior to his role at FAA, Mr. Cordeiro served at the U.S. Department of Veterans Affairs (VA) in various executive and leadership positions, including leading efforts to remediate deficiencies in the Office of Accountability and Whistleblower Protection. He also served in the Office of General Counsel as a principal legal advisor to several Secretaries of Veterans Affairs on employment and labor law issues.

On October 31, 2024, the FDIC Board of Directors announced the appointment of Amanda J. Lavis as Director of the agency's new Office of Equal Employment Opportunity (OEEO). In this role, Ms. Lavis leads the OEEO's work to intake, investigate, and report on complaints of employment discrimination. She joined the FDIC on November 4, 2024.

Ms. Lavis served as Chief Culture Officer for the U.S. Army Combat Capabilities Development Command (DEVCOM), where she led cultural and structural changes that emphasized accountability, trust, and employee well-being across a global workforce. She previously served as the State of Hawaii's EEO Officer, overseeing EEO training, activities, policies, and functions across all executive branch state departments. She also provided day-to-day employment counseling to organizations as a partner at Rhoads & Sinon LLP.

Anti-Retaliation Policy

The FDIC created a new policy regarding retaliation in the workplace. The draft policy, which has been posted for employee comment and feedback, informs employees of the FDIC's commitment to maintaining a workplace free of retaliation for all forms of legally protected

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activity and provides guidance on reporting retaliation. Importantly, the policy reinforces employees' legal rights to freely disclose suspected violations of any law, rule, or regulation or any waste, fraud, abuse, or misconduct in FDIC operations (onsite and offsite) without fear of retaliation.

This policy makes clear that the FDIC will investigate claims of retaliation and will severely discipline any employee found to have engaged in such activity including separation from the agency. Among other proactive measures, the policy commits to regularly train its workforce on issues of retaliation and provides specific examples of unlawful retaliatory practices.

Personal Relationship Policy

The FDIC created a new policy regarding Personal Relationships in the Workplace. The draft policy, which has been posted for employee comment and feedback, prohibits any romantic or sexual relationship between parties in unequal positions. The draft policy also prohibits any efforts to engage in a romantic or sexual relationship with an individual who holds an unequal position. Violation of the policy is subject to disciplinary action.

The policy further reminds all employees who have personal relationships (such as familial) of their professional responsibilities including the requirement of disclosure. It addresses important topics such as favoritism, bias, and conflicts of interest; and communicates procedures to ensure that officials are notified and have the opportunity to promptly take action if necessary.

Development and Delivery of Sexual Harassment Prevention Training

The FDIC partnered with the Equal Employment Opportunity Commission (EEOC) to develop and deliver full-day in-person training sessions that address the topic of sexual harassment and inappropriate conduct in the workplace. Professional EEOC instructors are delivering the live, in-person training to all FDIC executives, managers, and staff in a classroom-style setting.

This comprehensive course covers important topics including the definition of sexual harassment, applicable laws and regulations, appropriate responses to harassment and inappropriate conduct, reporting options, prohibition against retaliation, and actual case studies. In addition to this full-day training session, the FDIC's population of Bank Examiners are attending a second day of "upstander" training that instructs participants how to prevent, disrupt, and respond to instances of harassment in the workplace and while examining banks on-site.

As of December 19, 2024 training sessions have been delivered to approximately 6,350 employees.

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Implementation of Interim Case Tracking System

The FDIC recently developed and implemented an interim automated Case Tracking System for harassment, discrimination, and other misconduct complaints. This newly developed centralized system tracks complaint trends by organization, location, complaint type, individuals against whom complaints are filed, and disciplinary actions imposed.

The interim case tracking system serves as an "early warning system" to management by identifying trends that require immediate attention and remediation. Periodic "activity reports" will be generated and provided to Board members and senior leadership for transparency and further action.

The interim case tracking system will be in place until a longer-term solution is developed and implemented as part of a competitive procurement process currently underway. Ownership of the case tracking system will be transitioned to the newly created Office of Professional Conduct once that office is fully staffed and operational.

Enhanced Counseling Services for Employees

In January 2024, the FDIC notified all employees about the availability of enhanced counseling services. These services allow employees to schedule an unlimited number of appointments with one of our dedicated, licensed, clinical counselors who have expertise in helping individuals who have experienced any harassment and discrimination. Sessions held with our counselors are confidential, private, and free of charge. Additionally, on October 29, 2024, the FDIC sent a corporate-wide notification reminding employees of the availability of counseling services.

Establishment of 24/7 Hotline for Employees

Also in January 2024, the FDIC established a 24-hour, 7 day per week hotline staffed with professionals who are on-call to provide immediate assistance to individuals in distress. We established this service after consulting with several Employee Resource Groups, Chairman's Diversity Advisory Councils, and Workplace Excellence Councils to determine the resources that victims of harassment and discrimination need and want.

The emotional impact of harassment and other inappropriate conduct can occur at any time. We created the Hotline to ensure that employees can speak to a live professional consultant day or night without an appointment. The Hotline is discreet and private. Callers are connected to a professional consultant trained to provide crisis support and identify local and nationwide resources. On October 29, 2024, the FDIC sent a corporate-wide notification reminding employees of the availability of 24/7 Hotline for Employees

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b. As you transition out of the FDIC, what plans are in place to ensure continuity of improvements to FDIC employee culture when a successor is confirmed?

Response:
Our ongoing work on the Action Plan, described in the response above, will serve as a firm foundation for the next Chair of the FDIC to successfully complete its implementation, including the Cleary Gottlieb recommendations. Moreover, as the Cleary Gottlieb report states, "FDIC employees at all levels care deeply about and take great pride in its mission of maintaining stability and public confidence in our nation's financial system." The FDIC's senior leadership team is fully committed to rebuilding the trust of employees, and creating a safe, fair, and inclusive work environment for them. I strongly believe that the entire organization is fully vested in seeing the FDIC overcome its workplace challenges.

The newly established Office of Professional Conduct and the Office of Equal Employment Opportunity are operational. The FDIC Board has approved funding that will ensure that the offices have the resources to carry out their important responsibilities.

Moreover, the FDIC Office of Inspector General (OIG) completed an Evaluation of the FDIC Sexual Harassment Prevention Program.[9] The OIG also recently completed Part 1 of its Special Inquiry into the FDIC's Workplace Culture with Respect to Sexual Harassment and Related Misconduct.[10] The FDIC concurs with all the OIG's recommendations in these reports and plans to complete corrective actions for all the recommendations. The FDIC OIG's oversight of these issues will be an important tool for ensuring continuity of improvements.

I am certain that with a fully committed staff, the assistance of the independent third-party expert, and the oversight of the independent transformation monitor and the OIG, the FDIC will successfully address these workplace culture issues and will create an environment where every employee feels safe, valued, and respected.

c. Are additional Congressional authorities necessary to implement any structural changes to improve meet the recommendations set forth by the Cleary Gottlieb report?

[9] See, https://www.fdicoig.gov/reports-publications/audits-and-evaluations/fdics-sexual-harassment-prevention-program
[10] See, https://www.fdicoig.gov/reports-publications/review/special-inquiry-fdics-workplace-culture-respect-harassment-and-related.

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Response:
The FDIC has not identified any statutory changes needed to successfully transform the FDIC workplace.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR HAGERTY FROM MARTIN J. GRUENBERG

Q.1. On March 21, the FDIC approved a notice of proposed rulemaking for a Statement of Policy on Bank Merger Transactions. The proposal states the FDIC may require divestitures before allowing a transaction to be consummated.

If a proposed merger does not take place, the divestiture requirement could possibly pose a material financial risk to the divesting party. On what grounds should a party be required to irrevocably reduce its footprint in anticipation of a transaction that may or may not take place?

A.1. Pursuant to the Bank Merger Act (BMA), the FDIC may not approve any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States, or any other proposed merger transaction whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anticompetitive effects of the proposed transaction are clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

On September 17, 2024, the FDIC Board of Directors approved a final Statement of Policy on Bank Merger Transactions (Final Statement).[1] For proposed transactions where the FDIC may not be able to recommend approval based on potential anti-competitive concerns, the Final Statement discusses divestitures as a means to mitigate competitive concerns before allowing the merger to be consummated. For example, the FDIC may require divestitures of business lines, branches, or portions thereof as a means to mitigate competitive concerns. However, it is important to note that any divestitures would occur following regulatory approval. When appropriate, divestitures will be included as a condition that must be addressed prior to consummation of the merger. The fact that any divestitures would be conducted after the transaction is approved, but before the transaction is consummated, reduces risk. Any divestitures would not delay the merger application submission, review, and approval processes; as such, the length of time for regulatory review and adjudication is not expected to change.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BRITT FROM MARTIN J. GRUENBERG

Q.1. On January 17, 2024, I sent a letter with nine of my colleagues to the Federal Reserve, FDIC, and OCC outlining significant concerns regarding the long-term debt (LTD) proposed rule. Among the various concerns outlined, is the lack of a comprehensive economic impact and cost-benefit analysis, including to assess the combined impacts of other concurrent rulemakings. Specifically,

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[1] See "FDIC Board of Directors Approves Final Statement of Policy on Bank Merger Transactions", Pr-79-2024 (September 17, 2024), available at FDIC Board of Directors Approves Final Statement of Policy on Bank Merger Transactions, FDIC.

the letter urges your agencies to conduct, and publicly release for comment, a comprehensive economic impact and cost-benefit analysis of the LTD proposal in conjunction with the Basel III endgame proposal and other expected rulemakings before pursuing a LTD requirement for Category II–IV banks.

Does the FDIC plan to conduct this type of comprehensive economic impact and cost-benefit analysis? If so, when will the findings be available? If not, why?

A.1. The Federal banking agencies have received a significant number of comments on both the Basel III endgame and the Long-Term Debt proposals. They were deeply substantive, and we continue to review and analyze them both internally among staff at the FDIC and in collaboration with staff at the Federal Reserve and OCC. That review and analysis includes considering the interactions between rulemakings. While we have not made any procedural decisions yet as we are focused on the substance, we will continue to follow the Administrative Procedure Act.

Q.2. Additionally, in the preamble to the LTD proposal, the agencies state that if adopted as proposed, the Basel III endgame changes would "lead mechanically to increased requirements for LTD under the LTD proposal." While we continue to believe the Basel III endgame proposal should be withdrawn and rewritten, if this is the case, do you believe it is premature to pursue interrelated rulemakings, like the LTD proposal, until the capital impacts can be calculated after the proposal is finalized?

A.2. Overall, we consider the potential effects of any rulemaking as part of our process. We continue to work through the comments received on both the Basel III and Long-Term Debt proposals. We will carefully consider all relevant factors when finalizing the Long-Term Debt rule and analyzing the impact, in accordance with the Administrative Procedure Act.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR SCOTT FROM MICHAEL HSU

Q.1. In March of 2024, the FDIC Special Committee of the Board of Directors, which at the time was comprised of just yourself and Vice Chair McKernan, announced the appointment of three nonvoting members to the Committee. Six weeks later, the Cleary Gottlieb report was released.

What lead to the selection of each of the three nonvoting members?

A.1. The FDIC Board's resolution establishing the Special Review Committee authorized the cochairs to appoint up to three additional nonvoting members. The nonvoting members brought a wealth of executive management and board-level experience across the Government and private sector, promoting a diversity of views.

Q.2. How were each of the three nonvoting members selected?

A.2. The three nonvoting members were selected to promote a diversity of perspectives based on their executive management and board-level experience across the Government and private sector. After agreeing to serve on the Special Review Committee, each

nonvoting member went through a check for conflicts of interest before joining the committee.

Q.3. Did the three nonvoting members have an opportunity to provide input on the scope of Cleary's investigation?

A.3. The scope of the independent review was well-defined in the FDIC Board resolution establishing the Special Review Committee—to review allegations of sexual harassment and interpersonal misconduct at the FDIC, including allegations of hostile, abusive, unprofessional, or inappropriate conduct and any FDIC management response thereto, and the FDIC's workplace culture, including any practices that might discourage or otherwise deter the reporting of, or appropriate response to, such misconduct. When the nonvoting members joined the committee, Cleary Gottlieb provided the nonvoting members with a summary of the review plan and briefing on work completed to-date.

Q.4. How many times did the full special committee meet, including with the three nonvoting members?

A.4. The full special committee, with all five members, was briefed by Cleary after the nonvoting members joined the committee. In addition, the full special committee held two formal meetings.

Q.5. Of the three nonvoting members, did any of them present statements for the record to you?

A.5. Yes, all three submitted written statements that were added to the record of the closed FDIC Board meeting on April 30, 2024.

Q.6. Of the three nonvoting members, did any of them have a dissenting view of the report's finding and/or recommendations?

A.6. The Special Review Committee received the first draft of the factual findings, root causes, and recommendations from Cleary Gottlieb in early April. Committee members reviewed the findings, asked questions, and offered feedback. Drawing on their experiences, the nonvoting members provided the cochairs insightful structural comments and input to strengthen recommendations. While all three nonvoting members agreed overall with the report's findings and recommendations, one member expressed disappointment that certain specific measures were not adopted as recommendations in the report.

Q.7. During your testimony, you indicated that you stand by FDIC Chairman Gruenberg and think he is right man for the job. In light of Chair Brown's lack of confidence in the Chairman and the Chairman's commitment to resign once a new Chairman is confirmed, do you still believe that Chairman Gruenberg is the right man for the job? If not, please explain what prompted the change in your perspective.

A.7. As I noted in my recent testimony to the House Financial Services Committee, my support for Chairman Gruenberg is conditional on his delivering on his commitment to implementing the recommendations in a timely manner.

Q.8. On October 3, 2023, you voted to advance the FDIC's proposed guidelines establishing standards for corporate governance and risk management, which include prescriptive requirements for bank boards of directors, including ethical standards. Should this rule be

finalized similarly to the proposal, and if the FDIC Board was subject to the rule, what type of sanctions would be imposed upon you as a member of the FDIC Board?

Asked another way, if a bank under FDIC supervision had an identical independent report published about its toxic workplace, what sanctions should the Board of that bank expect under the proposal?

A.8. The FDIC sought public comments on the proposed guidelines. FDIC staff is currently reviewing and assessing the comments. It would not be appropriate at this time to speculate on the application of the proposed guidelines to any specific fact pattern.

Q.9. On May 6, the FDIC and the OCC, issued a proposal on Section 956 of Dodd-Frank.[1] Section 956 of Dodd-Frank requires that six Federal agencies jointly issue a rule, a fact that is acknowledged in your agency's press releases. Now your agency is asking the public to submit comments directly to each of your websites, as the rule is not being published in the *Federal Register*.

Why did your agency move forward with this action without the other legally required agencies?

A.9. Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) requires the agencies to prescribe regulations or guidelines addressing incentive-based compensation no later than 9 months after July 21, 2010. The OCC approved the proposed rule in an effort to fulfill that statutory mandate.

Q.10. Did your agency move forward with this effort as an attempt to pressure the other agencies to promulgate their own versions of Sec. 956, or to adopt your proposal?

A.10. The OCC approved the proposed rule in an effort to fulfill its statutory mandate. We welcome engagement from the other agencies as we work toward completing this rulemaking.

Q.11. On October 20, 2023, the Federal Reserve launched an information gathering effort to conduct a quantitative impact study (QIS) in order to "clarify the estimated effects of the proposal and inform any final rule" for the Basel III Endgame proposal.[2] Why was a QIS necessary for Basel III Endgame, but not for any other proposed rules and regulations issued by your agency?

At what threshold do prudential agencies deem a QIS necessary?

Why was a QIS conducted after an NPR, and not as part of an ANPR?

A.11. The below is an integrated response to both parts of the question.

The Federal banking agencies consider many factors when assessing whether a quantitative impact study or supplemental data collection should be conducted. One consideration is the granularity and availability of data in existing regulatory reports.

It is a core principle of the administrative process that Federal agencies be open to considering additional data as part of a rulemaking to ensure that a proposal is designed to achieve its in-

[1] *https://www.occ.treas.gov/news-issuances/bulletins/2024/bulletin-2024-12.html*
[2] *https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231020b.htm*

tended objectives. For this reason, agencies regularly solicit the public for data that could inform a proposed rulemaking.

For the Basel III Endgame proposal, the Federal Reserve Board undertook a supplemental data collection to further clarify the estimated effects of the proposal. The Federal banking agencies will utilize the information from the Federal Reserve Board's supplemental data collection, together with input from commenters on the proposal, to inform any final rule.

Q.12. In January, the OCC promulgated an NPR on business combination under the bank merger act, which included, "Applications that are consistent with approval . . . The resulting institution will have total assets less than $50 billion . . . "[3]

Can you explain why the OCC chose $50 billion as the threshold?

A.12. The OCC's Notice of Proposed Rulemaking (NPR) states that the general principles of OCC review are based on the OCC's experience with business combination applications. Generally, the proposed threshold comports with other OCC regulations. For example, the "OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches", 12 CFR 30 App. D, has a $50 billion threshold.

Q.13. Can you explain why the OCC believes that mergers resulting in an institution in excess of $50 billion are not consistent with approval?

A.13. The NPR identifies features of applications that are likely to be consistent with approval, including where the acquiring bank has satisfactory supervisory ratings, no open enforcement actions, and no fair lending, Community Reinvestment Act (CRA), Bank Secrecy Act (BSA), or consumer compliance concerns, and the resulting institution will have total assets less than $50 billion. The NPR also notes that on the other end of the spectrum, applications where the acquirer has unsatisfactory supervisory ratings, open or pending BSA enforcement actions, poor CRA ratings, or other supervisory concerns are highly unlikely to receive approval unless and until such concerns are resolved. The OCC anticipates that most mergers are likely to fall in the middle, and applications that do not raise supervisory or regulatory concerns may ultimately be consistent with approval.

Q.14. During the hearing, you indicated that the OCC was working with the FDIC, the Fed, and the DOJ on the OCC's merger NPR.

Which agency has been the primary advocate for advancing this proposal?

A.14. The OCC's NPR is a proposal solely by the OCC. OCC staff have discussed bank merger policy with staff of the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System as all three agencies process applications under the Bank Merger Act for institutions under their jurisdiction. Likewise, OCC staff have discussed competition issues with staff from the Department of Justice.

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[3] *https://www.occ.gov/news-issuances/federal-register/2024/89fr10010.pdf*

Q.15. Which agency has taken the primary lead on the substance of this proposal?

A.15. The OCC's NPR is a proposal solely by the OCC.

Q.16. In response to Senator Warren, you stated that you were committed to finalizing the Basel III Endgame proposal this fall despite Vice Chair for Supervision Barr's admission that there would be "broad and material" changes and that regulators were still working through substance issues before determining the next process steps for compliance with the Administrative Procedures Act (APA).

How can you commit to finalizing the rule by a specific date when significant changes to the substance may require additional procedural steps?

A.16. For all rulemakings, the OCC follows the Administrative Procedure Act (APA) (See, e.g., 5 U.S.C. §553(c)). The OCC and other Federal banking agencies are carefully reviewing all comments received and considering next steps, consistent with the requirements of the APA.

Q.17. Do you believe that "broad and material" changes to the Basel III Endgame proposal would require a re-proposal to be compliant with the APA?

A.17. The OCC greatly values public comments and the Federal banking agencies extended the comment period to allow stakeholders additional time to analyze the issues and prepare their feedback. In addition, the Federal Reserve Board undertook a supplemental data collection to further clarify the estimated effects of the proposal.

Once the Federal banking agencies have completed review of the comments and identified any changes to the proposed rule, we will analyze those changes consistent with the APA to determine whether any such changes warrant the issuance of a new proposal or a final rule.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARREN FROM MICHAEL HSU

Q.1. Earlier this month, the Federal Reserve released the results from its 2023 pilot scenario analysis, intended to inform regulators and the public as to how America's largest banks "are using climate scenario analysis to explore the resiliency of their business models to climaterelated financial risks."[1] Unfortunately, the results revealed deep gaps in six large banks' understanding of the risks posed to them from climate change, including Wells Fargo, Bank of America, and JPMorgan Chase. "For example, participants noted a lack of comprehensive and consistent data related to building characteristics, insurance coverage, and counterparties' plans to

[1] Board of Governors of the Federal Reserve System, "Federal Reserve Board Releases Summary of the Exploratory Pilot Climate Scenario Analysis (CSA) Exercise That It Conducted With Six of the Nation's Largest Banks", press release, May 9, 2024, *https://www.federalreserve.gov/newsevents/pressreleases/other20240509a.htm.*

manage climate-related risks. In many cases, participants relied on external vendors to fill data and modeling gaps."[2]

Additionally, last month, *Bloomberg* reported significant rifts between American regulators and European Central Bank officials on efforts to tackle climate risk in the global financial system.[3] According to the *Bloomberg* report, "European central bankers have been advocating for the Basel Committee on Banking Supervision (BCBS) to agree on requiring lenders to disclose their strategies for meeting green commitments," but "[i]n closed-door meetings, U.S. officials have" pushed back against these suggestions.[4] These efforts have reportedly been seen by some regulators as an American attempt to "not push for a policy that could accelerate a transition away from fossil fuels."[5]

Please describe your agency's authority and responsibility to combat climate-related financial risks to the financial system.

A.1. Climate-related financial risks have the potential to affect the safety and soundness of banks in the form of physical and transition risks. The OCC's attention as the prudential supervisor of national banks and Federal savings associations is focused on the safety and soundness implications of climate-related financial risks. The OCC's role is to ensure that national banks and Federal savings associations understand their climate-related financial risks and develop risk management frameworks and capabilities to identify, measure, monitor, and control those risks commensurate with their risk profile.

Q.2. Please describe your agency's position on the Basel Committee on Banking Supervision (BCBS) negotiations in the Task Force on Climate-related Financial Risks (TFCR) and provide a list of all meetings related to these negotiations.

A.2. The OCC participates in the TFCR and contributes to its work. This allows us to exchange knowledge relating to areas of common interest and, where appropriate, to discuss common standards, practices, and policies.

TFCR held the following meetings in the past year:

- May 14, 2024
- March 26–27, 2024
- January 22, 2024
- December 11, 2023
- October 17–18, 2023
- September 8, 2023
- June 20, 2023
- May 15, 2023

Q.3. The BCBS's mandate is to "strengthen the regulation, supervision and practices of banks worldwide with the purpose of en-

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[2] Board of Governors of the Federal Reserve System, "Pilot Scenario Exercise, Summary of Participants' Risk-Management Practices and Estimates", May 2024, *https://www.federalreserve.gov/publications/files/csa-exercisesummary-20240509.pdf.*

[3] *Bloomberg*, "Fed Blocks Tough Global Climate Rules for Wall Street Banks", Alastair Marsh, April 3, 2024, *https://www.bloomberg.com/news/articles/2024-04-03/fed-blocks-tough-global-climate-risk-rules-for-wall-streetbanks.*

[4] Id.

[5] Id.

hancing financial stability." Your agency is a member of FSOC, which describes climate change as a systemic risk. Did representatives from your agency express concern that the BCBS was overstepping its mandate with its climate work?

A.3. The OCC has not taken the position that the BCBS has acted outside of its mandate with respect to its climate-related financial risk work.

Q.4. Did representatives from your agency advocate to remove the word "guidance" from TFCR's climate transition plans?

A.4. The OCC, with other U.S. banking agencies, participates in the TFCR and contributes to its work. The standards and frameworks published by the BCBS are developed by consensus and are not legally binding. Individual jurisdictions may choose to implement different standards through their own legislative and regulatory processes.

Q.5. Did representatives from your agency advocate to stop work on Pillar I and implementation monitoring for the BCBS principles for effective management and supervision of climate-related financial risks?

A.5. The OCC, with other U.S. banking agencies, participates in the TFCR and contributes to its work. The standards and frameworks published by the BCBS are developed by consensus and are not legally binding. Individual jurisdictions may choose to implement different standards through their own legislative and regulatory processes.

Q.6. Did representatives from your agency advocate to remove financed emissions from the proposed disclosure framework for banks and advocate for key disclosure standards to be discretionary?

A.6. The OCC, with other U.S. banking agencies, participates in the TFCR and contributes to its work. The standards and frameworks published by the BCBS are developed by consensus and are not legally binding. Individual jurisdictions may choose to implement different standards through their own legislative and regulatory processes.

Q.7. Why did the United States decline to contribute to the BCBS's analysis on incorporating climate risk into credit-risk assessments? Why should U.S.-based Globally Systemic Important Banks be exempt from Globally Systemic Important analyses?

A.7. The OCC has been conducting range of practice reviews at its largest banks (those with over $100 billion total assets) to better understand the banks' climate-related financial risk management programs and how these banks manage and monitor climate-related credit risks.

Q.8. How do you plan to monitor banks' improvements in climate-related financial risk management in light of the Fed's recent pilot scenario analysis?

A.8. As laid out in the OCC's FY 2024 Bank Supervision Operating Plan, for national banks, Federal savings associations, and foreign banking organizations with over $100 billion in consolidated assets and any branch or agency of a foreign banking organization that

individually has total assets of over $100 billion, examiners should monitor the development of banks' climate-related financial risk framework for safety and soundness and engage with bank management and other regulators to better understand the challenges banks face in this effort, including data and metrics, governance and oversight, policies, procedures, limits, strategic planning, and scenario analysis capabilities and techniques.

Q.9. Please describe what authorities your agency has to improve access to data for banks to address insurance-related data gaps.

A.9. The OCC's mission is to ensure that national banks and Federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. We generally do not view data collection on behalf of banks (on this or any other topic) as part of that mission.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR WARNOCK FROM MICHAEL HSU

Q.1. On May 10, 2024, U.S. Treasury Secretary Janet Yellen called on Congress [1] to establish a fund for troubled nonbank mortgage companies ahead of the approval of Financial Stability Oversight Council (FSOC)'s report on risks these companies pose to the financial system. [2]

What structural risks do nonbank mortgage companies pose to the U.S. financial system, particularly during economic turmoil?

A.1. Nonbank mortgage companies (NMCs) play an important role in the mortgage market, including through performing critical functions like loan origination and servicing. However, they are subject to vulnerabilities, such as market, liquidity, leverage, and operational risk, and interconnections with other NMCs, that could be transmitted to financial institutions and Government sponsored enterprises (GSEs).

These vulnerabilities can amplify shocks to the mortgage market and thereby contribute to a disruption in critical functions of the broader mortgage market, and a deterioration in financial stability. NMCs now originate and service a majority of mortgages in the United States. NMCs are also interconnected with the broader financial system through various lending and servicing functions, increasing the potential for wider financial stability risk. The Federal Government has significant exposure to NMCs through mortgage securitizations that are both guaranteed by the GSEs and serviced by NMCs.

Q.2. Are additional Congressional authorities necessary to implement recommendations issued by FSOC?

A.2. FSOC's 2024 Report on Nonbank Mortgage Servicing details several recommendations to promote safe and sound operations of

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[1] Katy O'Donnell, "Yellen Calls on Congress To Establish Fund for Nonbank Mortgage Companies", *Politico* (May 10, 2024), *https://subscriber.politicopro.com/article/2024/05/yellen-calls-on-congress-to-establish-fund-fornonbank-mortgage-companies.*

[2] "Report on Nonbank Mortgage Servicing", Financial Stability Oversight Council (May 10, 2024), *https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf.*

NMCs, address liquidity pressures on NMCs in market stress events, and ensure the continuity of NMCs' mortgage servicing operations. Some of those recommendations would require additional authorities, including recommendations that Congress consider legislation supporting information sharing between Federal and State entities, providing the Federal Housing Finance Agency and Ginnie Mae with the ability to set safety and soundness standards and have supervisory authorities for NMC counterparties, and expanding an existing liquidity facility. As you note in your question, the report also recommends Congress establish a liquidity backstop fund to facilitate operational continuity of a distressed NMC's servicing obligations until those obligations can be transferred in an orderly fashion and the NMC is restructured, wound down, or sold.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR BRITT FROM MICHAEL HSU

Q.1. On January 17, 2024, I sent a letter with nine of my colleagues to the Federal Reserve, FDIC, and OCC outlining significant concerns regarding the long-term debt (LTD) proposed rule. Among the various concerns outlined, is the lack of a comprehensive economic impact and cost-benefit analysis, including to assess the combined impacts of other concurrent rulemakings. Specifically, the letter urges your agencies to conduct, and publicly release for comment, a comprehensive economic impact and cost-benefit analysis of the LTD proposal in conjunction with the Basel III endgame proposal and other expected rulemakings before pursuing a LTD requirement for Category II–IV banks.

Does the OCC plan to conduct this type of comprehensive economic impact and costbenefit analysis? If so, when will the findings be available? If not, why?

A.1. The OCC appreciates the importance of considering the economic impact of a rulemaking proposal as well as potential interactions with other rulemakings, such as the regulatory capital proposal. As part of the long-term debt proposal, the Federal banking agencies assessed the benefits and costs of the proposed rule. The discussion of this economic impact assessment can be found in the preamble to the proposal at 88 FR 64549 (September 19, 2023). For all rulemakings, the OCC also performs an additional regulatory impact analysis pursuant to the Regulatory Flexibility Act and consistent with the Unfunded Mandates Reform Act of 1995. This analysis considers estimated costs and benefits, including implementation costs. The OCC's regulatory impact analysis for the long-term debt proposal is publicly available at *https://www.regulations.gov/document/OCC-2023-0011-0008.*

As part of the rulemaking process, the OCC encourages all stakeholders to submit comments and data. The long-term debt proposal includes 67 questions where specific feedback was requested, including its possible interactions with other rulemakings. The OCC carefully reviews and considers all comments received in response to its proposals consistent with the requirements of the Administrative Procedure Act (see, e.g., 5 U.S.C. §553(c)). If the OCC determines that it is appropriate to issue a final rule after it has considered the comments received and made revisions as appropriate, the

OCC will update and finalize its Regulatory Flexibility Act and Unfunded Mandates Reform Act analysis.

Q.2. Mid-size and regional banks play a pivotal role in the U.S. economy, often extending credit and financial services where larger institutions do not. How are you working to ensure that the LTD proposal doesn't impose unnecessary burdens on these financial institutions?

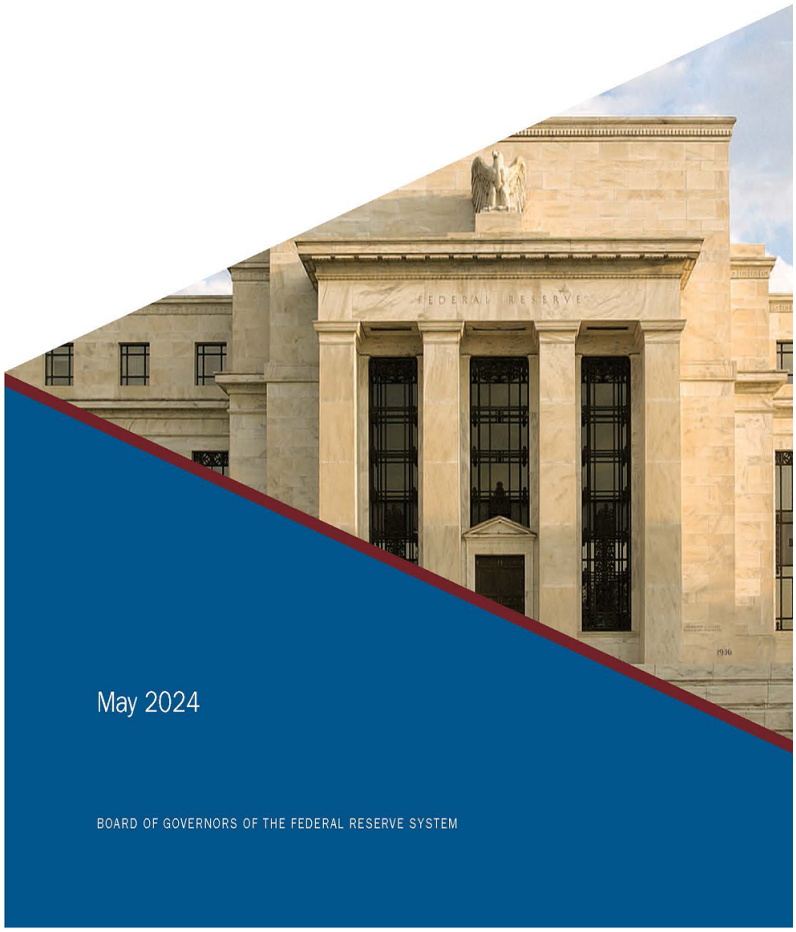
A.2. The OCC appreciates the importance of considering the effect the proposal could have on financial institutions, consumers, and businesses. The Federal banking agencies are carefully considering all comments received on the LTD proposal, consistent with the requirements of the Administrative Procedure Act (see, e.g., 5 U.S.C. §553(c)). As noted in the NPR, the agencies are aware that a LTD requirement could generate additional costs for in-scope mid-size and regional banks. The agencies are carefully considering ways to minimize these costs while still achieving the objectives of the rulemaking.

Q.3. Additionally, in the preamble to the LTD proposal, the agencies state that if adopted as proposed, the Basel III endgame changes would "lead mechanically to increased requirements for LTD under the LTD proposal." While we continue to believe the Basel III endgame proposal should be withdrawn and rewritten, if this is the case, do you believe it is premature to pursue interrelated rulemakings, like the LTD proposal, until the capital impacts can be calculated after the proposal is finalized?

A.3. The OCC appreciates the importance of considering the potential interactions with other rulemakings, including the regulatory capital proposal. The long-term debt proposal included 67 questions where specific feedback was requested, including its possible interactions with other rulemakings. The OCC received a number of comments on the timing of an LTD final rule and the interaction between the LTD proposal and other proposed rules. The OCC is carefully considering these, and all other, comments consistent with the requirements of the Administrative Procedure Act (see, e.g., 5 U.S.C. §553(c)).

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Supervision and Regulation Report



May 2024

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM



The Federal Reserve System is the central bank of the United States. It performs five key functions to promote the effective operation of the U.S. economy and, more generally, the public interest.

The Federal Reserve

- **conducts the nation's monetary policy** to promote maximum employment and stable prices in the U.S. economy;
- **promotes the stability of the financial system** and seeks to minimize and contain systemic risks through active monitoring and engagement in the U.S. and abroad;
- **promotes the safety and soundness of individual financial institutions** and monitors their impact on the financial system as a whole;
- **fosters payment and settlement system safety and efficiency** through services to the banking industry and U.S. government that facilitate U.S.-dollar transactions and payments; and
- **promotes consumer protection and community development** through consumer-focused supervision and examination, research and analysis of emerging consumer issues and trends, community economic development activities, and administration of consumer laws and regulations.

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Preface

The Federal Reserve promotes the safety and soundness of individual financial institutions and monitors their impact on the financial system. It is responsible for supervising—monitoring, inspecting, and examining—certain financial institutions of varying size and complexity to ensure that they comply with rules and regulations, and that they operate in a safe and sound manner. The Federal Reserve supervises bank holding companies, savings and loan holding companies, the U.S. operations of foreign banking organizations, and state member banks.

The Federal Reserve Board publishes its semiannual Supervision and Regulation Report to inform the public of current banking conditions as well as provide transparency about its supervisory and regulatory policies and actions. Previous reports are available at https://www.federalreserve.gov/publications/supervision-and-regulation-report.htm.

For more information on how the Federal Reserve Board promotes the safety and soundness of individual financial institutions and the financial system see *The Fed Explained: What the Central Bank Does* at https://www.federalreserve.gov/aboutthefed/the-fed-explained.htm and visit the Supervision and Regulation web page on the Board's public website at https://www.federalreserve.gov/supervisionreg.htm.

Abbreviations

ACL	allowance for credit losses
AML	anti-money laundering
ASU	Accounting Standards Update
BHC	bank holding company
BSA	Bank Secrecy Act
BTFP	Bank Term Funding Program
CA	Consumer Affairs
CAMELS ratings	Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk
CBLR	Community Bank Leverage Ratio
CBO	community banking organization
CDS	credit default swap
CECL	current expected credit loss
CET1	common equity tier 1
CFP	contingency funding plan
CRE	commercial real estate
C&I	commercial and industrial
FASB	Financial Accounting Standards Board
FBO	foreign banking organization
FDIC	Federal Deposit Insurance Corporation
FFIEC	Federal Financial Institutions Examination Council
Fintech	financial technology
GAAP	generally accepted accounting principles
G-SIB	global systemically important banking organization
IHC	intermediate holding company
IT	information technology
LBO	large banking organization
LFBO	large and foreign banking organization
LFI	large financial institutions
LISCC	Large Institution Supervision Coordinating Committee

MRA	Matters Requiring Attention
MRIA	Matters Requiring Immediate Attention
NBA	nonbank assets
RBO	regional banking organization
RRE	residential real estate
SHC	securities holding company
SLHC	savings and loan holding company
SLOOS	Senior Loan Officer Opinion Survey
SMB(s)	state member bank(s)
SR	Supervision and Regulation
U.S. G-SIB	global systemically important banking organization headquartered in the United States
wSTWF	weighted short-term wholesale funding

Executive Summary

The banking system remains sound and resilient. Most banks continue to report capital and liquidity levels above applicable regulatory requirements. Aggregate commercial bank deposit levels stabilized in the second half of 2023 and slightly increased in early 2024. Asset quality remains sound overall. However, delinquency rates for some commercial real estate loans and some consumer loans have increased to above pre-pandemic levels. Banks have boosted the allowance for credit losses in anticipation of further deterioration in asset quality.

The Federal Reserve is focused on improving the speed, force, and agility of supervision, as appropriate. This includes ensuring supervisory actions are commensurate with a banking organization's size, risk, and complexity. The Federal Reserve continues to closely monitor risks to the banking sector, including credit, interest rate, and liquidity risks.

This report focuses on developments in three areas:

1. Banking System Conditions provides an overview of the financial condition of the banking sector.
2. Regulatory Developments outlines the Federal Reserve's recent regulatory policy work.
3. Supervisory Developments highlights the Federal Reserve's current supervisory programs and priorities.

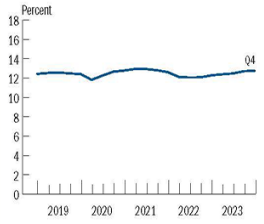
Banking System Conditions

The banking system remains sound and resilient. Most banks continue to report capital and liquidity levels above applicable regulatory requirements. Deposits have increased overall since the last report.[1] Still, some banks face challenges navigating changes in depositor behavior, higher funding costs, and reduced market values for investment securities. Asset quality generally remains sound. However, commercial real estate (CRE) and consumer loan delinquencies have been increasing. Earnings have declined as banks have increased loan loss provisions and incurred higher funding costs. The special assessment by the Federal Deposit Insurance Corporation (FDIC) also contributed to the decline.

Capital Has Increased

Regulatory capital increased in 2023. In aggregate, banks added $76 billion in common equity tier 1 (CET1) capital between year-end 2022 and year-end 2023. Over this period, their CET1 capital ratio increased nearly 50 basis points (figure 1).

Figure 1. Aggregate common equity tier 1 (CET1) capital ratio



Note: CET1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. See the appendix for further information. Community banks can opt into the community bank leverage ratio framework. Thirty-seven percent of community banks have done so and are excluded from the figure.

Source: Call Report and FR Y-9C.

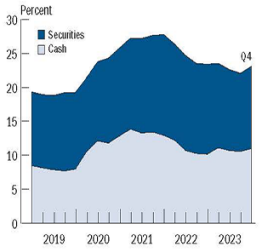
An alternative capital measure, the tangible common equity (TCE) ratio, also increased. However, it remained below pre-pandemic levels. The TCE ratio is similar to the CET1 capital ratio in that both ratios exclude intangible items such as goodwill; however, the TCE ratio does not account for the riskiness of assets but does include changes in the fair value of available-for-sale securities for all banks.[2] Substantial declines in the fair value of securities can weaken a bank's ability to meet unexpected liquidity needs. Some banks continue to report large fair value losses on investment securities resulting from prior interest rate increases.

[1] See Board of Governors of the Federal Reserve System, *Supervision and Regulation Report* (Washington: Board of Governors, November 2023), https://www.federalreserve.gov/publications/2023-november-supervision-and-regulation-report.htm.

[2] Accounting standards do not require banks to reflect declines in the fair value of held-to-maturity securities within equity capital. However, for held-to-maturity securities that were transferred from the available-for-sale category, declines in fair value that existed at the date of the transfer are reported within equity capital.

Liquidity Conditions are Stable

Figure 2. Liquid assets as a share of total assets



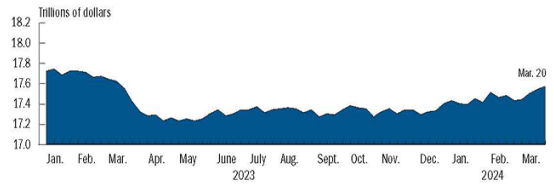
Note: Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets as defined by the Basel III liquidity coverage ratio requirement.

Source: FR Y-9C.

Liquid assets remained above their 10-year average throughout 2023.[3] As a share of total assets, liquid asset levels were relatively flat between year-end 2022 and year-end 2023. A decline in the value of securities on bank balance sheets was mostly offset by an increase in cash holdings over this period (figure 2). Security balances declined due to both lower fair values and reduced holdings by banks.

Aggregate deposits were largely stable in the second half of 2023 and steadily increased in the first three months of 2024. In January 2024, deposits at commercial banks rose above $17.5 trillion for the first time since the banking stresses of March 2023 (figure 3).

Figure 3. Deposits



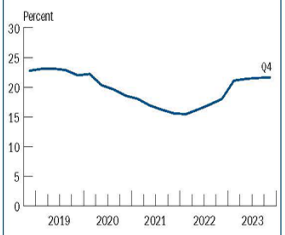
Note: Data are for all commercial banks and are seasonally adjusted.

Source: H.8, "Assets and Liabilities of Commercial Banks in the United States."

[3] The 10-year average for liquid assets as a share of total assets was 21.6 percent at year-end 2023. See section 4 of the May 2024 *Financial Stability Report* for additional discussion of liquidity conditions in the banking system. Board of Governors of the Federal Reserve System, *Financial Stability Report* (Washington: Board of Governors, May 2024), https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf.

At the same time, banks increased their reliance on higher cost wholesale funding sources. After falling to historic lows in early 2022, wholesale funding rose to 21.6 percent of total assets at year-end 2023, more in line with pre-pandemic levels (figure 4). As scheduled, the Bank Term Funding Program ceased extending new loans on March 11, 2024,[4] and the size of the program has begun to decline.[5,6]

Figure 4. Wholesale funding as a share of total assets



Note: Wholesale funding is defined as the sum of brokered deposits under $250,000, federal funds purchased, securities sold under agreement to repurchase, subordinated notes and debentures, and other borrowed money.

Source: Call Report and FR Y-9C.

Banks have improved their operational readiness to access the discount window. Since the banking stresses of March 2023, the amount of collateral pre-positioned at the discount window has increased significantly and is now nearly $3 trillion. Over 5,000 banks and credit unions are signed up to use the discount window, of which nearly 3,000 have collateral pledged.[7]

Loan Growth Has Slowed with Delinquencies Increasing in Some Sectors

Loan growth is still positive but has slowed from a rapid pace the year before. Both weaker loan demand and tighter lending standards contributed to the slowdown.[8] Loan growth in most sectors was modest in 2023. A major exception was the credit card sector.[9] Credit card balances

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[4] See Board of Governors of the Federal Reserve System, "Federal Reserve Board announces the Bank Term Funding Program (BTFP) will cease making new loans as scheduled on March 11," (Washington: Board of Governors, January 2024), https://www.federalreserve.gov/newsevents/pressreleases/monetary20240124a.htm.

[5] See box 4.1 of the May 2024 *Financial Stability Report* for discussion of the Bank Term Funding Program, https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf.

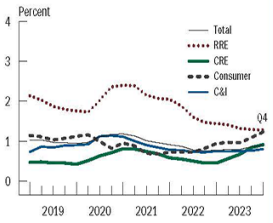
[6] "Federal Reserve Balance Sheet: Factors Affecting Reserve Balances – H.4.1," Board of Governors of the Federal Reserve System, last modified May 2, 2024, https://www.federalreserve.gov/releases/h41/.

[7] "Discount Window Readiness," Board of Governors of the Federal Reserve System, April 12, 2024, https://www.federalreserve.gov/monetarypolicy/discount-window-readiness.htm.

[8] Board of Governors of the Federal Reserve System, "The January 2024 Senior Loan Officer Opinion Survey on Bank Lending Practices" (Washington: Board of Governors, 2024), https://www.federalreserve.gov/data/sloos/sloos-202401.htm. See also Board, "The October 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices," SLOOS, https://www.federalreserve.gov/data/sloos/sloos-202310.htm; "The July 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices," SLOOS, https://www.federalreserve.gov/data/sloos/sloos-202307.htm; and "The April 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices," SLOOS, https://www.federalreserve.gov/data/sloos/sloos-202304.htm.

[9] Board of Governors of the Federal Reserve System, H.8, "Assets and Liabilities of Commercial Banks in the United States," https://www.federalreserve.gov/releases/h8/current/default.htm.

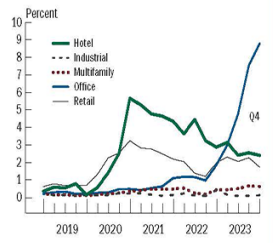
Figure 5. Loan delinquency rates



Note: Delinquent loans are those 90+ days past due or in nonaccrual status.

Source: Call Report and FR Y-9C.

Figure 6. Income-producing CRE loan delinquency rates by property type



Note: Delinquent loans are those 30+ days past due or in nonaccrual status.

Source: FR Y-14Q.

increased to a historic high at the end of 2023, despite tightened lending standards and fewer credit line increases at large banks.[10]

Overall asset quality remains generally sound. The total loan delinquency rate was below one percent at year-end 2023, as the delinquency rate for commercial and industrial (C&I) loans was relatively stable and the delinquency rate for residential real estate (RRE) steadily declined in 2023. However, delinquency rates are rising in CRE and some consumer sectors. The delinquency rate for consumer loans rose above one percent for the first time since the first quarter of 2020, and the delinquency rate for CRE loans increased to 0.9 percent, a five-year high (figure 5).

The rise in CRE delinquencies was largely due to loans secured by nonowner-occupied nonfarm nonresidential properties in banks with at least $100 billion in total assets. Nonowner-occupied nonfarm nonresidential properties include hotels, offices, retail stores, warehouse facilities, and other types of business property used as collateral. At the large banks, office loans showed the greatest delinquency rate increase among property types, particularly in metropolitan areas (figure 6). Reduced demand for office space and higher interest rates adversely affected office loan performance.[11] While banks with total assets of less than $100 billion have lower CRE delinquency rates than large banks, they have a greater percentage of their total loans exposed to the CRE sector.

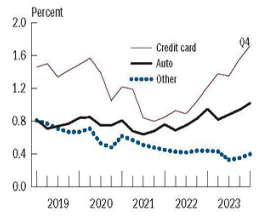
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[10] Federal Reserve Bank of Philadelphia, "Insights: Large Bank Credit Card and Mortgage Data, FR Y-14M data through Q3 2023," https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/y14/2023/q3/23q3-y-14-narrative.pdf?la=en&hash=BE1DC368D286470873D1CE42BEE67968.

[11] See section 1 of the May 2024 *Financial Stability Report* for additional discussion commercial real estate prices, https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf.

The delinquency rate for consumer loans was driven higher in 2023 by the credit card and auto loan sectors (figure 7). The credit card loan delinquency rate reached 1.7 percent at year-end 2023, its highest level in the last five years. In addition, the share of borrowers carrying forward all or some portion of their credit card balance to the next billing cycle has increased. The delinquency rate for auto loans increased in 2023 and now exceeds pre-pandemic levels.[12] Auto loans originated prior to the pandemic by banks with total assets over $100 billion have performed worse than newer loans, partially reflecting a tightening of lending standards for the newer loans.

Figure 7. Consumer loan delinquency rates



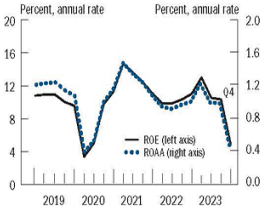
Note: Delinquent loans are those 90+ days past due or in nonaccrual status.

Source: Call Report and FR Y-9C.

Earnings Have Declined, in Part Due to Nonrecurring Expenses

Return on average assets and return on equity were near their 10-year averages in the first three quarters of 2023. The FDIC special assessment and other nonrecurring expenses in the fourth quarter led to a sharp decline in both earnings metrics (figure 8).[13,14] Excluding the FDIC special assessment, both earnings metrics would still have declined, but by a smaller amount.

Figure 8. Bank return on average assets (ROAA) and return on equity (ROE)



Note: ROE is net income divided by average equity capital, and ROAA is net income divided by average assets.

Source: Call Report and FR Y-9C.

Net interest margin measures the difference between interest income and interest expense, relative to interest earning assets. Aggregate net interest margin declined slightly in 2023 as interest expense increased faster than interest income. Interest expense rose quickly in 2023 as banks paid more for deposits and used more wholesale funding.

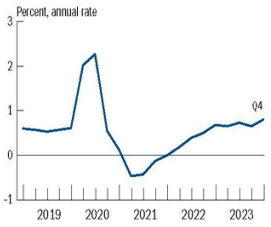
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[12] See section 2 of the May 2024 *Financial Stability Report* for additional discussion on auto loan delinquencies, https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf.

[13] See FDIC, "Special Assessment Pursuant to Systemic Risk Determination," (Washington, December 2023), https://www.fdic.gov/deposit/insurance/assessments/specialassessment-psrd.html.

[14] Other nonrecurring expenses included goodwill impairments, Bloomberg Short-term Bank Yield Index cessation charges, Foreign Exchange devaluations, and severance costs.

Figure 9. Provisions for loan and lease losses as a share of average loans and leases



Source: Call Report and FR Y-9C.

Aggregate loan loss provisions also increased in 2023 (figure 9). Large banks have increased provisions amid credit quality concerns in the CRE and consumer loan sectors. Higher losses from the sale of investment securities also contributed to the decline in earnings.

Market Indicators Have Improved

Market assessments of bank risk, including the market leverage ratio and credit default swap (CDS) spreads, provide a forward-looking assessment of the strength of the banking system. The market leverage ratio measures a bank's financial position based on the ratio of its market capitalization to the sum of market capitalization and the book value of liabilities. A lower stock price reduces the market leverage ratio, indicating lower market confidence in a bank's financial strength. Conversely, higher stock prices produce a higher ratio, reflecting a higher degree of confidence in a bank's financial strength. As a complement to the market leverage ratio, CDS spreads track the price of insurance against a default by a given bank. If a bank's CDS spread increases, it means the market has lower confidence in the bank's creditworthiness. Lower CDS spreads indicate higher market confidence in a bank's creditworthiness.[15]

The average market leverage ratio and average CDS spread for the largest banks moved in directions consistent with an improvement in investor sentiment since the last report (figure 10).

First Quarter 2024 Earnings at Large Firms

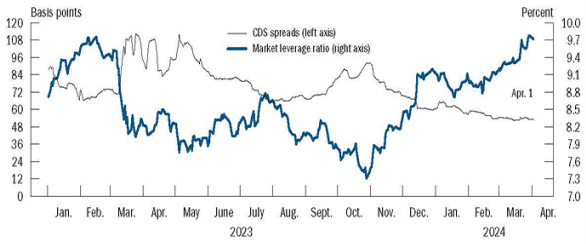
This section provides a recap of first quarter 2024 earnings results for 23 large banking firms ("large banks").[16] While such metrics are indicative, it should be noted that the sample may not necessarily be representative of the entire banking sector.

In the first quarter of 2024, large banks reported healthy financial performance. Aggregate large bank profitability, as measured by return on equity, was 12 percent, compared to 5 percent in the

[15] See the appendix for additional information on the market indicators.

[16] The sample includes Ally Financial Inc.; American Express Company; Bank of America Corporation; The Bank of New York Mellon Corporation; Capital One Financial Corporation; The Charles Schwab Corporation; Citigroup Inc.; Citizens Financial Group, Inc.; Discover Financial Services; Fifth Third Bancorp; The Goldman Sachs Group, Inc.; Huntington Bancshares Incorporated; JPMorgan Chase & Co.; KeyCorp; M&T Bank Corporation; Morgan Stanley; Northern Trust Corporation; The PNC Financial Services Group, Inc.; Regions Financial Corporation; State Street Corporation; Truist Financial Corporation; U.S. Bancorp; and Wells Fargo & Company. Data is unadjusted for mergers and acquisitions.

Figure 10. Average credit default swap (CDS) spread and market leverage ratio (daily)



Note: The market leverage ratio is the ratio of a firm's market capitalization to the sum of market capitalization and the book value of liabilities. Averages are calculated from available observations for the eight LISCC firms (Bank of America Corporation; The Bank of New York Mellon Corporation; Citigroup Inc.; The Goldman Sachs Group; JPMorgan Chase & Co.; Morgan Stanley; State Street Corporation; and Wells Fargo & Company).

Source: Federal Reserve staff calculations using Bloomberg data.

fourth quarter of 2023 and 13 percent in the first quarter of 2023. In the first quarter of 2024, large banks reported higher quarter-over-quarter earnings due to higher capital market and investment management fee revenues, lower nonrecurring costs, and smaller credit loss provisions, which were partially offset by lower net interest income.

At most large banks, both the nonperforming loan rate and loan loss rate increased quarter-over-quarter. Credit loss allowances as a percentage of loans remained relatively stable with fourth quarter 2023 levels. Large banks continued to indicate that credit loss allowances will be sufficient to cover potential future loan losses, including loans in the office commercial real estate and credit card categories.

The aggregate CET1 capital ratio for large banks approximated 12 percent on March 31, 2024, in line with the level on December 31, 2023.

Regulatory Developments

The Federal Reserve has taken several policy actions since the publication of the November 2023 *Supervision and Regulation Report* (see table 1). All Supervision and Regulation (SR) and Consumer Affairs (CA) letters are available on the Federal Reserve Board's public website.[17]

Table 1. Federal Reserve or interagency rulemakings/statements (proposed and final)

From 11/01/2023 to 05/03/2024

Date issued	Rule/guidance
2/6/2024	Federal bank regulatory agencies seek comment on interagency effort to reduce regulatory burden. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240206a.htm
5/3/2024	Agencies issue third-party risk-management guide for community banks. Joint press release: https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240503b.htm

Third-Party Risk Management: A Guide for Community Banks

To supplement the broader third-party risk-management guidance issued in June 2023, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued a third-party risk-management guide for community banks in May 2024.[18] The guide is intended to assist community banks when developing and implementing their third-party risk-management practices. The guide is a supplementary resource consistent with other similar tools that have been provided to community banks focused on managing various aspects of these relationships.[19] The guide provides potential considerations, resources, and examples through each stage of the third-party risk-management life cycle. The guide also references potential considerations and resources for related governance practices.

[17] The Federal Reserve publishes SR and CA letters to address significant policy and procedural matters related to the Federal Reserve System's safety-and-soundness and consumer compliance supervisory responsibilities, respectively. SR letters are available on the Board's public website at https://www.federalreserve.gov/supervisionreg/srletters/srletters.htm, and CA letters are available on the Board's public website at https://www.federalreserve.gov/supervisionreg/caletters/caletters.htm.

[18] See Board of Governors of the Federal Reserve System, "Agencies issue final guidance on third-party risk management," news release, June 6, 2023, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230606a.htm and "Agencies issue guide to assist community banks to develop and implement third-party risk-management practices," news release, May 3, 2024, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240503b.htm.

[19] See Board of Governors of the Federal Reserve System, *Conducting Due Diligence on Financial Technology Companies: A Guide for Community Banks* (Washington: Board of Governors, October 2023), https://www.federalreserve.gov/publications/files/conducting-due-diligence-on-financial-technology-firms-202108.pdf and Board of Governors of the Federal Reserve System, *Community Bank Access to Innovation through Partnerships* (Washington: Board of Governors, October 2023), https://www.federalreserve.gov/publications/files/community-bank-access-to-innovation-through-partnerships-202109.pdf.

Economic Growth and Regulatory Paperwork Reduction Act of 1996

In February 2024, the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency (federal bank regulatory agencies) announced the first of a series of requests for comment to reduce regulatory burden.[20] The Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires the Federal Financial Institutions Examination Council and federal bank regulatory agencies to review their regulations every 10 years to identify any outdated or otherwise unnecessary regulatory requirements for their supervised institutions. The agencies divided their regulations into 12 categories and will be soliciting comments over the next two years. This first request solicits feedback on three categories: Applications and Reporting, Powers and Activities, and International Operations. Comments on the relevant regulations will be accepted for 90 days after publication in the Federal Register.

[20] See Board of Governors of the Federal Reserve System, "Federal bank regulatory agencies seek comment on interagency effort to reduce regulatory burden," news release, February 6, 2024, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240206a.htm.

Supervisory Developments

This section provides an overview of recent supervisory efforts to assess institutions' safety and soundness and compliance with laws and regulations. Supervisory approaches and priorities differ by a financial institution's size and complexity. The subsections below discuss developments separately for large financial institutions with assets of $100 billion or more, and community and regional banking organizations with assets of less than $100 billion.

The Federal Reserve is responsible for overseeing the implementation of certain laws and regulations relating to consumer protection and community reinvestment. The scope of the Federal Reserve's supervisory jurisdiction varies based on the consumer law or regulation and on the asset size of the state member bank. Consumer-focused supervisory work is designed to promote a fair and transparent marketplace for financial services and to ensure supervised institutions comply with applicable federal consumer protection laws and regulations.

More information about the Federal Reserve's consumer-focused supervisory program can be found in the Federal Reserve's *109th Annual Report 2022*.[21]

Federal Reserve Supervision

The Federal Reserve conducts examinations to evaluate a banking organization's activities, risk management, and financial condition.[22] Examinations include assessments of capital adequacy, asset quality, earnings strength and quality, liquidity position and funding sources, sensitivity to interest rate risks, and the quality of board and management oversight. The Federal Reserve may also decide whether to further focus examinations on supervised institutions' known and potential risks.

If supervisors find issues with a bank's risk management or financial condition, they provide direction and require the bank to correct its weaknesses.[23] This direction takes the form of confidential supervisory findings called "Matters Requiring Attention" (MRAs) and, for more significant issues that must be corrected on a priority basis, "Matters Requiring Immediate Attention" (MRIAs). These findings are communicated to a banking organization's management and board of directors

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[21] See Board of Governors of the Federal Reserve System, *109th Annual Report of the Board of Governors of the Federal Reserve System* (Washington: Board of Governors, July 2023), https://www.federalreserve.gov/publications/files/2022-annual-report.pdf.

[22] See "Understanding Federal Reserve Supervision," https://www.federalreserve.gov/supervisionreg/how-federal-reserve-supervisors-do-their-jobs.htm.

[23] Supervisors includes both commissioned examiners (Federal Reserve staff who have been commissioned as an examiner) and subject matter experts that provide support during examinations and off-site monitoring.

in a written exam or inspection report. If a bank does not address these supervisory findings or if the findings are significant enough to pose a threat to a bank's safety and soundness, supervisors may lower the bank's supervisory ratings or pursue an enforcement action against the bank.

Supervisory ratings, which are confidential, provide an assessment of a bank's risk management and financial condition based on examination results, supervisory findings, and other information gathered throughout the year. These ratings reflect supervisors' overall judgment of a bank's safety and soundness. Supervisory ratings are generally issued once a year for larger banks and every 18 months for smaller banks but may also be issued on an interim basis if circumstances warrant.[24]

Supervised Institutions

The Federal Reserve supervises bank holding companies, savings and loan holding companies, state member banks, and foreign banking organizations operating in the United States. The Federal Reserve follows a risk-focused approach by scaling supervisory work to the asset size and complexity of an institution:

- The Large Institution Supervision Coordinating Committee (LISCC) program supervises firms that pose elevated risk to U.S. financial stability.
- The Large and Foreign Banking Organization (LFBO) program supervises U.S. firms with total assets of $100 billion or more and all foreign banking organizations operating in the United States regardless of asset size.
- The Regional Banking Organization (RBO) program supervises U.S. firms with total assets between $10 billion and $100 billion.
- The Community Banking Organization (CBO) program supervises U.S. firms with less than $10 billion in total assets.

Table 2 provides an overview of Federal Reserve supervised organizations by portfolio, including the number of institutions and total assets in each portfolio.

Current Supervisory Priorities

In 2023, the Federal Reserve intensified supervisory efforts to assess banks' preparedness for managing liquidity and credit risks. The Federal Reserve initiated continuous monitoring for a small number of firms with risk profiles vulnerable to funding pressures. The monitoring assessed the adequacy of firms' liquidity and interest rate risk management. Banks are expected to have pru-

[24] See Board of Governors of the Federal Reserve System, "Supervisory Ratings for State Member Banks, Bank Holding Companies and Foreign Banking Organizations, and Related Requirements for the National Examination Data System," SR letter 99-17 (June 24, 1999), https://www.federalreserve.gov/boarddocs/srletters/1999/SR9917.HTM.

Table 2. Summary of organizations supervised by the Federal Reserve (as of 12/31/2023)

Portfolio	Definition	Number of institutions	Total assets ($ trillions)
Large Institution Supervision Coordinating Committee (LISCC)	Eight U.S. global systemically important banks (G-SIBs)	8	14.9
State member banks (SMBs)	SMBs within LISCC organizations	4	1.2
Large and foreign banking organizations (LFBOs)	Non-LISCC U.S. firms with total assets $100 billion and greater and FBOs	170	10.5
Large banking organizations (LBOs)	Non-LISCC U.S. firms with total assets $100 billion and greater	18	5.1
Large FBOs (with IHC)	FBOs with combined U.S. assets $100 billion and greater	10	2.9
Large FBOs (without IHC)	FBOs with combined U.S. assets $100 billion and greater	7	1.3
Small FBOs (excluding rep offices)	FBOs with combined assets less than $100 billion	103	1.1
Small FBOs (rep offices)	FBO U.S. representative offices	32	0.0
State member banks	SMBs within LFBO organizations	9	1.1
Regional banking organizations (RBOs)	Total assets between $10 billion and $100 billion	105*	2.8
State member banks	SMBs within RBO organizations	39	1.0
Community banking organizations (CBOs)	Total assets less than $10 billion	3,452**	3.0
State member banks	SMBs within CBO organizations	654	0.7
Insurance and commercial savings and loan holding companies (SLHCs)	SLHCs primarily engaged in insurance or commercial activities	5 insurance 4 commercial	0.5

* Includes 104 holding companies and 1 state member bank that does not have a holding company.
** Includes 3,401 holding companies and 51 state member banks that do not have holding companies.

dent liquidity risk-management practices and to regularly test their ability to access multiple sources of contingent funding.

Given increased delinquencies in certain loan sectors, credit risk continues to be a supervisory priority. Supervisors are closely monitoring underwriting standards and loan quality. In addition, for CRE-concentrated state member banks, supervisors are conducting in-depth examinations to ensure concentrated banks are exercising strong risk-management practices.

Cybersecurity risk remains a priority. Supervisors are conducting examinations to ensure banks have adequate controls and resilience to protect their data and operations against cybersecurity threats.

The Novel Activities Supervision Program

The Novel Activities Supervision Program is continuing its work with existing Federal Reserve supervisory teams to strengthen the oversight of banking organizations engaged in novel activities

and to help foster responsible innovation.[25] Supervisors are engaging with institutions to assess novel activities, their associated risks, and the effectiveness of controls to manage these risks. Program staff are also monitoring trends in novel activities at banks, the broader crypto-asset and fintech market, and other novel material developments in this space.

Large Financial Institutions

This section of the report discusses the supervisory approach for large financial institutions—namely, U.S. firms with total assets of $100 billion or more, and foreign banking organizations with combined U.S. assets of $100 billion or more. These firms are either within the LISCC portfolio or the LFBO portfolio. Large financial institutions are subject to regulatory requirements that are tiered to the risk profiles of these firms. The appendix provides an overview of key regulatory requirements.

Supervisory efforts for large financial institutions focus on four components:

1. Capital planning and positions,
2. Liquidity risk management and positions,
3. Governance and controls, and
4. Recovery and resolution planning.[26]

The Financial Condition of Large Financial Institutions

Large financial institutions' capital positions remain above minimum regulatory ratios. However, declines in the fair value of securities have weighed on their tangible equity. In 2023, large financial institutions increased capital ratios, primarily through optimizing risk weighted assets and reducing share repurchases. Large financial institutions' aggregate CET1 capital ratio increased to 12.7 percent as of December 31, 2023, from 12.3 percent as of June 30, 2023.

Large financial institutions' profitability, as measured by return on average assets and return on equity, declined in the fourth quarter. The decline was largely driven by the FDIC special assessment and one-time costs incurred in the fourth quarter.[27,28] Excluding these costs, profitability was in line with 2022 levels. Net interest margins remained relatively flat.

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[25] Board of Governors of the Federal Reserve System, "Creation of Novel Activities Supervision Program," SR letter 23-7 (August 8, 2023), https://www.federalreserve.gov/supervisionreg/srletters/SR2307.htm.

[26] For more information regarding the framework for supervision of large financial institutions, see Board of Governors of the Federal Reserve System, "Consolidated Supervision Framework for Large Financial Institutions," SR letter 12-17/CA letter 12-14 (December 17, 2012), https://www.federalreserve.gov/supervisionreg/srletters/sr1217.htm and box 4 in the Board of Governors of the Federal Reserve System, *Supervision and Regulation Report 2018* (Washington: Board of Governors, 2018), https://www.federalreserve.gov/publications/files/201811-supervision-and-regulation-report.pdf.

[27] See Federal Deposit Insurance Company, "Special Assessment Pursuant to Systemic Risk Determination," (Washington, December 2023), https://www.fdic.gov/deposit/insurance/assessments/specialassessment-psrd.html.

[28] One-time charges included goodwill impairments, Bloomberg Short-term Bank Yield Index cessation charges, Foreign Exchange devaluations, and severance costs.

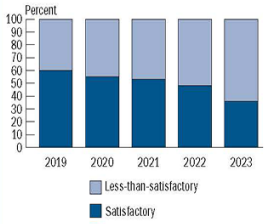
At year-end 2023, total loan delinquencies increased to near pre-pandemic levels, driven by CRE and credit cards loans. Large financial institutions continued to increase allowances for credit losses primarily due to a weak outlook for the CRE office and credit card portfolios.

Liquidity positions remain substantially above regulatory requirements. These positions have generally declined from their pandemic peaks but stabilized to pre-pandemic levels.

Trends in Supervisory Ratings and Findings

Federal Reserve supervisors summarize their assessments of large financial institutions using the LFI rating system.[29] The LFI rating system evaluates whether a firm possesses sufficient financial and operational strength and resilience to maintain safe-and-sound operations and comply with laws and regulations, including those related to consumer protection, through a range of conditions. It includes three components: (1) capital planning and positions; (2) liquidity risk management and positions; and (3) governance and controls. Each component is rated based on a four-point non-numeric scale: Broadly Meets Expectations, Conditionally Meets Expectations, Deficient-1, and Deficient-2. A firm is considered to be in satisfactory condition if all of its component ratings are "Broadly Meets Expectations" or "Conditionally Meets Expectations."

Figure 11. Ratings for large financial institutions



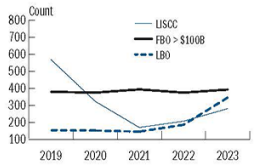
Note: Large financial institutions are rated according to three components: Capital Planning and Positions; Liquidity Risk Management and Positions; and Governance and Controls. Bars show the percentage of satisfactory and less-than-satisfactory ratings across all components. The 2023 value is as of the end of 2023:Q4. Key identifies bars in order from top to bottom.

Source: Internal Federal Reserve supervisory databases.

As of December 31, 2023, two-thirds of large financial institutions were meeting supervisory expectations with respect to the (1) capital positions and planning or (2) liquidity risk management and positions components. However, supervisors have found weaknesses in interest rate risk and liquidity risk-management practices at several large financial institutions. Some large financial institutions continued to show weaknesses in governance and controls related to operational resilience, cybersecurity, and BSA/AML compliance. As a result, only about one-third of the large financial institutions had satisfactory ratings across all three LFI rating components (figure 11).

[29] See Board of Governors of the Federal Reserve System, "Large Financial Institution (LFI) Rating System," SR letter 19-3/CA letter 19-2, (February 26, 2019), https://www.federalreserve.gov/supervisionreg/srletters/sr1903.htm.

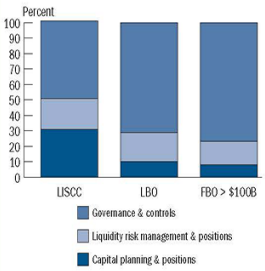
Figure 12. Outstanding number of supervisory findings, large financial institutions



Note: Values are as of year-end. The findings count data are subject to revisions as issues are reviewed, updated, and finalized; this could result in minor historical count fluctuations.

Source: Internal Federal Reserve supervisory databases.

Figure 13. Outstanding supervisory findings by category, large financial institutions



Note: As of 2023:Q4, total supervisory findings, by portfolio, were: LISCC—280; LBO—345; and FBO > $100B—392. Key shows bars in order from top to bottom.

Source: Internal Federal Reserve supervisory databases.

Outstanding supervisory findings at large financial institutions have increased in the second half of 2023, which contributes to the higher percentage of firms being rated less than satisfactory (figure 12). Supervisory findings related to weaknesses in liquidity and interest rate risk-management practices increased. Governance and controls findings represent approximately two-thirds of outstanding issues (figure 13).

Supervisory Focus

Supervisors conduct firm-specific examinations and horizontal reviews to assess large financial institutions' resilience and risk-management practices. Horizontal review allows supervisors to compare risk-management practices, identify gaps in practices, and promote sound practices across firms.

Throughout 2023, the Federal Reserve conducted examinations and closely monitored liquidity positions and risk management at large financial institutions. This included reviewing recent deposit trends, deposit and liability management strategies, liquidity risk-management practices, access to secured funding, liquidity stress test projections related to deposits, and liquidity buffer composition.

Supervisors completed examinations to assess interest rate risk-management practices across several large financial institutions. The exams assessed the adequacy of firms' risk-management

processes to identify, measure, monitor, and, as needed, mitigate interest rate and related liquidity risks.

Supervisors conducted examinations to monitor and assess credit risk, as asset quality has deteriorated for some loan types. Some large financial institutions reported higher loan losses for CRE and credit card loans and have generally increased provisions for credit losses. Recent examinations reviewed loan quality, firms' internal risk reporting, loss forecasting, risk management, and reserves for credit loss adequacy. In addition, supervisors have assessed the level and quality of loans to nonbank financial institutions, given a substantial increase in lending to this sector in recent years.

Supervisors examined cybersecurity practices across large financial institutions as cyber threats persisted. The examinations assessed firms' capabilities to identify, measure, monitor, and protect against cybersecurity risk.

See below for additional detail on large financial institutions' supervisory priorities for the coming months.

Large Financial Institution Supervisory Priorities

Capital

- interest rate risk
- market and counterparty risk
- consumer and commercial credit, including commercial real estate
- firm remediation efforts on previous supervisory findings

Liquidity

- internal liquidity stress tests, including
  - changes to deposit stress testing segmentation and runoff rate assumptions
  - highly liquid asset composition frameworks and monetization assumptions
- firm remediation efforts on previous supervisory findings
- intraday liquidity monitoring and risk-management practices

Governance and Controls

- operational resilience including cybersecurity
- novel banking and information technology risks
- third-party vendor management
- firm remediation efforts on previous supervisory findings

Recovery and Resolution Planning

- recovery and resolution planning, including biannual resolution plan review for the G-SIBS
- remediation and follow-up on resolution plan shortcomings and exam findings, as necessary
- international coordination among global supervisors

Community and Regional Banking Organizations

This section of the report discusses the financial condition and supervisory approach for banking organizations with assets of less than $100 billion, including community banking organizations (CBOs), which have less than $10 billion in total assets, and regional banking organizations (RBOs), which have total assets between $10 billion and $100 billion.

The Financial Condition of CBOs and RBOs

CBOs and RBOs generally remain in sound financial condition, with most banks continuing to report strong capital positions. The aggregate tier 1 leverage ratio increased in 2023, as capital growth outpaced asset growth. The aggregate TCE ratio also increased slightly year-over-year, as the fair value of securities held by banks increased.

Earnings of CBOs and RBOs declined in 2023. Higher funding costs and weaker loan growth compressed net interest margins. For RBOs, higher provisions and noninterest expense, partially attributed to the FDIC special assessment, also contributed to the decline in earnings.

Asset quality generally remains sound. Problem loan levels remain low overall. The total loan delinquency rate increased slightly in 2023. Some banks reported deteriorating CRE loan performance.

Liquidity positions for most CBOs and RBOs are satisfactory. The share of uninsured deposits declined to a level more comparable to pre-pandemic levels. However, challenges remain for some banks. The aggregate ratio of wholesale funding to total assets increased in 2023. Some banks continue to rely heavily on wholesale funding sources that are often more costly and less stable than deposits. Federal Reserve supervisors are closely monitoring liquidity trends and adequate access to contingency funding.

Trends in Supervisory Ratings and Findings

The Federal Reserve and the other federal and state banking agencies utilize the Uniform Financial Institution Rating System (referred to as "CAMELS") to present the supervisor's conclusions regarding the overall condition of the bank. The CAMELS composite rating represents an overall appraisal of six key assessment components covered under the CAMELS rating system: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

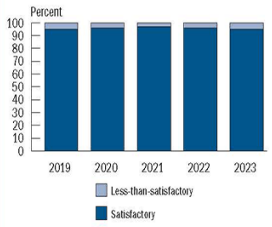
For the inspection of a holding company with less than $100 billion in total consolidated assets, the Federal Reserve utilizes the RFI rating system to present the supervisor's conclusions regarding the overall condition of these holding companies. The RFI composite rating represents an overall assessment of three components covered under the RFI rating system: Risk Management, Financial Condition, and Impact of the non-depository entities on the subsidiary depository institutions.

The CAMELS and RFI rating systems are assigned based on a "1 to 5" numeric scale. A "1" numeric rating indicates the highest rating, strongest performance and practices, and least degree of supervisory concern. A "5" numeric rating indicates the lowest rating, weakest performance, and highest degree of supervisory concern. Banks and holding companies that are rated "1" or "2" are generally in satisfactory condition, while banks that are rated "3," "4," or "5" are in less-than-satisfactory condition.

The majority of CBOs and RBOs remain in satisfactory condition with effective risk-management practices (figure 14).[30] However, supervisory ratings downgrades have increased due in part to weaknesses in interest rate and liquidity risk-management practices.

The number of outstanding supervisory findings has increased in 2023 (figure 15). For CBOs, the most cited supervisory issues relate to IT/operational risk, management/risk-management weaknesses, and credit risk (figure 16). For RBOs, the most cited supervisory findings relate to IT/operational risk, management/risk management, and market/liquidity risk (figure 17).

Figure 14. Top tier ratings for CBO and RBO firms

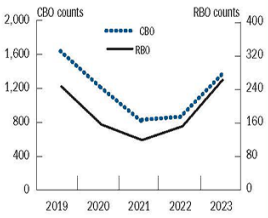


Note: Includes composite ratings for consolidated top-tier holding companies and SMBs without HCs for CBO and RBO firms. The 2023 value is as of the end of 2023:Q4. Key identifies bars in order from top to bottom.

Source: Internal Federal Reserve supervisory databases.

[30] For details on the supervisory ratings framework, see Board of Governors of the Federal Reserve System, "Large Financial Institution (LFI) Rating System," SR letter 19-3/CA letter 19-2 (February 26, 2019), https://www.federalreserve.gov/supervisionreg/srletters/sr1903.htm and "Uniform Financial Institutions Rating System," SR letter 96-38 (December 27, 1996), https://www.federalreserve.gov/boarddocs/srletters/1996/sr9638.htm.

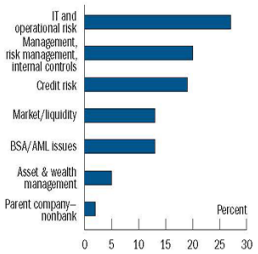
Figure 15. Outstanding supervisory findings, CBO and RBO firms



Note: Values are as of year-end. The findings count data are subject to revisions as issues are reviewed, updated, and finalized; this could result in minor historical count fluctuations.

Source: Internal Federal Reserve supervisory databases.

Figure 16. Outstanding supervisory findings by category, CBO firms



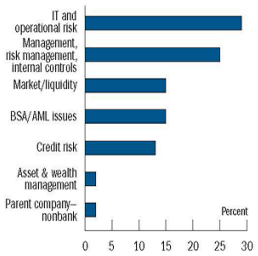
Note: As of 2023:Q4, there were 1,340 total supervisory findings for CBO firms.

Source: Internal Federal Reserve supervisory databases.

Supervisory Focus

During 2023, the Federal Reserve intensified monitoring of CBOs and RBOs that appeared most vulnerable to funding pressures. Where appropriate, Federal Reserve supervisors required bank management to improve access to contingency funding, increase liquid asset buffers, and reassess deposit outflow assumptions in contingency funding plans. For certain banks, Federal Reserve supervisors assessed their ability to mitigate risk from deposit concentrations and high levels of uninsured deposits. Supervisors also worked to ensure that those banks update their contingency funding plans as needed.

Figure 17. Outstanding supervisory findings by category, RBO firms



Note: As of 2023:Q4, there were 262 total supervisory findings for RBO firms.

Source: Internal Federal Reserve supervisory databases.

Federal Reserve supervisors are closely monitoring CRE market developments and credit risks at banks with large CRE credit concentrations. Supervisors expect banks with larger CRE credit concentrations to have robust risk-management practices and to quantify the impact of changing economic conditions on their earnings, asset quality, and capital. In 2023 at certain

RBOs, Federal Reserve supervisors conducted supervisory work to assess risk-management processes and stress test individual loans and loan portfolios.

See below for additional detail on CBO and RBO supervisory priorities for the coming months.

CBO and RBO Supervisory Priorities

Credit Risk

- high-risk loan portfolios, credit risk management, and debt service coverage capacity in a changing interest rate environment
- credit concentrations, particularly in CRE loan portfolios
- impact of rising capitalization (cap) rates and real estate valuation uncertainty
- adequacy of an institution's allowance and provisioning methodology

Liquidity Risk

- contingency funding plans
- liquidity coverage of uninsured deposits

Other Financial Risks

- capital adequacy, and the potential impact of deteriorating credit quality metrics of certain loan sectors on earnings and capital
- interest rate risk and sensitivity risk
- declines in the fair value of securities and low tangible common equity levels

Operational Risk

- information technology and cybersecurity preparedness
- fintech and banking-as-a-service activities
- third-party risk management

Appendix: Data Sources and Terms

Data Sources

The Supervision and Regulation Report includes data both on institutions supervised by the Federal Reserve System and some institutions outside Federal Reserve supervision. The report reflects data through April 1, 2024. This appendix details these sources.

FFIEC Call Reports

The FFIEC Consolidated Reports of Condition and Income, also known as the Call Report, is a periodic report that is required to be completed by every national bank, state member bank, insured nonmember bank, and savings association as of the last day of each calendar quarter. The details required to be reported depend on the size of the institution, the nature of the institution's activities, and whether it has foreign offices. Call Report data are a widely used source of timely and accurate financial data regarding a bank's financial condition and the results of its operations. The data collected on the Call Report are used to monitor the condition, performance, and risk profiles of reporting institutions individually and altogether.

FR Y-9C

The Consolidated Financial Statement for Holding Companies, also known as the FR Y-9C report, collects basic financial data from domestic bank holding companies (BHCs), savings and loan holding companies (SLHCs), U.S. intermediate holding companies of foreign banking organizations (U.S. IHCs), and securities holding companies (SHCs). Initiatives to reduce reporting costs for firms led to increases in the minimum asset size thresholds for reporting from $500 million to $1 billion, and from $1 billion to $3 billion, effective March 2015 and September 2018, respectively. In addition, BHCs, SLHCs, U.S. IHCs, and SHCs meeting certain criteria may be required to file this report, regardless of size. However, when such BHCs, SLHCs, U.S. IHCs, or SHCs own or control, or are owned or controlled by, other BHCs, SLHCs, U.S. IHCs, or SHCs, only top-tier holding companies must file this report for the consolidated holding company organization. The information contained in the report is as of the last day of each calendar quarter.

FR Y-14Q

The FR Y-14Q report is part of the Capital Assessments and Stress Testing information collection (FR Y-14). The FR Y-14 data collection is used to assess the capital adequacy of large firms using forward-looking projections of revenue and losses and to support supervisory stress test models and continuous monitoring efforts as well as to inform the Federal Reserve's operational decision-

making and implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010). The FR Y-14Q collects detailed data on BHCs', IHCs', and SLHCs' various asset classes, capital components, and categories of pre-provision net revenue.

H.8 Assets and Liabilities of Commercial Banks in the United States

The H.8 release provides an estimated weekly aggregate balance sheet for all commercial banks in the United States. The H.8 estimates are primarily based on the FR 2644 reporting form—reported weekly by a voluntary authorized panel of 850 domestically chartered banks and foreign-related institutions—and quarterly Consolidated Reports of Condition and Income for those commercial banks that are not included in the FR 2644 panel.

Notes on Data Sources and Terms

CAMELS Ratings

Following an examination of a commercial bank, the examiner's conclusions regarding the overall condition of the bank are summarized in a composite rating assigned in accordance with guidelines provided under the Uniform Financial Institution Rating system (referred to as "CAMELS"). The composite rating represents an overall appraisal of six key assessment areas (components) covered under the CAMELS rating system: Capital, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk.

In addition to and separate from the interagency Uniform Financial Institutions Rating System, the Federal Reserve assigns a risk-management rating to all SMBs. The summary, or composite, rating, as well as each of the assessment areas, including risk management, is delineated on a numerical scale of 1 to 5, with 1 being the highest or best possible rating. Thus, a bank with a composite rating of 1 requires the lowest level of supervisory attention while a 5-rated bank has the most critically deficient level of performance and, therefore, requires the highest degree of supervisory attention.

When appraising the six key assessment areas and assigning a composite rating, the examiner weighs and evaluates all relevant factors for downgrades and upgrades of supervisory ratings.

Current Expected Credit Losses Methodology (CECL)

In 2016, the Financial Accounting Standards Board (FASB) announced significant changes to credit loss accounting under U.S. generally accepted accounting principles (GAAP). Refer to Accounting Standards Update (ASU) No. 2016-13, Financial Instruments—Credit Losses, Topic 326, Measurement of Credit Losses on Financial Instruments.

CECL replaced the incurred loss methodology for financial assets measured at amortized cost. For these assets, CECL requires banking organizations to recognize lifetime expected credit losses. Further, banking organizations are required to incorporate reasonable and supportable forecasts in developing their estimate of lifetime expected credit losses, while also considering past events and current conditions.

Supervised institutions that are SEC filers, excluding smaller reporting companies, were required to adopt CECL on January 1, 2020. All other institutions were required to implement CECL by January 1, 2023. For additional information, refer to the Federal Reserve's CECL Resource Center – CECL Resource Center (https://www.supervisionoutreach.org/).

Commercial Real Estate Loans

Commercial real estate loans are the sum of construction, land development, and other land loans; loans secured by multifamily residential properties; and loans secured by nonfarm nonresidential properties.

Note: H.8 commercial real estate data include loans secured by farmland.

Common Equity Tier 1 (CET1)

Common equity capital is currently evaluated using a CET1 capital ratio, which was introduced into the regulatory capital framework in 2014, consistent with international Basel III reforms. The CET1 capital ratio is defined as CET1 capital, which consists primarily of common stock and retained earnings, as a percent of risk-weighted assets. Advanced approaches institutions are required to report risk-weighted assets using an internal model-based approach and a standardized approach. An advanced approaches institution is subject to the lower of the ratios. CBOs that have opted into the community bank leverage ratio (CBLR) framework are not required to report a CET1 capital ratio and risk-weighted assets.

From 2006 through 2013, tier 1 common capital was used to measure common equity capital for all firms. In 2014, both tier 1 common capital (for non-advanced approaches firms) and CET1 capital (for advanced approaches firms) were used. From 2015 to present, CET1 capital has been used for all firms.

Community Bank Leverage Ratio Framework (CBLR)

The CBLR framework, which became effective January 1, 2020, allows qualifying CBOs to adopt a simple leverage ratio to measure capital adequacy. To qualify for the framework, a CBO must have less than $10 billion in total consolidated assets, have limited trading activity and off-balance-sheet exposure, meet the leverage ratio requirement, and not be part of an advanced approaches banking organization. The leverage ratio requirement for the CBLR framework was temporarily low-

ered to 8 percent beginning in the second quarter of 2020 through the remainder of calendar year 2020. The requirement was set at 8.5 percent for calendar year 2021 and returned to its previous 9 percent level beginning January 1, 2022.

The leverage ratio requirement for the CBLR framework is defined with respect to tier 1 capital as a percent of average total consolidated assets for the quarter as reported on Schedule RC-K on the Call Report or Schedule HC-K on Form FR Y-9C, as applicable. A CBLR banking organization with a ratio above the requirement will not be subject to other capital and leverage requirements.

Consumer Loans

Consumer loans include credit cards, other revolving credit lines, automobile loans, and other consumer loans (including single-payment loans, installment loans excluding automobile loans, and student loans).

Contingency Funding Plan

A Contingency Funding Plan (CFP) is a bank's strategy for addressing contingent liquidity events. Contingent liquidity events are unexpected situations or business conditions that may increase liquidity risk. These events may be institution-specific or arise from external factors. A CFP should contain policies to manage a range of stress environments, establish clear lines of responsibility, and articulate clear implementation and escalation procedures. CFPs should be commensurate with an institution's complexity, risk profile, and scope of operations. CFPs should address both the severity and duration of contingent liquidity events. CFPs should be regularly tested and updated to ensure that they are operationally sound.

Credit Default Swap Spread

The five-year credit default swap spread is the premium payment expressed as a proportion of the notional value of the debt that is being insured against default (typically $10 million in senior debt) in basis points. Data are based on daily polls of individual broker-dealers worldwide. Note that these broker quotes are typically not transaction prices. Data provided are for LISCC firms only.

Credit Loss Reserves

Credit loss reserves represent the allowance for credit losses on a bank's portfolio of financial instruments carried at amortized cost (including loans held for investment, held-to-maturity debt securities, trade receivables, reinsurance receivables, and receivables that relate to repurchase agreements and securities lending agreements), net investment in leases as a lessor, and off-balance-sheet credit exposures not accounted for as insurance or derivatives. Credit loss reserves are recorded on a bank's balance sheet.

Delinquent Loans

Delinquent loans are the sum of 90+ days past due loans and nonaccrual loans.

Note: FR Y-14Q delinquent loans are the sum of 30+ days past due loans and nonaccrual loans.

Liquid Assets

Liquid assets are cash plus estimates of securities that qualify as high-quality liquid assets, as defined by the Board's liquidity coverage ratio rule.

Market Leverage Ratio

The market leverage ratio is defined as the ratio of the firm's market capitalization to the sum of market capitalization and the book value of liabilities. This ratio can be considered a market-based measure of a firm's capital (expressed in percentage points). Data provided are for LISCC firms only.

Net Interest Margin

Net interest margin measures a bank's yield on its interest-bearing assets after netting out interest expense.

Prime Brokerage

Some large banks offer a suite of services to large investment funds known as prime brokerage. These services include the ability to borrow securities or cash, cash management, and access to research as well as provides introductions to potential investors. Lending is an important aspect of these services. The investment funds typically obtain loans secured by equities or other securities through the prime broker.

Provisions

Provisions represent the amount necessary to adjust credit loss reserves to reflect management's current estimate of expected credit losses. Provisions are recorded as an expense item on the bank's income statement.

Residential Real Estate Loans

Residential real estate loans refer to loans secured by 1 to 4 family residential properties, including: revolving, open-end loans secured by 1 to 4 family residential properties and extended under lines of credit; closed-end loans secured by first liens on 1 to 4 family residential properties; and closed-end loans secured by junior (i.e., other than first) liens on 1 to 4 family residential properties.

Top Holder

All data, unless otherwise noted, refer to the top-holder data. This population generally comprises top-tier Call Report filers and top-tier FR Y-9C filers, including depository SLHCs and foreign banking organizations. In instances where a top-tier holding company does not file the FR Y-9C, we combine financial data of subsidiary banks/thrifts to approximate the consolidated financial data of the holding company. Commercial and insurance SLHCs, cooperative banks, and non-deposit trust companies are excluded from the top-holder population.

Tiering of Regulation

In October 2019, the Federal Reserve Board adopted rules that tier its regulations for domestic and foreign banks and holding companies to match their risk profiles more closely. The rules establish a framework that sorts institutions with $100 billion or more in total assets into four categories based on several factors, including asset size, cross-jurisdictional activity, reliance on weighted short-term wholesale funding (wSTWF), nonbank assets (NBA), and off-balance-sheet exposure (table A.1).

Table A.1. List of domestic and foreign firms, by category, as of 2023:Q4

Firm type	Category I U.S. G-SIBs	Category II >=$700b total assets or >=$75b in cross-jurisdictional activity	Category III >=$250b total assets or >=$75b in NBA, wSTWF, or off-balance-sheet exposure	Category IV Other firms with $100b to $250b total assets
Domestic firms				
U.S. domestic banking organization	Bank of America Bank of New York Mellon Citigroup Goldman Sachs JPMorgan Chase Morgan Stanley State Street Wells Fargo	Northern Trust	Capital One Charles Schwab PNC Financial Truist Financial U.S. Bancorp	Ally Financial American Express Citizens Financial Discover Fifth Third First Citizens Huntington KeyCorp M&T Bank NY Community Bancorp Regions Financial Synchrony Financial
Foreign firms (standards vary by legal entity)				
Intermediate holding company			Barclays US BMO Financial Credit Suisse USA Deutsche Bank USA DWS TD Group US UBS Americas	HSBC North America RBC US Santander Holdings USA
Combined U.S. operations		Barclays US MUFG Sumitomo Mitsui UBS	Bank of Montreal BNP Paribas Deutsche Bank Mizuho Royal Bank of Canada Toronto-Dominion	Banco Santander Bank of Nova Scotia Canadian Imperial HSBC Societe Generale

Notes: NBA is nonbank assets, wSTWF is weighted short-term wholesale funding. BMO Financial moved from Category IV to Category III as of 2023:Q4.
Source: FR Y-15.

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America's Credit Unions

Jim Nussle
President & CEO
202-508-6745
jnussle@americascreditunions.org

99 M Street SE
Suite 300
Washington, DC 20003

May 16, 2024

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

Re: Today's Hearing: "Oversight of U.S. Financial Regulators: Accountability and Financial Stability"

Dear Chairman Brown and Ranking Member Scott:

On behalf of America's Credit Unions, I am writing regarding today's hearing entitled "Oversight of U.S. Financial Regulators: Accountability and Financial Stability" to share our thoughts on issues regarding the National Credit Union Administration (NCUA) and the submitted testimony of NCUA Chairman Todd Harper as they pertain to credit unions. America's Credit Unions is the voice of consumers' best option for financial services: credit unions. We advocate for policies that allow the industry to effectively meet the needs of their nearly 141 million members nationwide.

Chairman Harper has missed an opportunity to tell policymakers all the good work that credit unions are doing and instead is creating such an overregulation of the industry that we will not have any credit unions left if we remain on this path. In his written testimony, Chairman Harper acknowledges the strength of the credit union industry, and that both the industry and its insurance fund are well run and well capitalized. However, he then highlights his desire for Congress to enact a number of statutory changes that will increase costs and regulatory burdens for credit unions.

The credit union industry remains a strong, well capitalized, and safe place for consumers. As not-for-profit, member-owned cooperatives, credit unions focus on serving their members, not chasing profits. Below you will find several instances where the recommendations in Chairman Harper's testimony are missing the full story, lacking statistical support, or simply detrimental to the overall credit union industry.

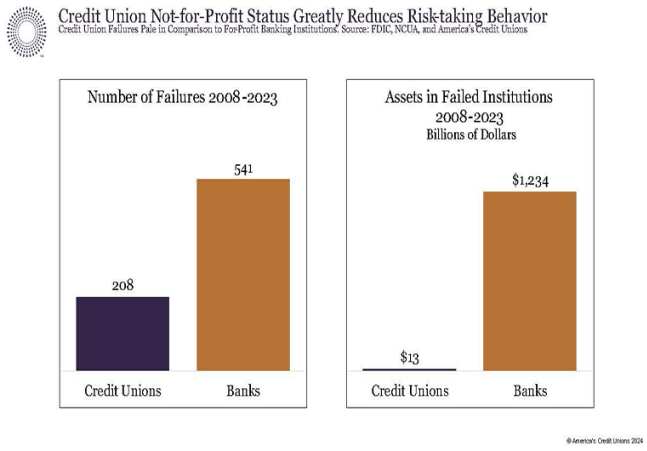
The Share Insurance Fund is Strong and Structural Reform Is Not Needed

Unlike the banking system where roughly 50 percent of deposits were uninsured by the Federal Deposit Insurance Corporation (FDIC) before the failures last year, over 90 percent of credit union deposits are insured by the NCUA and its National Credit Union Share Insurance Fund

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(NCUSIF). That number is even higher when private and supplemental insurance offerings are taken into account.

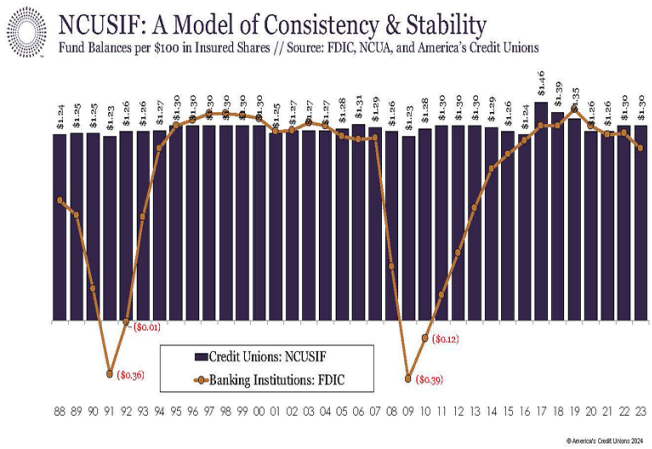
The high-profile failures in the banking sector last year sparked discussion of the issue of deposit insurance reform. As was the case in the 2008 Financial Crisis, credit unions did not engage in behavior that led to the crisis but were impacted from the downstream effects of institutional and market disruptions. Yet, once again, they successfully weathered the storm. As outlined in the chart below, credit unions' not-for-profit nature reduces their risk-taking behavior, helping mitigate impacts of downturns.



America's credit unions are well capitalized with a 10.93 percent net worth-to-asset ratio and a 9.1 percent equity capital ratio. The loan-to-savings ratio stands at 85.4 percent. The liquidity ratio (the ratio of surplus funds maturing in less than one year to borrowings plus other liabilities) was 15.7 percent in March of 2024, up from 12.9 percent in March 2023. These statistics indicate that credit unions are healthy and stable.

As such, we were disappointed to see the NCUA once again ask for expanded ability to charge credit unions premiums and change a system that has proven to be resilient over the last half century. The equity ratio of the NCUSIF stands at 1.30 percent as of as of year-end 2023, even higher than Chairman Harper predicted in his testimony last fall. While this is below the target Normal Operating Level (NOL) of 1.33 percent, it is above the 1.20 percent threshold that would require the Board to institute a formal Fund restoration plan.

In his written testimony, Chairman Harper repeats his call for Congress to specifically change the Federal Credit Union (FCU) Act to remove the 1.50 percent statutory ceiling on the Fund's capitalization and permit premium assessments when the Fund's equity ratio exceeds 1.30 percent. We strongly disagree with each of these suggested amendments, as we believe such drastic changes are unnecessary given the reliability, consistency, and strength of the NCUSIF over the years, as outlined in the chart below.



Expanded Third-Party Vendor/Credit Union Service Organization Authority is Not Needed

Over the past several years, the NCUA Board has continued to push for Congressional amendments to the FCU Act to provide the agency with direct supervisory authority over third-party vendors (TPVs) and credit union service organizations (CUSOs).

We strongly disagree with the need for an unlimited grant of such authority. The NCUA has effectively managed risks associated with TPVs/CUSOs within the agency's current regulatory authority. Credit unions are required to perform due diligence on their TPV/CUSO relationships, and this due diligence is already subject to supervision by the NCUA. The NCUA also has the authority to review the books and records of CUSOs. Should the NCUA be granted examination authority over TPVs/CUSOs, we are concerned that a significant increase in the agency's budget will be required to obtain and train qualified, experienced examiners. As credit unions fund the NCUA budget, any increase will come from credit unions and put additional pressure on their ability to serve members.

Instead of this authority, America's Credit Unions supports interagency coordination to mitigate vulnerabilities to the financial system. We believe it is unnecessary for the NCUA to have a duplicative program that has the potential to drastically increase costs for credit unions. Congress should encourage the NCUA to use the Federal Financial Institution Examination Council (FFIEC) to access information on companies, including large technology service providers, that have already been examined by other regulators, and if the other regulators do not comply, Congress should consider compelling them to share this exam information directly with the NCUA. At this time, it is unclear if replicating the existing supervisory authorities of other federal banking regulators will reduce the exploitation of third-party vulnerabilities. Furthermore, the Cybersecurity and Infrastructure Security Agency (CISA) has issued a proposal to compel extensive cyber incident reporting across all critical infrastructure sectors, including the financial sector and credit unions. We believe focusing attention on improving information sharing with the other FFIEC agencies and CISA would adequately address NCUA concerns. As such, we oppose legislative changes to expand NCUA authority over TPVs/CUSOs.

NCUA's Budget

The NCUA is funded by regulated credit unions and their members, not by taxpayers. Credit unions and their members remain willing to pay for their own regulator provided there is sufficient transparency, including with regard to the agency's budget. For the last several years, even before it was statutorily required to do so, the NCUA has held an annual hearing on its budget, and as a result, the agency's budget transparency has improved.

Unfortunately, the NCUA's budget continues to increase despite industry consolidation, and the agency's 2024 budget once again overlooked opportunities to incorporate more efficient processes with potential cost-savings. In fact, the 2024 budget is an increase of 7 percent over 2023, and the 2025 budget is tentatively set to include a 12.3 percent increase over 2024. In contrast, the average annual budget growth in the eight years prior to 2020 was a much more restrained 3.8 percent.

Continuing this trajectory of substantially increased budgets is unsustainable and will have serious consequences for the credit unions that fund the NCUA and their ability to serve their members. We urge the NCUA to restrain its spending going forward and look for cost-savings wherever possible. If the agency does not, Congress must use its oversight authority to demand further justification for such increases.

We have recommended that the NCUA continue to focus on implementing lessons learned from the pandemic and not ignore the achievements that have been made towards cost-savings. We recommend that the NCUA embrace the importance of cost-efficiency and prudent financial management by refraining from hiring additional, unnecessary staff, which unfortunately was not the case this year.

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As the agency works on its 2025-2026 budgets, we reiterate our previous recommendations as guiding principles:

1. Preserve the strength of the NCUSIF without overburdening credit unions with exorbitant Operating Fees and return surplus cash from the Operating Fund to credit unions;
2. Continue to prioritize offsite examination activities, revise the threshold for extended examination cycles to achieve further efficiencies, and provide greater transparency for expenses related to the Modern Examination and Risk Identification Tool;
3. Refrain from hiring even more specialized examiners that are not justified by a measurable industry need; and
4. Adopt a more transparent and accountable methodology for tracking and evaluating the efficacy of cybersecurity and IT-related expenses.

FCU Act Modernization

As the Committee examines the current regulatory environment for credit unions, we would like to flag a few areas where the FCU Act needs modernization. We were pleased to see quick action in the House on H.R. 582, the Credit Union Board Modernization Act, earlier this Congress. Another area of the FCU Act in need of modernization is investment authorities. Federal credit unions are more limited than other types of institutions and even state-chartered credit unions as to where they can invest their funds to earn a return. An increase in deposits on hand during the pandemic, combined with a limited ability to earn a return, presents a series of challenges for FCUs, especially in terms of liquidity. Although the NCUA has some authority to adjust investment options, it is relatively limited in what it can do to offer more investments absent amendments to the FCU Act. We encourage you to consider legislative action on these issues and to allow the NCUA to provide a broader set of investment options for FCUs.

An important aspect of modernizing the regulatory environment for credit unions is modernizing lending provisions in the FCU Act. Credit unions proved their importance as a source of credit to small businesses during the pandemic. In many cases credit unions were the only source of Paycheck Protection Program loans for small businesses after they had been turned away by banks. Credit unions would like to continue to provide credit to businesses in their communities; however, they are constrained by the member business lending (MBL) cap in the FCU Act. This provision caps the total amount a credit union can lend to businesses at 12.25 percent of deposits, with loans under a de minimis threshold of $50,000 not counting towards that cap. With the current inflationary environment, this de minimis threshold is out of date and should be increased to allow credit unions to continue to aid businesses in their communities. H.R. 4868, the Member Business Loan Expansion Act, and S. 539, the Veterans Member Business Loan Act, are bipartisan bills which would help provide relief from the MBL cap.

In addition to providing relief from the MBL cap, we urge the Committee to consider legislation expanding the loan maturity limit in the FCU Act. Currently, credit unions are constrained to

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commercial loans with a maturity limit of 15 years. We would support legislation to increase this limit, such as H.R. 6933, the Expanding Access to Lending Options Act.

Extended Examination Cycle

Efforts to extend the examination cycle for certain credit unions have proven positive, particularly for credit unions for which a 12-month cycle was clearly unnecessary. Since banks are provided an extended examination cycle, credit unions are now at a comparative disadvantage. Section 210 of the Economic Growth, Regulatory Relief, and Consumer Protection Act made qualifying banks with up to $3 billion in assets eligible for an 18-month onsite exam cycle. The NCUA already had authority in this area, and thus was not included in this section. However, the agency has failed to fully act on its existing authority. As a consequence, banks now have greater exam flexibility despite credit unions generally having less complex balance sheets.

The NCUA should reconsider its own exam cycle eligibility policy to align with the changes adopted by the other banking agencies. To better achieve the NCUA's goal of reducing burdens on credit unions during the exam process, future exams should be deployed on an 18-month or longer extended cycle for all low-risk, well-run credit unions under $3 billion in assets, in line with the flexibility currently in place for banks.

Central Liquidity Facility (CLF) Enhancements

We do support NCUA's call to enhance the CLF by, among other things, allowing corporate credit unions to act as agents for smaller (under $250 million in assets), non-CLF member credit unions. Amending the FCU Act to implement this change would be an invaluable and necessary lifeline for smaller credit unions, most of which are not CLF members. As some banks face liquidity problems in these turbulent times, Congress should act now on this provision in the event that a wider crisis develops that might impact the liquidity of America's credit unions.

Operational Issues

The CLF is intended to improve general financial stability by meeting the liquidity needs of credit unions. Per the FCU Act, and the NCUA's regulations, "liquidity needs" covers a range of needs, including short-term credit, seasonal credit, and protracted credit needed for unusual or emergency circumstances. While we understand the CLF is intended to be a backup source of liquidity, we believe it could be utilized by more credit unions with greater frequency if the process to access liquidity (*i.e.*, membership application and request of an advance) were more streamlined and responses to requests were timelier. Understanding there are statutory provisions that limit the agency's ability to modify certain aspects of the CLF (*e.g.*, capital stock subscription requirement), the NCUA should review Part 725 of its regulations to assess where it can streamline and improve the process overall.

Credit unions often point to the Federal Reserve's Discount Window as an easier/quicker way to access liquidity. Again, the FCU Act includes certain constraints related to the extension of credit

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not applicable to the Discount Window, such as that there must be a valid liquidity need and the credit union must be creditworthy. However, the NCUA can improve certain aspects of the process of receiving funds from the CLF, such as the timing involved. When a credit union experiences an unexpected need for liquidity, time is of the essence. The FCU Act requires the NCUA to approve or deny an application within five working days. Five, or even up to eight days depending on weekends and holidays, can be a prohibitively long period to learn whether a funding request has been approved. This delay can force credit unions to instead pursue other liquidity sources, particularly when sources such as the Discount Window can provide a credit union with same-day liquidity. As such, we ask the NCUA to consider—consistent with the FCU Act—shortening the five-day window provided in Part 725 to two days.

Digital Assets and Emerging Technologies

The NCUA should issue guidance allowing credit unions to offer digital asset custodial services or wallets to credit union members. This authority for credit unions to offer cryptocurrency services directly to their members is necessary to maintain parity and remain competitive with other financial institutions and fintechs. Additionally, the NCUA should work with lawmakers who are writing policy in this area to ensure that whatever laws are enacted put credit unions on equal footing with other financial institutions.

Further, the NCUA should add digital asset related services to the list of preapproved permissible activities of CUSOs to allow them to provide cryptocurrency related services, such as facilitating a member's buying, holding, selling, transferring, and exchanging of digital assets.

Additionally, we encourage the NCUA to adopt a form-agnostic approach to assessing credit unions' adoption of digital assets and related technologies and to develop a digital asset adoption sandbox or pilot program in which credit unions and the NCUA may prudently explore more novel digital asset use cases without significant compliance risks. The NCUA's new Office of Financial Technology and Access should quickly establish a transparent program to offer solutions to credit unions seeking to experiment with the implementation of new technologies to streamline and improve their processes and procedures. These sandboxes and tech sprints should be available not only in the adoption of digital assets but also more broadly to other emerging technologies.

The NCUA, as a member of the Financial Stability Oversight Council (FSOC), needs to engage with FSOC members, the President's Working Group, and other interagency working groups on digital assets to ensure the interests of credit unions are strongly represented. It is imperative that the NCUA, and the credit unions it supervises, have a seat at the table when it comes to developing a regulatory framework for the use of digital assets and other emerging technologies.

The Federal Reserve and Regulation II

We want to express that we strongly oppose the Federal Reserve Board's recent proposed rule to drastically reduce the Regulation II debit interchange fee cap. America's Credit Unions and other

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financial trade associations wrote to the Board in advance of its October 25, 2023, meeting to request additional documentation be made available to the public ahead of the meeting, noting concern that the Board has not collected and published comprehensive and current data about the costs of Regulation II on regulated entities. Additionally, the impact of the Board's recent Regulation II rulemaking to require issuers to offer two unaffiliated card networks for card not present transactions is undetermined at this time and must be thoroughly evaluated before proceeding with this rulemaking. It is insufficient to review the Board's biennial survey of large debit card issuers to assess the impact of the new routing requirements because that data, from 2021, was collected well before the rule was finalized in 2022, let alone became effective in July of 2023.

We echo Governor Bowman's concerns raised at the Board's October 25 meeting regarding the unfair nature of this proposal and the Board's reluctance to consider the impacts that such a drastic reduction could have on smaller issuers, including community-based financial institutions like credit unions. The biggest impact is likely to be on low- and moderate-income (LMI) individuals and families, as this reduced interchange fee cap could lead to higher borrowing costs and limited availability or complete discontinuation of certain products and services that are designed to help these LMI borrowers and their families. The adoption of Regulation II in 2011 significantly decreased the availability of free checking and increased other fees and costs by financial institutions to make up for lost revenue. The proposed cut to the cap will once again force financial institutions to make up for this lost revenue in other areas. This impact is acute for credit unions as not-for-profit cooperatives that do not have the same opportunities to raise capital as banks.

The Board asserts that consumers will likely benefit from cost savings passed through by merchants as a result of lower prices. The Federal Reserve's own research shows that only about one percent of merchants passed their savings onto consumers through reduced prices following the adoption of the Durbin Amendment, and in fact, over 20 percent of merchants increased their prices. This behavior will not change with further cuts. Most importantly, it is not just covered issuers that would feel the impacts of this proposal, but rather all financial institutions would face pricing pressures and be forced to make difficult decisions that could negatively impact the communities they serve.

Conclusion

Finally, it is important that the Committee understand the immense pressure credit unions—large and small—are under in terms of compliance and operational challenges. This is evident by the ongoing consolidation within the industry, which will only be accelerated by ongoing regulatory attacks on fee income such as recent actions on overdraft protection programs, credit card late fees, and the proposed Regulation II changes. Combined, these ultimately pose a long-term threat to the viability of credit unions. As such, we urge the NCUA Board to appreciate the risks to the industry and take appropriate action to ensure its ongoing viability. appreciate the risks to the industry and take appropriate action to ensure its ongoing viability.

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Unlike other sectors of the financial services industry, credit unions embody the collaborative, *people helping people* philosophy. We urge this Committee and regulators to work with the credit union industry to pursue an approach, both legislatively and regulatorily, aimed at ensuring credit unions can continue to serve millions of consumers across the country.

On behalf of America's credit unions and their nearly 141 million members, thank you for holding this important hearing. It is unfortunate that Chairman Harper could not appear in person, but we wish him a speedy recovery. We look forward to him appearing before the Committee when he returns to work. Thank you for the opportunity to share our thoughts.

Sincerely,

Jim Nussle, CUDE
President & CEO

cc: Members of the Committee on Banking, Housing, and Urban Affairs

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This statement represents the views of current FDIC employees from various divisions within the FDIC, including the Division of Risk Management Supervision, Division of Depositor and Consumer Protection, Division of Resolutions and Receiverships, and Corporate University. We came together to write this statement because we are disappointed, frustrated, and heartbroken that the egregious issues documented in the Cleary report by over 500 employees have become a partisan issue. The issues identified are heinous, and our elected officials need to put politics aside and do what is right on behalf of their constituents. FDIC employees who joined together to draft this statement have a wide range of political views, ranging from far left to far right, and holding our current leadership accountable should not be a political issue and should not be about furthering political agendas. This is an issue of people, of morals, of safety, of accountability, and of the effectiveness of the agency to complete its mission.

The FDIC employees behind this statement do not have confidence that the Chairman and executive management have the willingness to truly make the cultural and structural changes necessary to fully address the identified in the report. The Chairman has communicated the action plan that he oversaw the creation of as proof of his commitment to improving conditions at the FDIC. We, however, do not have confidence that this action plan is meaningful. Executives who have held their positions for long periods of time, who were in these positions when the events from the report took place, some who directly supervised individual perpetrators from the report, hold key roles as members of this action plan. The head of the Division of Administration (DOA), who has been in that division for 30 years, holds a key role in the action plan, even though the Cleary report detailed material deficiencies within DOA, including not investigating claims, not documenting claims, not reporting claims to management, and not tracking claims. Finally, there is at least one member of management with a role in the action plan who has a reputation for bullying employees with numerous complaints filed against them with no action taken. Meaningful change for the FDIC needs to start at the very top, and we do not believe the actions of the Chairman and creation of this action plan will lead to meaningful changes.

As stated above, this should not be a partisan issue. This is a people issue. This is an issue about safety and fairness and accountability within the FDIC. This is an issue of the effectiveness of the oversight of the FDIC. This is about doing the right thing for the employees of the agency, the 500 employees who came forward and reported harassment, and the employees that ultimately left because of management's lack of accountability in addressing harassment.

DCUC
DEFENSE CREDIT UNION COUNCIL

1627 Eye St, NW
Suite 935
Washington, DC 20006

202.734.5007
www.dcuc.org

Anthony R. Hernandez
President/CEO

May 15, 2024

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Brown and Ranking Member Scott:

On behalf of America's 182 Defense Credit Unions and over 37 million members, I am writing to share our views on your May 16, 2024, hearing entitled, ***Oversight of U.S. Financial Regulators: Accountability and Financial Stability.*** The Defense Credit Union Council (DCUC) advocates for all defense and veteran related credit unions located around the world. Everything we do is in support of our military and veteran communities, no matter which credit union they join.

While, National Credit Union Administration Chairman Todd Harper will not be in attendance, we believe it is important to remind and to educate committee members on the important issues facing defense and veteran related credit unions across the United States and the globe during this important hearing.

Credit Card Late Fees

We are always concerned when unsuspecting consumers are subject to unfair and deceptive trade practices. In fact, defense credit unions have a rich history of providing safe financial programs to help make ends meet. This is why it is hard to support the CFPB new rule because of the adverse impacts to military families.

First, issuers will be forced to increase costs to offset delinquencies and charge offs. In fact, CFPB admits that the final late fee rule will cause harm to 74 percent of consumers who pay their credit cards on time. Higher principal and interest payments will increase the burden on all military consumers. This is in addition to current challenges such as food insecurity, spouse employment, and rising childcare costs. This is especially troubling since more military families rely on credit cards to make ends meet.

Second, CFPB's new rule makes it much more difficult for military leaders to establish good order and financial discipline. When credit card late fees are significantly reduced, there is less incentive to pay on time. Although military members are instructed to honor their credit card commitments DoD lack the mechanisms to prevent, intervene, or enforce standards until it is too late. Thus, it is hard to see how imposing government controls on late fees will improve financial discipline and responsibility. We fear CFPB's rule will make both worse.

Finally, while we are against absurdly high late fees, we believe the market can and will regulate what people can and are willing to pay. The credit card market is already competitive. Especially when marketing access for consumers with lower credit scores or little to no credit history Those who can offer better terms and access to credit cards will prevail. Military families are very perceptive when it comes to additional costs.

Changes to the Current Credit Card Interchange Fee System

The "Credit Card Competition Act," S. 1838, as proposed does nothing to reduce additional costs for consumers and harms working-class Americans. All it really does is secure another round of windfall profits for big box retailers and e-commerce giants.

According to a 2014 survey conducted by the Federal Reserve Bank of Richmond, there is a clear disconnect between what was promised during the 2010 Durbin Amendment and what actually occurred. In fact, the survey highlights a sizable portion of merchants who raised their prices or imposed restrictions on debit card use to avoid paying debit interchange fees.

Few merchants were found to have reduced prices or removed debit restrictions, even as debit costs decreased. Frankly, they were keeping the money for themselves. Additionally, no one is monitoring compliance with the original 2010 Durbin Amendment with respect to debit cards and as a result, consumers continue to lose. There is nothing to suggest that things will be any different for credit cards.

Worse, these groups have attempted to exploit military members, while targeting Medal of Honor recipients, Purple Heart recipients, former POWs, and Disabled Veterans among others in their flawed study proposal. Not only would savings be kept by the merchant, but this legislation would also increase the cost of basic banking services for consumers – hitting lower-income families the hardest. Our service members and veterans deserve better as they use credit cards for traveling home for the holidays, to buy their uniforms, and to establish a responsible credit history.

Not to mention, there is a security concern. If the Federal Government imposes price controls on interchange, credit card transactions will likely become less secure, using less reliable networks that do not provide a suite of rewards and protections for consumers. Instead of choosing the best option, retailers will likely route transactions over the cheapest networks – many of which have underinvested in their platforms with little concern for security innovations or consumer benefits.

In terms of military personnel's financial readiness, nobody wants to deal with cash in a deployed environment. Additionally, in terms of personal security compromises, dealing with a security breach while in combat is a recipe for disaster. These all negatively impact the operational campaign and accomplishing already difficult and hazardous missions.

While the bill contains a cynical carve-out for smaller institutions, we all know that regulating the largest institutions and payment networks forces changes to the whole credit card payments ecosystem. As a result, finding the resources to pay for technology updates and re-issuance of cards becomes much more difficult for smaller institutions all while driving increases in fees everywhere else. This is exactly what happened with debit cards in 2010.

Finally, allowing merchants and retailers to select payment networks eliminates another stream of non-interest income used to keep basic financial services affordable for credit union members. Thus, free checking accounts, low fees, and interest rates, and financial wellness programs become less sustainable. At a time of rising inflation, this is not the time to raise the cost of financial services for our hardworking members.

Very few Americans want to read that Congress voted to increase merchant profits by exploiting Medal of Honor recipients, Purple Heart recipients, former POWs, and Disabled Veterans. Our nation's credit unions understand that now more than ever we need to put our nation's military and veterans first and reject the hollow call for new laws that would make basic financial services even more expensive for them as well as working-class Americans.

Overdraft Fees and NSF

The Defense Credit Union Council has always advocated for laws and regulations that protect the financial readiness of our servicemembers stationed across the country, overseas, and in harm's way. While we applaud efforts to eliminate Unfair, Deceptive, or Abusive Acts or Practices (UDAAP) at all levels of government. There are several innovative financial products and services that are meant to protect our servicemembers from harm. NSF fees can continue to be an effective program and there are always creative ways to implement a healthy overdraft program. However, burdensome regulations can stifle such innovation and eliminate worthy programs.

Eliminating such programs invites financial predators onto the scene. Defense credit unions work very hard to keep such predators off the installation and away from vulnerable servicemembers.

Veterans Member Business Lending

We support exempting business loans made to veterans from current credit union business lending caps. Our member credit unions, along with virtually every credit union in the United States, proudly serve many veterans in their communities.

Our member credit unions are uniquely positioned and structured to offer this kind of support given branch offices located on the installation and in the community. Plus, with every credit union across the United States having at least one veteran member, the nationwide impact would be far and wide. Our industry sees many of our veterans starting their own businesses as they transition out of the military. As part of our ethos in serving the underserved, we believe we can assist where other lenders refuse.

We also note that not much has changed since Federal Reserve Bank of New York and the U.S. Small Business Administration (SBA) published a study in 2018 titled, "Financing their Future: Veteran Entrepreneurs and Capital Access." The study found that military veteran business owners applied for more funding, submitted more loan applications per business, and yet were denied loans at a much higher rate than non-veteran business owners. Thus, it is imperative to keep our veterans borrowing from institutions they trust versus referring them elsewhere.

More can and should be done. Although the SBA's 7(a) program has grown in recent years, SBA guaranteed loans have benefited veterans far less than non-veterans (48% growth compared to 82%)- a point the author personally pointed out in on-the-record SBA meetings at the time. According to the study, veterans are denied for two reasons.

First, veterans are looking for "micro business loans" (under $100,000). Commercial banks cannot underwrite these smaller loans in a cost-effective way and as such rarely offer these products. Additionally, no bank lobby narratives should ever prevent our veterans from wanting to succeed. Credit unions can and should be able to fill any gaps throughout the country.

Second, according to the report, underwriting veterans is complicated due to insufficient credit histories and little collateral. As any veteran knowns, prolonged military service comes with unique stressors, such as frequent relocations and deployments which complicate the process.

Exempting business loans made to veterans from the artificial member business lending caps is a great government policy. It makes it much easier to extend business credit to America's Veteran-Owned Businesses. Plus, it sends a clear signal that our nation recognizes their impact in fostering entrepreneurship successfully building our economy.

Veterans Housing

We appreciate the Department of Veterans Affairs' (VA) efforts to implement and expand the loss mitigation options available under the VA Home Loans Guaranty program to help veteran borrowers avoid foreclosure. We share the same goal as the VA, to keep our veterans in their homes, but we believe it is evident that the VA Home Loan Program needs an upgrade. Additional resources and better loss mitigation tools in the program will help ensure veterans and servicemembers are not faulted during a time of financial hardship. We also believe that the VA Home Loan Guaranty Program would benefit from aligning its VA Minimum Property Requirements (MPRs) with the property condition standards established by Fannie Mae and Freddie Mac (the GSEs), the most widely used financing programs in the market, and the most common alternatives used by veterans.

Our members have advised us that the MPRs can make the VA program more difficult for prospective homebuyers without reducing risk to credit union lenders or their members. Credit unions have told us that MPRs can inject uncertainty into the homebuying process, delaying closings or stigmatizing VA financing-based offers as less desirable than those financed by conventional mortgage loans. Aligning the VA Home Loan Program with the property condition standards from conventional financing will better assist veterans in realizing their homeownership goals.

Defense credit unions are responsible lenders and have always offered quality products and services to keep predatory lending away from our military and veterans. This is why our member credit unions are dedicated to serving those who serve our country, and we are proud of their efforts.

If there are further questions regarding this matter, please contact me at (202) 734-5007 or at ahernandez@dcuc.org.

Sincerely,



Anthony R. Hernandez, Colonel, USAF (Ret)

Independent® Women's Forum

Independent® Women's Voice

May 14, 2024

Chairman Sherrod Brown
534 Dirksen Senate Office Building
Washington, D.C. 20510

Ranking Member Tim Scott
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Brown, Ranking Member Scott, and Members of the Committee,

Independent Women's Forum (IWF) and Independent Women's Voice (IWV) write to express our deep concerns with the leadership of the Federal Deposit Insurance Corporation (FIDC). Independent Women fights for women and their loved ones by effectively expanding support for policy solutions that aren't just well-intended but actually enhance people's freedom, opportunities, and well-being. We thank the Committee for its oversight of the FDIC and for holding its upcoming hearing, titled Oversight of Prudential Regulators.

Every worker in the United States deserves a workplace that is free from discrimination and harassment of any kind. The disturbing allegations about the workplace culture at the FDIC, first brought to light by a **Wall Street Journal investigation** last November and recently corroborated by an **independent investigation**, raise serious doubts about the agency's leadership. Separately, the FDIC's aggressive regulatory agenda calls into question its ability to enact its core mission.

The FDIC is an independent federal agency of fewer than 6,000 employees that works to maintain stability and public confidence in the U.S. banking system. Internally, the work environment at the FDIC has reportedly **devolved** into "a toxic and sexualized workplace" featuring hostile, abusive, and unprofessional behavior tolerated for years rather than rooted out and reformed.

The allegations are startling for any workplace, but especially a federal agency under an administration that claims to take a whole-of-government equity approach. Female workers allegedly received lewd photos from senior male colleagues and invitations to strip clubs and sex cafes. Supervisors reportedly slept with junior staff and publicly bragged about the trysts without repercussions. Heavy drinking was seemingly encouraged, and employee intoxication was ignored. Harassment of LGBT employees may also have gone unaddressed.

Based on interviews with FDIC employees, as well as legal filings, union grievances, Equal Employment Opportunity complaints, emails, text messages, and other internal documents, the Journal assembled a story of an agency that ignored bad behavior or was "hesitant to impose harsh discipline" against wrongdoing. The tone was set at the very top by Chairman Martin Gruenberg. Gruenberg allegedly contributed to this environment. He "built a reputation for bullying and for having an explosive temper," according to agency officials. Mr. Gruenberg spent nearly two decades at the FDIC—including leading the agency from 2011 to 2018—and had himself been the **subject of an inquiry**.

The Journal's allegations might have been speculative, but an **investigation** by an independent law firm now corroborated them and found that Gruenberg "failed to provide a workplace safe from sexual harassment, discrimination, and other interpersonal misconduct."

The recent report was based on roughly 500 employee accounts of sexual harassment—nearly 10% of the FDIC staff. Beyond the allegations, the culture of inaction and tolerance created a chilling effect among workers in reporting misconduct and a lack of accountability for wrongdoers. For example, according to the FDIC's public reporting, of the 92 harassment complaints made through its Anti-Harassment Program from 2015 to 2023, "not a single one resulted in removal, reductions in grade or pay, or any discipline more serious than a suspension."

Chairman Gruenberg, who held various leadership positions over the last 20 years at the FDIC, was accused of "treating his staff with behavior that was 'extremely difficult and volatile,'" creating "a patriarchal, insular, and risk-averse culture" with "widespread fear of retaliation."

The FDIC is desperately in need of reform. After nearly two decades at the agency, including several stints as acting director, how can Gruenberg be trusted to reform the agency? The independent report noted, "Leading cultural transformation at an agency that he has led for so long presents unique challenges for Chairman Gruenberg. These attributes may hinder his ability to establish trust and confidence in leading meaningful culture change, and so too may his apparent inability or unwillingness to recognize how others experience certain difficult interactions with him."

Misconduct, wrongdoing, and a lack of leadership undermine the FDIC's mission, as does a misguided policy agenda. The agency serves a critical role in our economic system by insuring deposits and supervising financial institutions for safety, soundness, and consumer protection. However, its policy approach has also been questionable.

The Biden administration has used the FDIC to advance a hyper-punitive regulatory agenda that undercuts small banks, consumers, and small businesses. For example, in the wake of the failures of Silicon Valley Bank (SVB), Signature Bank (Signature), and First Republic Bank (FRB) in 2023, FDIC policy changes would amend the current structure for federal deposit insurance coverage. All of the options proposed involved increasing the threshold for federal deposit insurance and requiring greater regulation. Under current law, the federal deposit insurance limit as administered by the FDIC is $250,000 per depositor, per bank, and per ownership category. However, raising the threshold for deposit insurance will lead to higher fees that will be passed on to bank customers–hurting poor consumers hardest. Increasing banking costs is an unwanted added expense when household budgets are already under strain.

Furthermore, it's questionable whether raising the threshold is needed. Most small businesses and Americans are already covered by the current deposit insurance threshold. The median savings account balance for Americans was **$5,300** and **$12,100** for small businesses. Fewer than **one percent** of account holders—just 0.83%—held more than $250,000. Meanwhile, by expanding the safety net for deposits, the FDIC heightens moral hazard risks as consumers are encouraged to pursue riskier investments. All of this requires the expansion of the federal government's regulatory power in the banking sector, regardless of how that may harm consumers and small businesses.

For all of these concerns, we believe that the FDIC would be better served by new leadership that can set an authentic example for workers, enact needed reforms, and pursue a policy agenda that doesn't bury the banking sector under costly red tape.

All employers have a responsibility to foster workplace cultures where men and women feel free to interact in healthy professional relationships. That is possible at the FDIC, but not under the leadership of Chairman Greunberg. We urge all committee members to demand his resignation.

Sincerely,



Patrice Onwuka
Director
Center for Economic Opportunity

Kevin Burnett
1106 Stanton Way
Stockton, CA 95207

May 14, 2024

The Honorable Sherrod Brown
Chairman

The Honorable Tim Scott
Ranking Member

U.S. Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC, 20510

Re: Oversight of the Federal Deposit Insurance Corporation

Dear Chairman Brown and Ranking Member Scott:

I am writing today to express deep misgivings regarding Chairman Marty Gruenberg's continued tenure at the FDIC. As a former FDIC bank examiner and witness to the culture that his leadership created, I have observed a dramatic departure between the FDIC's core values and the actual behavior within that organization. This letter outlines specific incidents and systemic issues that require urgent attention and bipartisan action to protect employees and realign the FDIC's operations with the Corporation's values under new leadership.

I served as an FDIC bank examiner from 2009 until 2016, spending most of my time in San Francisco. While in San Francisco, I was subjected to incredibly destructive and harassing conduct, reprisal for raising legitimate concerns, and a management team incapable of or unwilling to address highly improper conduct. Much of the conduct was perpetrated by my then-supervisor, Jimmy Nguyen.

There was an expectation by Mr. Nguyen that young, single male employees needed to participate in after-hours events at strip clubs and coffee shops with scantily clad women. When I refused to accompany him to illicit sexual massages, I was told, "I wasn't part of the team." I received similar messages when I refused to return to a club after finding that contrary to Mr. Nguyen's assertion that "it was a fun place to hang out and not a strip club," it certainly *was* a strip club.

Not being part of the team had severe consequences. Mr. Nguyen often would pit employees against each other so that working conditions would become intolerable for the subjects of his abuse and those he considered not to be team players.

While the pressure to fit in was undoubtedly uncomfortable for the young men in the office, the treatment was far worse for others. For example, Mr. Nguyen frequently referred to a disabled veteran in my office, Frank Reichert, who had a below-the-knee amputation, a disability

resulting from his military service, as "Pirate" and "Pirate McNasty." He regularly commented on the appearance of women, saying that older women in the office "used to be hot." Regarding my ex-wife, a woman who at the time was in her mid-20s and 20 years his junior, Mr. Nguyen told her colleagues that she was "too fat to fuck." He referred to the gay men in the office as his "little girls" or "little princesses." He also sent text messages that insinuated that gay employees may be pedophiles.

In 2013, I complained about Mr. Nguyen's conduct. In the weeks following my complaint, information began to leak to my office colleagues, and I became increasingly subjected to a hostile work environment. This occurred principally because my coworkers believed I had complained about them, which wasn't the case. When I asked to be transferred during the pendency of the investigation, given the hostile environment, that request was denied. Later, I was told by Susan Pinette, my Assistant Regional Director, essentially my boss's boss, that she would not let me file a complaint and then not face the consequences or experience the trauma that the entire office faced.

Given this experience, I was deeply troubled by an insinuation during Chairman Gruenberg's testimony to your Committee in November of last year that employees have several mechanisms to air grievances and that the FDIC has had a fair process to vet complaints and a culture that supports those who raise allegations of impropriety. During my time at the FDIC, employees availed themselves of several mechanisms, including complaints to the FDIC Office of Inspector General, Equal Employment Opportunity complaints, union grievances, and direct complaints to members of management. All were met with varying levels of retaliation.

The FDIC failed to take appropriate action despite the horrific behavior outlined on pages A-24 through A-27 of the Report for the Special Committee, which relates to Mr. Nguyen's conduct. Mr. Nguyen was allowed to remain employed by the FDIC. Given the FDIC's inability to hold managers sufficiently accountable for their conduct, Mr. Nguyen is once again a manager, this time at the Office of the Comptroller of the Currency, and once again able to prey on staff.

Improper behavior was not isolated to my office; it was pervasive within the whole of the FDIC's San Francisco Region. For example, the San Francisco Regional Office annually held a holiday party where employees brought copious amounts of liquor and decorated the office. Everyone wore costumes, and the booze flowed freely. The year I was invited to the event, an employee performed a burlesque-style dance in front of most of the San Francisco regional office staff. Senior management instructed staff not to take pictures so as not to create evidence of the event, which took place during the middle of the workday. It would be unlikely that there would have been a manager within the San Francisco Regional Office during my time who wouldn't have been aware of what was occurring.

In Salt Lake City, there was a manager who twice brought a sex toy as a white elephant gift during the annual Christmas party. Another employee got drunk at their Christmas party and flashed the entire office wearing nothing but a speedo and a trench coat. Also, in Salt Lake City, there was an employee who threatened a team of examiners that if they didn't complete work papers to his liking, he would put their bodies in a woodchipper. That same employee threatened

to shoot another examiner and was walked out of the building by security, pending an investigation, only to return several weeks later.

The scope and scale of the misconduct described in the Report for the Special Review Committee is profoundly unsettling and painful to read. Yet, the experiences meticulously detailed within are also entirely consistent with my own experiences at the FDIC. The fact that over 500 employees reported horrific treatment without the Chairman recognizing his incapacity to lead and his failure to step down seriously calls into question his judgment. When your nearly two decades of leadership necessitates a 34-step action plan that requires counseling to offer "support for victims and survivors," things have gone terribly off the rails. Incredibly, Chairman Gruenberg doesn't even seem to remember perpetrating the abusive behavior attributed to him, behavior that spans eight pages of the Report.

To those "victims" and "survivors," Chairman Gruenberg has offered his apology; I suspect it feels as hollow to those employees impacted by the Chairman's horrific culture as it does to me. Two years ago, my colleague Frank Reichert, the disabled veteran subjected to humiliating mockery because of his use of a wheelchair, passed away. What comfort will Chairman Gruenberg's apology provide him? To the women in the Sacramento and San Francisco offices who left the FDIC to flee from management teams that objectified, belittled, and harassed them, what remediation does Chairman Gruenberg's apology provide them? To the gay men who were subjected to decades of humiliation, how will Chairman Gruenberg's apology compensate them for the psychological harm the FDIC's culture caused?

The Chairman's apology, which lacks accountability, does not address the deep-rooted issues or the damage inflicted. The sad truth is that he cannot reverse the harm done nor restore the careers and dignity of those affected by the damaging behavior at the FDIC.

Finally, one recurring story I have heard from staff following the release of the initial WSJ article in November concerns a call with senior managers within the Division of Risk Management. During that call, I was told that a Regional Director, one of the highest-level supervisors within that Division, asked the Division Director, Doreen Eberly if she had *also* witnessed the Chairman place his hands down his pants in meetings.

The *Chairman of the FDIC* should not touch himself in meetings as if he's watching Monday Night Football on his couch at home alone. There isn't any plausible scenario where that is workplace-appropriate conduct. If we are dealing with a situation where the head of a regulatory agency in 2024 doesn't realize jamming his hands down his pants during meetings isn't acceptable, then dramatic actions need to be taken.

Leadership and tone matter within organizations. Chairman Gruenberg has demonstrated an ill-suited temperament to lead *any* modern organization, let alone one as crucial as the FDIC. The consequences of that toxic leadership have undermined the organization's values, endangering the FDIC's ability to carry out its most fundamental task—ensuring confidence in our financial system. Chairman Gruenberg must step aside and allow the healing that this once proud organization deserves. As for the other executives and senior managers who participated in this behavior or were aware of widespread misconduct but failed to act, they, too, should step

down. I hope that the Committee members will assist the Chairman in this critical realization and that your committee will pay close attention over the next several years to the FDIC's efforts to return to a culture that promotes dignity and respect for all employees.

Sincerely,

Kevin Burnett
Former Financial Institution Examiner

April 29, 2024

FDIC Board of Directors:

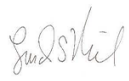
I want to thank Directors Hsu and McKernan for providing me the opportunity to serve as a nonvoting member of the Special Committee. The allegations of sexual harassment and misconduct brought forth by so many FDIC employees are deeply concerning, and I'm heartened that the FDIC took them seriously enough to engage Cleary Gottlieb to do an independent assessment and form a special committee to oversee the work. The Cleary Gottlieb team undertook the effort with thoroughness, professionalism, and compassion.

The report is deeply troubling and establishes a longstanding pattern of often shocking and reprehensible behavior by staff across the agency. The FDIC is clearly in urgent need of significant culture change. Clearly Gottlieb found that there is widespread mistrust of the agency's handling of allegations of harassment and misconduct, which was reinforced to me when I had the opportunity to meet with members of the FDIC Employee Resource Group POWW. In that meeting, representatives expressed particular dismay at how the agency handled allegations of sexual harassment, simply moving people rather than holding them accountable. It was abundantly clear that accountability was the most important thing they wanted to see come out of this assessment. After reading the draft report, I suggested to the Cleary Gottlieb team that they strengthen the accountability recommendations, as they did not sufficiently address the problem. Unfortunately, my suggestions to strengthen the accountability recommendations were not incorporated.

I continue to believe that stronger accountability mechanisms are needed as much of the report focused on a risk-averse culture that provided little assurance to FDIC staff that their allegations would be taken seriously. I do not believe that 360 feedback, listening sessions and pulse checks go nearly far enough to hold those who would engage in this abhorrent conduct accountable.

I believe the FDIC should go further and establish— and widely publicize— a mandatory14-day suspension policy for all staff who are the subject of credible allegations of sexual harassment, and that the FDIC should pursue termination of those employees whose behavior is found to be egregious, as are many of the examples in Cleary Gottlieb's report. I further believe the FDIC should publicly promote its intention to pursue legal action if wrongful termination lawsuits ensue from termination actions to avoid the perception that wrongdoers can escape disciplinary action simply by threatening a wrongful termination lawsuit. These actions would more appropriately signal a seriousness to hold FDIC staff accountable for the kinds of behavior the Cleary Gottlieb report found to be widespread across the agency today.

Thank you for the opportunity to provide a statement.



Linda Miller
CEO, Audient Group, LLC
Former Deputy Executive Director, Pandemic Response Accountability Committee (PRAC)
Former Assistant Director, Government Accountability Office (GAO)

May 14, 2024

Michael Williams
1 Hansom Drive
Merrimac, MA 01860

Document Clerk
Senate Committee on Banking
Housing and Urban Affairs
Room SD-534
Dirksen Senate Office Building
Washington, DC 20510-6075

Misconduct Plaguing the FDIC

Dear Chairman Brown, and Ranking Member Scott,

Introduction

My name is Michael Williams. The Federal Deposit Insurance Corporation (FDIC, Agency, Corporation) employs me as a Senior Executive, specifically a Corporate Expert and Senior Technology Advisor. While I believe the issues facing the FDIC are non-partisan, I am a Democrat. Due to the harm to my mental health caused by my whistleblowing, I am on sick leave and seeking disability retirement. I am willing to, and quite frankly want to, testify under oath to all statements made within this written testimony. I believe the truth must prevail and submit this written testimony on the record.

In short, I write to discuss my history with, and other severe concerns within, the FDIC. I firmly believe that the FDIC is ill-equipped to meet its mission and, without significant Congressional oversight and intervention, will continue to fail to adequately ensure trust and stability in the nation's financial system. **The Cleary Gottlieb report is just the start of the misconduct and does not scratch the surface of the Agency's issues.** I detail many further concerns below.

The issue is not the line-level employees, the field examiners, or mid-level management. Even though many executives are exceptional leaders, Mr. Gruenberg and his loyalists hamper their impact. Quite frankly, some of the most intelligent people I have ever worked with are at the FDIC. The Agency's dysfunction is a direct result of Chairman Gruenberg and many of his senior executives and zealous supporters, who have fettered the ability of employees to do their jobs.

For reasons discussed below, I believe Chairman Gruenberg and many of his executives must resign or be removed from Federal Service to restore the Agency to its once high regard. I firmly support the significant regulatory reforms and policies the Agency is pursuing and recognize that those reforms might be compromised should Mr. Gruenberg be removed or resign. However, the

misconduct below cannot stand. I have provided thousands of pages of evidence to support these statements to the House Financial Services Committee and the Senate Banking Committee. In the interest of brevity, I will not reference them herein.

Background

While not perfect, I have always believed in doing the right thing. Some colleges call me a truth-seeker and truth-teller, even if it results in my detriment. I have worked for the FDIC since 2011 and became the youngest and fastest-promoted executive in the Agency's history, reaching an executive position and the Agency's salary cap in 2021. My work performance has been exceptional, and I have saved the Agency millions of dollars through the technological solutions I have developed. I have always spoken up about wrongdoing and have reported numerous issues with FDIC's information security posture, policies, and procedures, including security breaches where I believe the Agency should have notified Congress. My identity has surrounded my work at the Agency, and I have worked tirelessly to improve employees' lives.

Insider Trading of Bank Stocks and Other Serious Misconduct

In early 2023, I became aware of very serious and concerning wrongdoing within the Agency. This misconduct involves Amy Thompson, Director of the Office of Communications (OCOM), and Jenny G. Traille, Senior Deputy Director of the Division of Complex Institution Supervision and Resolution (CISR), owning, holding, and trading bank stocks potentially using confidential regulatory information.[1]

I also disclosed concerns about Rami Dillon, Deputy Director, Office of the Chief Information Security Officer. I found evidence that while she was at her previous Agency, the USPTO, she directly awarded, or caused to be awarded, contracts or subcontracts to her close relative's company (likely son), which he created immediately after she began employment and was registered to her home address. I reported similar concerns that Ms. Dillion is potentially yielding similar influence at the FDIC in employing her relatives in a nepotistic fashion either directly or as a collateral quid-quo-pro type arrangement; however, I have yet to gather more than circumstantial evidence.

Director Thompson bought and sold the following bank stocks and then blamed her financial advisor for the mishap:

[1] Aside for very limited exceptions, 5 CFR § 3201.103(a)(4) prohibits any employee, spouse of an employee, or minor child of an employee from acquiring, owning, or controlling, directly or indirectly, security of any of the following a financial holding company that is subject to FRB supervision or, per 5 CFR § 3201.103(a)(5)(i) a company that owns or controls an FDIC-insured bank or savings association.

- Citizens Financial Group, Inc. (Rhode Island) (CFG)
- Citigroup, Inc. (C)
- Regions Financial Corp. (RF)
- JPMorgan Chase & Co. (JPM)
- Bank of America Corp. (BAC)
- State Street Corp. (STT)
- Synchrony Financial (SYF)

In Senior Deputy Director Traille's case, these stocks include nearly every systematically important financial institution (SIFI), including holding stocks up to $612,000 in the following firms:

- Morgan Stanley Private Bank NA (BDPS)
- Morgan Stanley Bank NA
- JP Morgan Chase & Co (JPM)
- Charles Schwab NEW (SCHW)
- East West Bancorp (EWBC)
- Citizens Financial Group Inc (CFG)
- American Express Co (AMEX)
- Bank of America Corp (BAC)
- California Bancorp Common Stock (CALB)
- Signature Bank New York (SBNY)
- SVB Financial Group (SIVB)

Ms. Traille had direct authority and supervision over these institutions. Ms. Traille seemed to dispose of the failing banks' (SVB and Signature) stocks at the perfect time before public information came out about their plight. As far as I know, Ms. Traille has not recused herself from supervising any firms in which she holds a direct financial interest.

Chairman Gruenberg knew of Ms. Traille's ethical misconduct and her potential involvement in insider trading because, on August 4, 2023, I sent him a 31-page report and hundreds of pages of evidence. I enumerated allegations that Jenny Traille held Prohibited Financial Holdings, including holdings of failed institutions, failed to disqualify herself, potentially used insider information she was privy to through her employment to determine when to liquidate these holdings, possibly used insider information to make an extensive profit, potentially executed and traded these securities during a period she knew she would not have a public ethics disclosure, failed to recuse herself from matters in which she and her husband held a financial interest, filed inaccurate Government ethics forms without ever issuing a correction, possibly completed her ethics forms to avoid public oversight and accountability, and potentially conspired to, aided, or directly

engaged in tax fraud through her husband's property. These actions likely violate numerous criminal and civil statutes, regulations, and agency policies.

Despite full personal knowledge of the above, Chairman Gruenberg promoted Ms. Traille. Specifically, he made her a permanent Senior Deputy Director in CISR despite trading, holding, and continuing to hold stocks in banks that she directly supervises. This promotion is because Ms. Traille is an ardent supporter of Mr. Gruenberg.

Other Misconduct & First Amendment Violations

I subsequently became aware of numerous ethics violations of the most senior FDIC executives, including the General Counsel and Designated Agency Ethics Official (DAEO), Harrel M. Pettway. Ms. Thompson violated the First Amendment, engaging in viewpoint discrimination by directly hiding commentary critical of her from the Agency's social media pages while promoting favorable comments.

Other Senior Executives spend their days promoting their status as FDIC Senior Executives while attacking politicians during work hours and hurling abuse at senior government administrators. Michael Benardo, Associate Director, Anti-Money Laundering and Cyber Fraud Branch, who also holds a Top-Secret security clearance and is trusted with the FDIC and law enforcement's most sensitive information, has behaved appallingly on social media. See Annexure A.

Chairman Gruenberg is aware of all these proven allegations and, despite such, has promoted individuals engaged in this misconduct not because they are the best qualified for the job but because he likes them and they support his agenda with unquestionable loyalty.

The list goes on and on; for brevity, I will just highlight some more ethical misconduct among senior officials who chairman Gruenberg and his senior executives have been informed about but, as far as I know, have taken no action:

- Melanie D. Coates, Assistant General Counsel, Professional Liability and Financial Crimes Section, filed inaccurate Government ethics forms. These inaccuracies include omitting outside Government positions, her husband's business and associated income, and associated liabilities incurred by the business for which her husband is personally liable.
- A Senior Executive, who has been the subject of several lawsuits, has reportedly been caught having sex in the FDIC Parking Garage and the FDIC Corporate University Classrooms. FDIC caught one of the interactions on security camera footage.
- A Senior Corporate Expert failed to disclose his position in his company, and another did not disclose his position or active involvement in a trust.

- A Regional Counsel of the FDIC failed to disclose their active involvement and ownership over several outside entities, including a trust.
- Chief Accountant and Corporate Expert failed to disclose their position, ownership, and involvement in a trust and an outside company.
- David Barr, Deputy Director of the Office of Communications, routinely used his work telephone and computer to post, during work hours, obscene commentary, including taking photos from his work phone and bragging about Viagra in his car parked at the FDIC parking garage.

FDIC Proposes My Removal from Federal Service

Because I directly asked many of these individuals about the allegations I uncovered concerning their misconduct, the Corporation began investigating me. The FDIC held a meeting of the FDIC Insider Threat and Counterintelligence Program (ITCIP) Working Group (ITCIPWG). Deputy Director Dillon and Director Thompson, both members of the committee and knowing my investigations into their misconduct, demanded my immediate placement on administrative leave. They did not recuse themselves and advised the rest of the working group that if they did not assuage their demands, Ms. Thompson would, in effect, "go to Chairman Gruenberg." Despite sending a legal hold, the Agency destroyed all evidence of these meetings and denied that they intended to take any action against me.

The Agency eventually proposed my removal from Federal Service under the guise of violating a social media policy and technical ethics violation by not disclosing an outside business subsidiary company. General Counsel Pettway and Director Thompson were highly influential in demanding the Chairman remove me. After providing persuasive evidence to the Agency and the deciding official determining he would not support my removal, I was informed that the Chairman even considered my removal using little-used national security legislation under 5 US Code § 7532 to bypass all due process rights; however, he decided against it after he could not delegate the removal and would personally have to sign the removal action.

Chairman Gruenberg is exceptionally talented at keeping his name from being directly attached to any misconduct, so he can "plausibly deny" accountability despite leading the Agency for 10 of the past 13 years.

In response to this retaliatory notice of proposed removal, I prepared a 130-page reaction referencing 146 exhibits showing that numerous other and more senior executives had committed far worse violations, including the General Counsel and DAEO himself failing to disclose his outside business interests, a company which he has since dissolved.

OSC Investigates and Determines Retaliation

I lodged an Office of Special Counsel (OSC) complaint. OSC investigated and determined the Agency had retaliated against me for whistleblowing and ordered them to take corrective action. The Agency agreed to reinstate me to my position; however, the Corporation generated a new position description and reclassified the position from a Moderate Background Investigation (MBI) to require a Top Secret security clearance (TS/SCI). The Agency was cavalier enough to boast to the OSC, in effect, "Fine, we'll reinstate him, but then he'll have to get a Top Secret security clearance. We don't think he'll pass."

The Agency did this because the employee or even the OSC and courts cannot challenge the Agency's security classification, even if admittedly or purely retaliatory. **Reclassifying a position's security requirements is a retaliatory hole in the whistleblower protection laws that Congress must correct.** Therefore, if the Agency says I handle national security information and require a Top Secret security clearance, I cannot challenge that designation. The Agency knows I have outside businesses in various jurisdictions and frequently travel worldwide, so obtaining a Top Secret security clearance would be difficult. Several trusted agency officials also told me that if I did come back, the Agency would "watch me like a hawk" and "find a way to get rid of me."

While in Meetings, Chairman Gruenberg Regular Places His Hands Inside His Pants

By his admission, Chairman Gruenberg and his most senior executives set the conduct of the Agency. Chairman Gruenberg regularly sticks his hands down his pants during meetings, and I have observed him supporting his penis with his hand. The fact Mr. Gruenberg does this is no secret among senior executives, and many women refuse to attend meetings with the Chairman because of his penchant for putting his hands down his pants during meetings. How is an Agency supposed to correct sexual misconduct when its leader regularly has his hands down his pants?

Chairman Gruenberg's tone and demeanor in Congressional hearings and public speaking engagements are designed to tire and distract the audience into thinking he is a harmless, sleepy 71-year-old, but he is anything from that. I have heard audio of Chairman Gruenberg throwing and smashing phones in meetings, verbally abusing employees, and slamming or tossing papers across the room.

Chairman Gruenberg continues to allow for racial discrimination, especially against African Americans at the Agency who, especially in the executive ranks, are underrepresented and marginalized.

Director Gruenberg Exercised Informal Day-To-Day Influence & Control During McWilliams Era. Mr. Gruenberg Surely Knew of the Misconduct.

Even during the Chairman McWilliams era, Mr. Gruenberg directly exercised operational authority over employees, reaching out to them demanding reports and briefings before employees provided the information to Chairman McWilliams and Chief of Staff and Chief Operating Officer Brandon Milhorn. Mr. Gruenberg implied to employees that he would be back and that they should not cross him. Chairman Gruenberg may blame Chairman McWilliams; however, Ms. McWilliams and Mr. Milhorn would never tolerate this misconduct during their administration. Despite disagreeing with Ms. McWilliams and Mr. Milhorn in my areas, I regularly reported concerns to Mr. Milhorn, who would not hesitate to investigate and act.

McWilliams' administration continued to be hampered by the ex officio power yielded by Mr. Gruenberg over the Agency's day-to-day operations. Even though McWilliams effectively reduced employee benefits and salaries, I firmly believe the FDIC was better off during their administration. If Chairman Gruenberg had not interfered with their day-to-day operations, they could have effected much further change but were often battling against Chairman Gruenberg's loyalists.

I have sent at least ten (10) emails and reports of misconduct directly to Mr. Gruenberg along with the FDIC OIG. He has not responded once, not even acknowledging them. As far as I know, the Agency has failed to investigate any of my misconduct allegations, and Mr. Gruenberg has promoted the employees involved. Chairman Gruenberg cannot stand by and say he has no idea of misconduct allegations because I directly informed him of many of the most serious.

FDIC Intimidates Employees While Suppressing FOIA and Congressional Oversight

The FDIC has a history of retaliating against whistleblowers, misrepresenting critical information to Congress, and creating a hostile work environment.[2]

The FDIC is among the highest-paid federal employers and has exceptional employee benefits. Therefore, some of the best public relations experts and lawyers work directly at the Chairman's behest. Very few people, especially executives, are willing to speak up about misconduct because they know they will be attacked and punished by the Agency's senior leadership, who has no qualms about diverting agency resources to punish whistleblowers. Agency staff are genuinely and reasonably afraid of speaking up as the Agency will destroy your life for doing so.

I have been in meetings where FDIC attorneys have advised individuals how to avoid FOIA and Congressional scrutiny by classifying documents as deliberative and not putting them into a system of record. The Agency uses Microsoft Teams as a de facto system of record. Still, they will not search the system when a FOIA or Congressional subpoena comes in because it is not a record repository. The Agency has repeatedly denied FOIA requests from respected news media, including CNN and members of the public. They have denied requests to release records showing if Jenny G. Traille recused herself while holding these bank stocks. They refuse to even search for the records, as the search would appear blank because she never recused herself.

FDIC routinely digs into and spreads disinformation campaigns against those who speak up, leaking information about those employees to discredit their accusations or force them into a hole. Quite frankly, I could not have spoken up, received my total compensation of nearly $400,000 (inclusive of benefits), and kept my mental health; however, I felt it was the wrong thing to do. I have been told that agency resources, including private investigators, paid through sub-contracts purported for training, are used to investigate employees considered problematic to senior leadership. The Agency classifies employees who speak up as "disgruntled former employees." One senior employee told me she had been investigated by another executive loyal to Chairman Gruenberg.

Before being placed on administrative leave, I called an FDIC lawyer on Microsoft Teams and suggested that I report these issues to Congress. The lawyer told me that FDIC could discipline me because FDIC policy requires all Congressional communication to go through the Office of Legislative Affairs. They claimed that Agency employees must not reach out, answer, or respond to Congressional inquiries.

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[2] See Science, Space, and Technology Committee's Investigation on FDIC's Cybersecurity Interim Report dated July 12, 2016. Full Committee Hearing: "Evaluating FDIC's Response to Major Data Breaches: Is the FDIC Safeguarding Consumers' Banking Information?" (July 14, 2016, at 10:00 a.m.)

Conclusion

When I entered Government service, I never imagined an agency could be so filled with misconduct from the top. Congress must act to rectify these issues. Employees are aware of these individuals' misconduct, and the fact that they remain and are further promoted continues to chill whistleblowing and accountability within the Agency.

The concerns I raise here are just the tip of the iceberg. I would appreciate the opportunity to discuss further concerns in more depth.

Sincerely,



Michael Williams

Annexure A

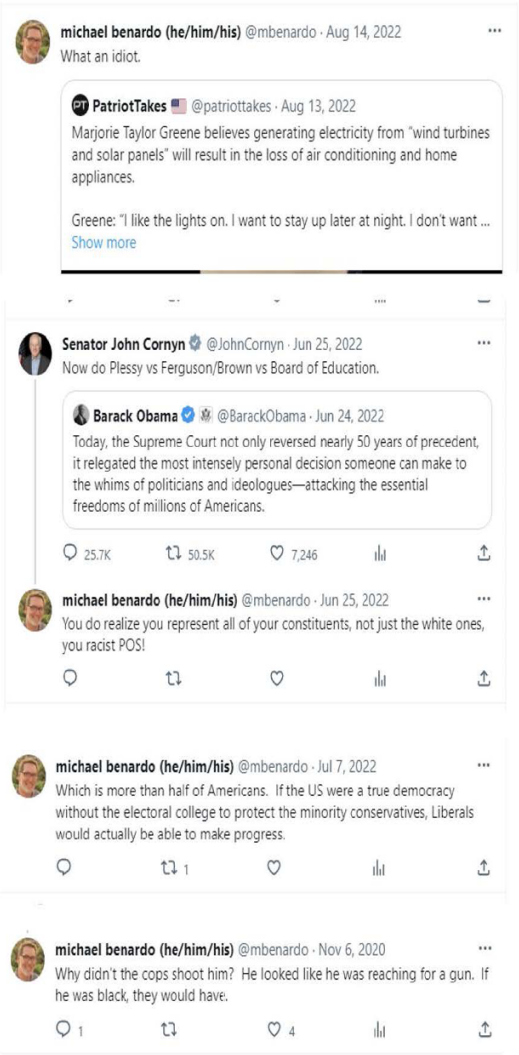


Greg Kelly @gregkellyusa · May 30, 2022
Regarding the Jellyfish Incident earlier today, I want everyone to know I am fine and resting comfortably at home. Much appreciation to the Dade County Lifeguards who assisted me. I chose NOT to urinate on the Jellyfish: Not his fault-he was born a jellyfish. ALL LIFE MATTERS!
216 158 1,917

michael benardo (he/him/his) @mbenardo · Jun 3, 2022
What the actual f*ck? Everyone knows you don't piss on the jellyfish. You piss on the area that was stung (not bitten). #MoreFakeNews

michael benardo (he/him/his) @mbenardo · Mar 2, 2022
@RonDeSantisFL~Why be an asshole to kids? If they want to wear a mask, they should be able to. What happened to personal choice? Isn't that why you've been fighting mask mandates? What if they young people is immunocompromised? By being a bully, you just put them at risk.

michael benardo (he/him/his) @mbenardo · Mar 12, 2022
@GovRonDeSantis gay, gay, gay,



michael benardo (he/him/his) @mbenardo · Aug 14, 2022
What an idiot.

> **PatriotTakes** @patriottakes · Aug 13, 2022
> Marjorie Taylor Greene believes generating electricity from "wind turbines and solar panels" will result in the loss of air conditioning and home appliances.
>
> Greene: "I like the lights on. I want to stay up later at night. I don't want ...
> Show more

Senator John Cornyn @JohnCornyn · Jun 25, 2022
Now do Plessy vs Ferguson/Brown vs Board of Education.

> **Barack Obama** @BarackObama · Jun 24, 2022
> Today, the Supreme Court not only reversed nearly 50 years of precedent, it relegated the most intensely personal decision someone can make to the whims of politicians and ideologues—attacking the essential freedoms of millions of Americans.

25.7K 50.5K 7,246

michael benardo (he/him/his) @mbenardo · Jun 25, 2022
You do realize you represent all of your constituents, not just the white ones, you racist POS!

michael benardo (he/him/his) @mbenardo · Jul 7, 2022
Which is more than half of Americans. If the US were a true democracy without the electoral college to protect the minority conservatives, Liberals would actually be able to make progress.

1

michael benardo (he/him/his) @mbenardo · Nov 6, 2020
Why didn't the cops shoot him? He looked like he was reaching for a gun. If he was black, they would have.

1 4

michael benardo (he/him/his) @mbenardo · Aug 3, 2022

He @RudyGiuliani, the news networks don't "certify" elections. The states do that. Idiot!

Ashley Hinson @RepAshleyHinson · Jan 19, 2022

BREAKING: We secured $829 million in federal funding to upgrade locks & dams along the Upper Mississippi River. This is game-changing for Iowa's agriculture industry & our Mississippi River communities!



hinson.house.gov

Hinson, Grassley, Bustos, Blunt, Durbin Announce $8...

Washington, D.C. - Today, Congresswomen Ashley Hinson (R-IA) and Cheri Bustos (D-IL) as well as ...

16.7K 3,271 1,478

michael benardo (he/him/his) @mbenardo · Jan 21, 2022

"We?" You actually voted against the bill that provided this funding. Don't take credit for it. You're momma raised a #liar and a #Hypocrite.

michael benardo (he/him/his) @mbenardo · Aug 19, 2021

Replying to @JoshMandelOhio

What the hell do you even mean? If you're going to accuse the main stream press of being fake, at least say something that makes sense instead of showing Ohio voters how stupid you are.

michael benardo (he/him/his) @mbenardo · Aug 16, 2021

Anyone know these assholes? Regardless of what they believe, they can't berate others for what they believe. That's not the freedom of which he preaches.

Walter Masterson @waltermasterson · Aug 16, 2021

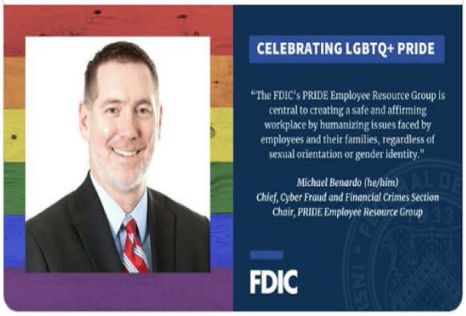
Anti-Masker physically harasses an elderly woman for wearing a mask. Let's make this guy famous.


Marjorie Taylor Greene @mtgreenee · Jul 30, 2021
COVID Checkpoint Charlie
0:16
13.6K
7,638
20.5K
michael benardo (he/him/his) @mbenardo · Jul 30, 2021
#StupidIdiot
michael benardo (he/him/his) @mbenardo · May 21, 2021
Wow, there should be an IQ test for congressman. #idiot
michael benardo (he/him/his) @mbenardo · Sep 17
Nope. She just got caught groping and getting groped by her date at a performance of Beetlejuice, a children's show. Same woman who attacks drag shows and urges parents to take their kids to church, not drag shows, because they might see something sexualized. WTF?

michael benardo (he/him/his) @mbenardo · Jun 1, 2022

I am honored to represent @FDICgov in our celebration of #LGBTQ #PrideMonth 🏳️‍🌈🇺🇸! Watch this space for more posts featuring my brilliant colleagues throughout June! #TeamFDIC

> **FDIC** @FDICgov · Jun 1, 2022
>
> All month long, members of our PRIDE Employee Resource Group are sharing what #PrideMonth means to them and the important ways groups like theirs support #diversity, #equity and #inclusion in the workplace.



michael benardo (he/him/his) @mbenardo · Sep 17

.

...except that Boebert has attacked drag shows and urging parents to take their kids to church not drag shows, because they might see something sexualized. Now, she's at a performance of Beetlejuice, a children's show, groping and getting groped by her date? HYPOCRITE!

1 · 4 · 96

michael benardo (he/him/his) @mbenardo · Sep 17

...and, now we find out that her "date" is a woke liberal who owns a gay-friendly bar where they've had a drag show? She's two faced and only says things for political purposes, not because she actually believes them.

1 · 48



michael benardo (he/him/his) @mbenardo · Nov 16, 2020
@GSAEmily : On behalf of the American people (for whom you work), please do your damn job!

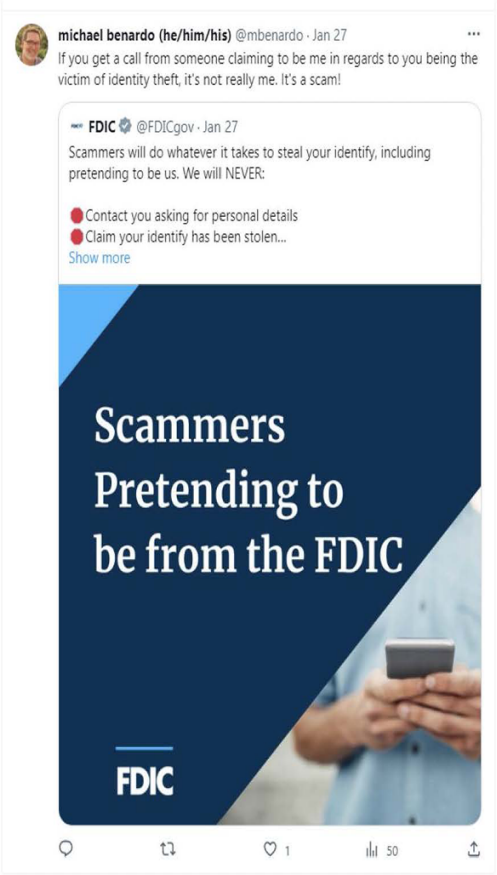
michael benardo (he/him/his) reposted
Congressman Robert Garcia @RepRobertGarcia · Jul 17
George Santos must be held accountable. That's why I'm joining @RepRitchie today as cosponsor of a resolution to censure him. It's been 60 days since House Republicans voted to keep Santos in Congress. He's a liar and a fraud and we must take action.
11 23 128 5,745

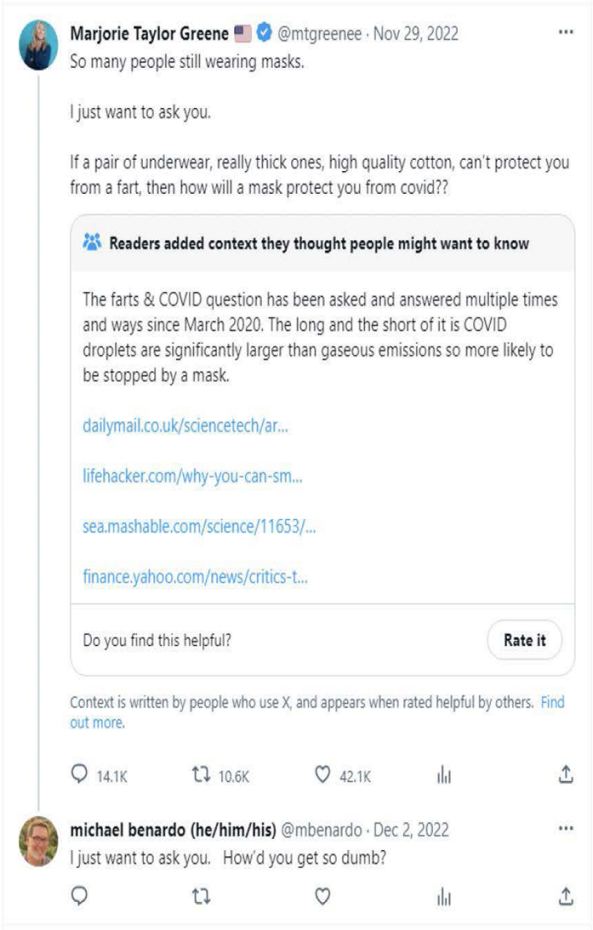
michael benardo (he/him/his) @mbenardo · Jul 16
Hmmm.... Didn't Blow also make a music video about shooting his girlfriend, duct taping her body in trash bags, and dumping her in a lake? Seems like a bad move, politically, to hitch your wagon to him. But, then again, you are the queen of bad moves...

Rep. Marjorie Taylor Greene @RepMTG · Jul 16
Protecting our children has to be our number one priority.

Check out the new song, MTG, by @ForgiatoBlow47!!

Thank you for helping me promote the Protect Children's Innocence Act...
Show more


michael benardo (he/him/his) @mbenardo · Jan 27
If you get a call from someone claiming to be me in regards to you being the victim of identity theft, it's not really me. It's a scam!
FDIC @FDICgov · Jan 27
Scammers will do whatever it takes to steal your identify, including pretending to be us. We will NEVER:
Contact you asking for personal details
Claim your identify has been stolen...
Show more
Scammers Pretending to be from the FDIC
FDIC
1
50



Marjorie Taylor Greene @mtgreenee · Nov 29, 2022

So many people still wearing masks.

I just want to ask you.

If a pair of underwear, really thick ones, high quality cotton, can't protect you from a fart, then how will a mask protect you from covid??

Readers added context they thought people might want to know

The farts & COVID question has been asked and answered multiple times and ways since March 2020. The long and the short of it is COVID droplets are significantly larger than gaseous emissions so more likely to be stopped by a mask.

dailymail.co.uk/sciencetech/ar...

lifehacker.com/why-you-can-sm...

sea.mashable.com/science/11653/...

finance.yahoo.com/news/critics-t...

Do you find this helpful? **Rate it**

Context is written by people who use X, and appears when rated helpful by others. Find out more.

14.1K 10.6K 42.1K

michael benardo (he/him/his) @mbenardo · Dec 2, 2022

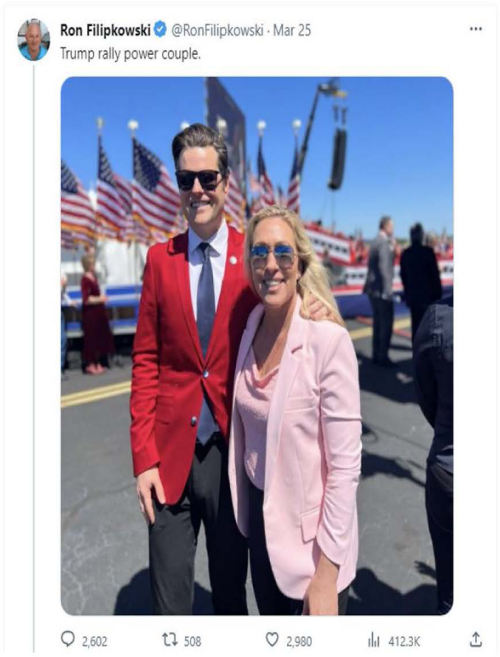
I just want to ask you. How'd you get so dumb?



michael benardo (he/him/his) reposted

Harry Sisson @harryjsisson · Apr 19

The Republicans LIED to the American people. DeSantis is a lunatic 👇



h replies by michael benardo (he/him/his) (@mbenardo) / X
ter.com/mbenardo/with_replies
:): Thu, 12 Oct 2023 08:40:35 GMT





Ted Cruz @tedcruz · Mar 27

Heidi and I are praying for the entire Nashville community right now. May God's comfort be with the Covenant School in the wake of this evil atrocity.

11.7K 1,523 7,070 1.4M

michael benardo (he/him/his) @mbenardo · Mar 30

You and your colleagues in Congress were elected to represent Americans and make this country a better place to live. Do your damn job and pass gun control now! ...before more beautiful children are gunned down.

1 18