

RIGHT-SIZING THE U.S. BANK CAPITAL FRAMEWORK: A RETURN TO TAILORING, ECONOMIC GROWTH, AND COMPETITIVENESS

HEARING BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES

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RIGHT-SIZING THE U.S. BANK CAPITAL FRAMEWORK: A RETURN TO TAILORING, ECONOMIC GROWTH, AND COMPETITIVENESS

Thursday, December 11, 2025

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:09 a.m., in room 2128, Rayburn House Office Building, Hon. Andy Barr [chairman of the subcommittee] presiding.

Present: Representatives Barr, Hill, Huizenga, Williams of Texas, Loudermilk, Rose, Timmons, Kim, Flood, Moore, Foster, Waters, Velázquez, Scott, Sherman, Green, Vargas, Casten, Lynch, Beatty, and Fields.

Chairman BARR. The Subcommittee on Financial Institutions will come to order.

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

Today's hearing is titled "Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness."

Without objection, all members will have 5 legislative days within which to submit extraneous materials to the chair for inclusion in the record.

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

OPENING STATEMENT OF HON. ANDY BARR, CHAIRMAN OF THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS, A U.S. REPRESENTATIVE FROM KENTUCKY

Today, the subcommittee turns its attention to an issue that sits at the heart of American economic strength: our bank capital framework. For years, Washington has layered rule upon rule on American banks, forcing them to retain capital at levels that far exceed standards applicable to our global competitors, and the results have been detrimental to U.S. firms.

We have a capital system that increasingly gold-plates international requirements, imposes one-size-fits-all mandates on institutions with different risk and business profiles, and undermines the competitiveness of American institutions.

Let me be clear. Republicans on this committee support a tailored, commonsense capital framework that protects the safety and soundness of the American financial system, but what we do not

support is a regulatory framework that needlessly restricts credit, penalizes growth, and places American banks at a disadvantage against foreign competitors who are held to lesser standards.

The Basel III Endgame framework should not be solely focused on international harmonization. It should be focused on economic growth as well. Capital should be right-sized to protect the economy, not inflated for ideological reasons, not used as a tool to achieve political objectives, and not calibrated without regard to the real-world impacts on lending liquidity and the economic vitality of local community institutions.

This is why the Biden Administration's initial Basel III Endgame proposal was deeply flawed and received bipartisan criticism. It threatened to elevate capital burdens so far above international norms that entire categories of banking business lines, from residential mortgages to market-making, could have migrated to off-shore institutions.

Fortunately, the bipartisan message was clear: The Basel III Endgame must be repropose, and that reproposal is not just an opportunity but a responsibility to get this right.

We need a framework that is proportional, tailored, and grounded in empirical analysis. We need a framework that recognizes the diversity of the American banking system. We must build upon the bipartisan S.2155 to ensure capital requirements are tailored based on a bank's size, complexity, and risk profile.

Indeed, a regional bank focused on traditional lending should not be subject to the same standards intended for institutions engaged in significant trading, cross-border activities, or complex market operations.

We must account for growth in the economy by indexing regulatory and category thresholds. This way banks do not stifle their growth when it is needed most.

If we get this right, if we right-size capital, eliminate unnecessary gold-plating, and build a framework that tailors requirements to actual risk, we can preserve what makes American banking exceptional.

We do not want a barbell banking system in this country with a number of small banks and global systemically important banks (G-SIBs) and nothing in between. Achieving this stems from a well-calibrated capital framework that incentivizes growth and competition while maintaining safety and soundness.

We must ensure that community banks continue to serve as economic anchors in small towns and rural communities. We must keep U.S. institutions competitive on the global stage, and we must create a regulatory environment that supports—not strangles—growth, innovation, and opportunity.

So today I look forward to hearing from our witnesses about how we can design a capital framework that strengthens stability without sacrificing competitiveness, that respects the structure of the American banking system, that promotes the heterogeneity and diversity of that system, and reins in the excesses of prior regulatory overreach.

I thank our witnesses for being here today to provide their valuable insights and perspectives, and I yield back.

Chairman BARR. I now recognize the ranking member of the subcommittee, Dr. Foster, for 4 minutes for his opening statement.

OPENING STATEMENT OF HON. BILL FOSTER, RANKING MEMBER OF THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS, A U.S. REPRESENTATIVE FROM ILLINOIS

Mr. FOSTER. Thank you, Chairman Barr, and to our witnesses. I represent Woodstock, Illinois, where the film *Groundhog Day* was filmed, and so here we go; going to once again examine the regulatory capital framework for U.S. banks.

Part of the prudential regulatory umbrella, capital standards provide a buffer against insolvency when financial institutions take losses, helping them weather economic downturns, failed investments, or the missteps of management.

The 2008 financial crisis highlighted flaws in the regulatory framework for U.S. banks when the true risk of assets did not match the corresponding capital charge assigned to them. Supposedly, well-regulated—well-rated, mortgage-backed securities and off-balance sheet exposures received little supervisory attention, leading to massive losses and a crisis of confidence in the banking system when those same assets dropped by enormous amounts.

In response to this crisis and the taxpayer-funded bailout of the U.S. financial system, Congress passed the Wall Street—Dodd-Frank Wall Street Reform and Consumer Protection Act to enhance the supervision and regulation of the financial system. Dodd-Frank took a tiered approach applying the most stringent capital to the largest and most complex banks that posed the greatest risk to financial stability. The largest banks became subject to safeguards meant to prevent a similar crisis, including higher capital ratios, stress testing, resolution planning, and other prudential requirements.

Following the financial crisis, financial regulators around the world, including the United States, convened in forums like the Basel Committee on Banking Supervision to facilitate cooperation between member countries and enhance financial stability. These forums are important, as this cooperation prevents a race to the bottom that would ultimately make the global financial system much less safe.

Since the enactment of Dodd-Frank, Congress has revisited several prudential standards to respond to changes in the banking economy, risks to financial stability, change over time, and new risks to emerge which, for example, everything having to do with technology that should be our focus today and unfortunately, instead of repeating the same debate that has crystallized around 2009 has not changed in almost 15 years.

The regional banking crisis, for example, in 2023 demonstrated that bank runs following steep losses can occur much faster than previously thought, and they are going to become faster when agentic AI makes bank runs possible at the speed of AI rather than the speed of internet gossip.

I worry that these type of events will be much more common with a commoditization of AI, the introduction of emerging volatile assets into the banking system. Banking regulators have a duty to ensure that the banks and their agencies are ready to deal with

these types of runs and to strengthen safeguards against rapid withdrawals and dramatic price swings in various asset classes.

Under President Trump, the banking regulators have taken steps that undermine this financial stability, namely, by dismantling the Consumer Financial Protection Bureau, which was created by Dodd-Frank to stop the very same predatory lending practices that contributed to the global financial crisis.

They have also moved to weaken stress testing for the largest banks, cut staffing at the Financial Stability Oversight Council (FSOC) and its member agencies, and are pushing firms to engage with digital assets that can experience extremely high price volatility.

We expect banking regulators will soon propose a revised rule to implement the principles of the Basel III Endgame. Under the last iteration of the proposal, members of this committee raised certain concerns about the proposal related to the capital treatment of mortgages, small business loans, tax equity, and derivatives used for risk management.

So I encourage regulators to consider these concerns as they develop the new proposal and the combined impact of financial stability with the other changes being advanced on leverage, stress testing, and other areas.

My colleagues on this committee should call for a robust cost-benefit analysis for the coming proposal, as they did with the last proposal, and push regulators to back up their proposals with data.

Thank you again, Chair Barr, and I yield back.

Chairman BARR. The gentleman yields back.

I now recognize the chairman of the full committee, Mr. Hill, for 1 minute for an opening statement.

STATEMENT OF HON. FRENCH HILL, CHAIRMAN OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM ARKANSAS

Chairman HILL. Thank you, Chairman Barr.

The U.S. banking system is at a pivotal juncture right now. Regulators have the opportunity to establish credit and capital standards that strengthen financial security without unduly limiting economic growth or a bank's ability to compete on an international scale.

Even so, small and community banks continue to face disproportionate compliance and capital burden that were never intended for institutions of their size. Despite these challenges, U.S. banks remain, as Chairman Powell has mentioned many times, well-capitalized, resilient, and able to support lending, investment, and economic growth.

This does not mean we should ignore the inefficiencies in the current framework, and particularly under Chairman Barr's leadership, the Congress must encourage regulators to tailor capital requirements based on bank size, complexity, and risk profile, rather than apply a one-size-fits-all approach.

Thoughtful tailoring can free up capital for productive uses, helping banks support small businesses, home buyers, and economic expansion across all of our districts.

Thank you, and I yield back.

Chairman BARR. I now recognize the ranking member of the full committee, Mrs. Waters, for a 1-minute opening statement.

STATEMENT OF HON. MAXINE WATERS, RANKING MEMBER OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. WATERS. Thank you very much.

I look forward to the testimony as we discuss bank capital.

Trump's regulators and Republicans are tearing down the safeguards that keep our banks safe to ensure stable economic growth. Reducing capital for our largest banks will make them less resilient, less likely to lend during periods of stress, and more likely to fail.

Weakening these safeguards, these guardrails, leaves hard-working Americans to bear the consequences. We saw this in 2008 when banks gambled with borrowed money and families, workers, and small businesses, and whole communities paid the price.

If we want to strengthen our financial system for the benefit of small businesses and their workers, as well as community banks and credit unions, then I hope Chairman Hill will work with me to advance overdue deposit insurance reforms and on this issue of capital and the continued efforts by the Republicans to reduce the capital that the banks should hold, we are going to have a fight.

Chairman BARR. The gentlelady's time has expired.

Today we welcome the testimony of some outstanding witnesses. First, Mrs. Margaret Tahyar, head of financial institutions at Davis Polk; Mrs. Amanda Eversole, president and chief executive officer of Financial Services Forum; Mr. Andrew Olmem, managing partner and co-leader of the Financial Services group at Mayer Brown; Mr. Mike Flood—the other Mike Flood—head of the Center for Capital Markets Competitiveness at the U.S. Chamber of Commerce; and Mr. Simon Johnson, professor of entrepreneurship at the MIT Sloan School of Management.

We thank each of you for taking the time to be here. Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, your written statements will be made part of the record.

Mrs. Tahyar, you are now recognized for 5 minutes for your oral remarks.

STATEMENT OF MARGARET TAHYAR, HEAD OF FINANCIAL INSTITUTIONS, DAVIS POLK & WARDWELL LLP

Mrs. TAHYAR. Chairman Barr, Ranking Member Foster, and members of the subcommittee, thank you for asking me to testify.

Capital regulation is long overdue for a rethink, and this subcommittee should encourage the banking regulators to move quickly to appropriately implement the Basel III Endgame with appropriate data, appropriate cost-benefit analysis.

I would like to leave you with three thoughts this morning.

First, capital is very important, but it is not the only tool in the financial stability kit.

Second, choices about the calibration of capital are political economy choices that involve credit engineering. They can also change the regulatory perimeter.

Third, our economy and our banking sector are complex. Tailoring, as the chairman has noted, is the solution so that we do not treat large banks the same as community banks.

Capital is an important thing, but it is not everything. We cannot expect it to be the sole insurance against financial stability. We should see it as part of an integrated system that also includes early intervention, resolution planning, credit concentration, contingency planning, risk management, total loss-absorbing capacity (TLAC), deposit insurance, and hands-on supervision and we should understand that capital absorbs losses, but it is not liquidity regulation, so it does not help against quick deposit runs.

Capital regulation involves political economy choices. How much financial stability insurance should a banking organization be required to purchase? Any increase in bank capital requirements increases the cost of funding. I think we can all agree that capital levels going into the great financial crisis were too low, but today I think we have to ask whether current capital levels also come at a cost to the real economy.

Risk weighting for purposes of risk-based capital requirements is a form of credit engineering. The zero percent risk weighting for Treasuries, the 50 percent risk weighting for mortgages, and the international Basel Committee's 1,250 percent risk weighting for crypto assets reflect political economy choices that are appropriate for this committee to oversee. For example, if implemented, the crypto assets risk weighting would seem to be contrary to the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act.

Another point is that any capital framework will need updating and renewal from time to time even though the debates share patterns. That update should be data-driven, understanding it will never be perfect.

Markets of technology and geopolitics are not waiting around for the Basel III Endgame. In fact, calling this last—latest round of rulemaking Basel III Endgame is kind of a misnomer, implying that, once the next round of rules takes effect, we are done.

I think we should not think of capital as a Marvel movie with a tidy ending. The economy, the financial system will remain in constant flux, and banking regulators should periodically review capital regulation.

Capital regulation should be tailored. The tailoring principle is especially critical in the United States given the complexity of our economy, the largest economy in the world, the geographic spread. We have a banking sector whose structure is very different from most other countries with our many different sizes of banks, and we need to avoid that barbell.

Wisely, the banking regulators did not impose every new complexity on every banking organization, but it is fair to question whether we are appropriately tailored and whether there should be some indexing particularly for—as the economy grows. All policy choices have tradeoffs, but our focus should be on the real economy, jobs, American competitiveness, and wealth creation.

This should not be a red team/blue team issue. We should approach it in the spirit of bipartisanship as a purple issue and in that spirit, I am wearing a purple jacket today.

[The prepared statement of Mrs. Tahyar follows:]

STATEMENT OF
MARGARET E. TAHYAR
BEFORE

THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

WASHINGTON, D.C.

DECEMBER 11, 2025

**RIGHT-SIZING THE U.S. BANK CAPITAL FRAMEWORK:
A RETURN TO TAILORING, ECONOMIC GROWTH,
AND COMPETITIVENESS**

MARGARET E. TAHYAR BIOGRAPHY

My name is Margaret E. Tahyar, known as Meg, and I lead the Financial Institutions Group at Davis Polk & Wardwell LLP where I have been a partner for 28 years and where I have toiled in the field of banking regulation for 35 years. I am one of the co-authors of the law school textbook, *Financial Regulation and Policy* (Jackson, Tahyar, 4th Edition, Foundation Press 2025). I represent a large range of financial institution clients, but I am here today in my individual capacity and not on behalf of any client. The views I express are my own, and not necessarily those of Davis Polk, any client or any other organization with which I am or have been affiliated.

Introduction

Chairman Barr, Ranking Member Foster and members of the Subcommittee, thank you asking me to testify today on this crucially important topic.

Capital is complex and multi-layered. Capital regulation is long overdue for a rethinking, and this Subcommittee should be encouraging the federal banking regulators to move promptly to appropriately implement the Basel III Endgame. In the short time I have today, I would like to leave you with three thoughts. First, capital is very important but is not the only tool in the regulatory kit. Second, choices about the calibration of capital requirements and risk weights are political economy choices that involve credit engineering and can change the regulatory perimeter. Third, our economy and our banking sector are complex. Tailoring is the solution so that we do not treat large banks the same as community banks. At its core, capital is not only financial stability insurance but is also about competitiveness and credit in the real economy.

I. Capital Is An Important Thing, But It Is Not Everything

Capital regulation is critically important, but we need to keep in mind that it is one part of a multi-faceted regulatory and supervisory system. We cannot expect capital to be the sole tool against financial instability. We should see capital as part of a system that also includes liquidity regulations, early intervention tools, resolution planning, credit concentration limits, contingency planning, risk management, loss-absorbing debt requirements, deposit insurance and hands-on supervision.¹

Let's be clear about the difference between capital and liquidity. There is a common misconception that a banking organization's capital is a pile of cash that the banking organization holds or sets aside that could be used if there is a run on the banking organization. Capital is not that; it is a measure of a banking organization's ability to

¹ The entire *ex ante* and *ex post* regulatory and supervisory systems work together in the cause of financial stability. See Randall D. Guynn, *Are Bailouts Inevitable?*, 29 YALE J. ON REG. 121, 130-35 (2012).

absorb losses.² Capital does not protect against bank runs. Liquidity requirements³ and deposit insurance work together to give comfort to depositors and discourage runs on banking organizations. It is important to keep these two concepts, and their function, separate even though they are symbiotic.

Capital is a lagging indicator, which is why prompt corrective action has not worked while bank runs happen at ever-increasing speeds. Many banking organizations have failed while well capitalized.⁴ So, we cannot rely on capital alone for financial stability. That is why, for example, it is important for banking supervisors to be laser focused on material financial risks and not distracted by check-the-box compliance exercises.

As a result, this Subcommittee, as part of its oversight activities, should be supporting the core federal banking regulators in the full breadth of the agenda they have laid out in restoring tailoring and helping credit to flow where the economy needs it as well as bringing more transparency and accountability into the supervisory system.

² A banking organization's capital can be thought of as a proxy for the equity on its balance sheet—that is, the difference between its assets and its liabilities. This portion of the balance sheet is shareholders' investment in the banking organization. In addition to balance sheet equity, capital also includes qualifying subordinated debt (a balance sheet liability), which by its terms ranks below other debt of the banking organization and is therefore an equity-like obligation. If losses occur, capital shrinks first. The more a banking organization uses equity to fund its assets, the higher its capital ratios will be. And the higher these ratios, the more losses a banking organization and its shareholders and subordinated debtholders could suffer without impairing its obligations to its creditors, including depositors. For additional background, see also David Wessel, Brookings Institution, *What is bank capital? What is the Basel III Endgame?* (Mar. 7, 2024), <https://www.brookings.edu/articles/what-is-bank-capital-what-is-the-basel-iii-endgame/>; Douglas J. Elliott, Brookings Institution, *A Primer on Capital* (Jan. 28, 2010), https://www.brookings.edu/wp-content/uploads/2016/06/0129_capital_primer_elliott.pdf.

³ Large banking organizations are required to maintain a minimum amount of cash and other high-quality liquid assets to meet their short-term obligations. See the liquidity coverage ratio rules at 12 C.F.R. Part 50 (OCC), 12 C.F.R. Part 249 (Federal Reserve) and 12 C.F.R. Part 329 (FDIC). Smaller banking organizations are not subject to specific liquidity requirements, but their liquidity resources and planning are a key focus of banking regulators' supervision and examinations.

⁴ "Regulatory capital ratios for SVB Financial [Group] and [Silicon Valley Bank] exceeded minimum federal regulatory guidelines under the Capital Rules as well as for a 'well capitalized' bank holding company and insured depository institution, respectively, as of December 31, 2022." SVB Financial Group, *Report on Form 10-K for the fiscal year ended December 31, 2022*, <https://www.sec.gov/Archives/edgar/data/719739/000071973923000021/svb-20221231.htm>. Silicon Valley Bank failed on March 10, 2023. Also in 2023, Swiss regulators declared that "Credit Suisse meets the capital and liquidity requirements imposed on systemically important banks" four days before announcing that UBS would take over Credit Suisse. Swiss Financial Market Supervisory Authority, *FINMA and the SNB issue statement on market uncertainty* (Mar. 15, 2023), <https://www.finma.ch/en/news/2023/03/20230315-mm-statement/>; Swiss Financial Market Supervisory Authority, *FINMA approves merger of UBS and Credit Suisse* (Mar. 19, 2023), <https://www.finma.ch/en/news/2023/03/20230319-mm-cs-ubs/>.

II. Political Economy Choices Are Embedded in the Regulation of Bank Capital

Capital regulation involves political economy choices at macroeconomic and microeconomic scales. The macroeconomic question is how much financial stability insurance a banking organization should be required to purchase, given the benefits and costs. Any increase in the stringency of bank capital requirements, whether through an increase in minimum ratios or buffers or changes to the numerator or denominator of the ratios, increases the cost of funding for banks. Higher capital requirements are not costless. I think we can all agree that capital levels were too low going into the global financial crisis, but we may now have reached the point where we have to ask whether current capital levels also come at a cost to the real economy, as banking organizations may reduce lending in response to their heightened funding costs. They may also diminish the financial stability benefits of capital regulation, as lending activity moves to the less-regulated nonbank sector.

Since opinions legitimately differ about the optimal level of capital, that implies, I believe, several insights that should be taken into account as policymakers think about recalibration of the capital standards.⁵

First, we should acknowledge that the overall calibration of capital requirements inherently involves a judgment call about the appropriate weighing of financial stability benefits and economic costs.⁶

Second, we should acknowledge that capital regulation involves political economy choices at a microeconomic scale. Risk weighting for purposes of risk-based capital requirements is a form of credit engineering. In making choices about the risk weighting of different categories of exposures, regulators encourage or discourage banking

⁵ As a recent literature review by the Bank of England shows, studies attempting to determine the optimal level of bank capital based on economic costs and benefits have yielded a broad range of results. Bank of England, *Financial Stability in Focus: The FPC's assessment of bank capital requirements* (Dec. 2, 2025), at 52-56, <https://www.bankofengland.co.uk/financial-stability-in-focus/2025/fsif-the-fpcs-assessment-of-bank-capital-requirements>. For other reviews of academic literature on optimal bank capital levels, see also, e.g., FDIC, Federal Reserve and OCC, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity*, 88 Fed. Reg. 64028, 64169 (proposed Sept. 18, 2023); Francisco Covas and Bill Nelson, Bank Policy Institute, *U.S. Bank Capital Levels: Aligning With or Exceeding Midpoint Estimates of Optimal* (Sept. 18, 2023), <https://bpi.com/u-s-bank-capital-levels-aligning-with-or-exceeding-midpoint-estimates-of-optimal/>.

⁶ Notably, just last week, the Bank of England's Financial Policy Committee (FPC) reduced its judgment on the "appropriate benchmark level for system-wide Tier 1 capital requirements" from 14% of risk-weighted assets (RWA) to around 13% of RWA. Bank of England, *Financial Stability in Focus: The FPC's assessment of bank capital requirements* (Dec. 2, 2025), at 3-4, <https://www.bankofengland.co.uk/financial-stability-in-focus/2025/fsif-the-fpcs-assessment-of-bank-capital-requirements>. The FPC wrote that "[t]his 13% benchmark for Tier 1 capital requirements comprises an underlying optimal level of 11%, inclusive of the neutral rate for the UK CCyB, and an additional 2 percentage points to account for outstanding gaps and shortcomings in the measurement of RWAs." *Id.* at 4. The FPC noted that the 13% benchmark "remains close to the bottom end of the range of optimal capital estimates" identified in its review of academic studies. *Id.* at 48.

organizations from taking those exposures. If risk weights accurately reflect the relative risks of exposures, market forces will predominate. But if risk weights do not reflect the true risk of loss for a category of exposures, banking organizations will have incentives to under- or over-invest in that category. Three examples illustrate this point.

Most residential mortgages have long been assigned a 50% risk weight under the standardized approach, compared to a 100% risk weight for commercial loans.⁷ I believe that encouraging home ownership in the United States was a clear driver of this policy choice. The international Basel III standard reflected a view that the risk weighting of mortgages should be more risk-sensitive.⁸ In the Basel III Endgame proposal, the federal banking regulators proposed significant amendments to the risk-weighting treatment of mortgage exposures that went above and beyond the international standard.⁹ In doing so, they made the political economy choice not to prioritize encouraging U.S. home ownership.¹⁰ To provide another example, since Basel I the standard risk weight for U.S. Treasuries and sovereign debt of other developed countries has been 0%.¹¹ This choice was driven by a view about the lack of credit risk in these forms of sovereign debt, but also has the effect of encouraging active markets in such instruments. Finally, the Basel Committee recently adopted a 1,250% risk weight for certain exposures to cryptoassets.¹² If implemented at the national level, this would strongly discourage banking organizations from holding such exposures. The political economy choices behind this risk weighting seem at odds with the recent GENIUS Act.

Third, we should realize that any capital framework will need updating and renewal from time to time as markets and technology change. The recent changes to the enhanced supplementary leverage ratio (eSLR) buffer requirement are welcome and wise but were

⁷ Bank for International Settlements, *International Convergence of Capital Measurement and Capital Standards* (1988), at 18, <https://www.bis.org/publ/bcbasc111.pdf>. For the current risk weights for residential mortgage exposures, see 12 C.F.R. §§ 3.32(g) (OCC), 217.32(g) (Federal Reserve) and 324.32(g) (FDIC).

⁸ See Bank for International Settlements, *Calculation of RWA for Credit Risk*, CRE 20.82 (effective Jan. 1, 2023), https://www.bis.org/basel_framework/chapter/CRE/20.htm.

⁹ FDIC, Federal Reserve and OCC, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity*, 88 Fed. Reg. 64028, 64048 (proposed Sept. 18, 2023).

¹⁰ The federal banking regulators stated, however, that the proposed risk weights for residential real estate exposures “are intended to appropriately reflect differences in credit risk of these exposures” and invited comment noting that “the agencies are supportive of home ownership and do not intend the proposal to diminish home affordability or homeownership opportunities.” *Id.*

¹¹ Bank for International Settlements, *International Convergence of Capital Measurement and Capital Standards* (1988), at 17, <https://www.bis.org/publ/bcbasc111.pdf>. For the current risk weights for sovereign exposures, see 12 C.F.R. §§ 3.32(a) (OCC), 217.32(a) (Federal Reserve) and 324.32(a) (FDIC).

¹² Basel Committee on Banking Supervision, *Prudential treatment of cryptoasset exposures* (Dec. 2022), <https://www.bis.org/bcbs/publ/d545.pdf>.

discussed for many years and, in the meantime, many believe they had an impact on the functioning of the Treasury markets. Markets, technology and geopolitics aren't waiting around for the Basel III Endgame. Congress should encourage the federal banking regulators to finalize the Basel III Endgame as soon as possible.

In fact, calling the latest round of rulemaking "Basel III Endgame" is a misnomer, implying that, once this round of rules takes effect, we are done with capital standards. But this isn't a Marvel movie with a tidy ending—the economy and financial system will remain in constant flux, and the federal banking regulators should periodically review the entire capital framework to ensure that it continues to support the financial system and the real economy.¹³

III. The Complexity of Bank Capital Regulation Should Be Tailored to the Complexity of a Banking Organization

The complexity of capital regulations should be tailored to the risk and complexity of a banking organization. This principle is especially critical in the United States given the complexity and geographical spread of the largest economy in the world. In the United States we have a banking sector whose structure is very different from most other countries with our many different sizes of banks. A certain level of complexity in capital regulation is necessary to account for differences in the risks of different assets, particularly for the largest, most internationally active banking organizations. But for banking organizations with less complex activities, the federal banking regulators should avoid imposing unnecessarily complex rules, which require intense technology and talent investments.

The capital framework understandably evolved over decades as new banking activities created new risks, new technologies made it possible to measure risks more accurately and financial crises occurred, prompting regulators to revisit their past choices or consider new approaches. The result of this evolution is an undeniably complex capital framework, featuring multiple parallel ratio requirements, calculation methods designed to capture particular risks in more sophisticated ways and variable buffer requirements based on an individual banking organization's particular risk profile.

Wisely, the federal banking regulators did not impose every new complexity on every banking organization, regardless of its size or activities. The resulting framework is indeed tailored. But it is fair to question whether it is appropriately tailored. In my view, there is room to improve the tailoring, especially for medium-sized banking organizations. Indexing thresholds as the economy grows is one concept to consider.

¹³ In fact, the federal banking regulators are required by statute to review all of their regulations, including the capital rules, at least once every ten years to identify outdated, unnecessary or unduly burdensome requirements. *See* 12 U.S.C. § 3311.

The smallest, least complex U.S. banking organizations are, appropriately, subject to the least complex bank capital requirements. Banking organizations with less than \$10 billion of consolidated assets that otherwise meet the criteria to be a qualifying community banking organization may elect to comply with the community bank leverage ratio (CBLR) framework.¹⁴ Under that framework, if a qualifying community banking organization complies with a single 9% leverage ratio requirement, it is considered to have satisfied any other leverage and risk-based capital requirements to which the banking organization is subject and to be well capitalized for purposes of the prompt corrective action framework.¹⁵ The federal banking regulators recently proposed to reduce the CBLR requirement to an 8% leverage ratio and to implement a longer grace period for banks that grow beyond \$10 billion.¹⁶

The very largest, most internationally active U.S. banking organizations—the global systemically important banking organizations (G-SIBs)—are subject to additional requirements that increase both the complexity of the framework and the amount of capital they are required to hold. G-SIBs are subject to the advanced approaches requirements, effectively requiring them to calculate many of their capital requirements twice, and comply with the most binding requirement. They are subject to stress testing and the related stress capital buffer (SCB) requirements. They are subject to a potential counter-cyclical buffer (CCyB) that can be deployed at the discretion of the Federal Reserve, although it has never been deployed. They are required to calculate a G-SIB surcharge under two methods, one of which is gold-plated as compared to international standards, and comply with the higher of the two.¹⁷ They are also subject to the eSLR buffer requirement, above and beyond the supplementary leverage ratio requirement that applies to the G-SIBs as well as Category II and III banking organizations.¹⁸ It makes

¹⁴ 12 C.F.R. §§ 3.12 (OCC), 217.12 (Federal Reserve) and 324.12 (FDIC).

¹⁵ *Id.*

¹⁶ FDIC, Federal Reserve, OCC, *Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework* (proposed Dec. 1, 2025), 90 Fed. Reg. 55048.

¹⁷ 12 C.F.R. § 217.403; Bank for International Settlements, *SCO40: Global systemically important banks*, https://www.bis.org/basel_framework/chapter/SCO/40.htm?inforce=20211109&published=20211109.

¹⁸ 12 C.F.R. §§ 3.10(a)(1)(v) (OCC), 217.10(a)(1)(v) (Federal Reserve) and 324.10(a)(1)(v) (FDIC); 12 C.F.R. § 217.11(c)(4). The FDIC, Federal Reserve and OCC recently issued a final rule “intended to help ensure that the enhanced supplementary leverage ratio standards serve as a backstop to risk-based capital requirements rather than a frequently binding constraint.” FDIC, Federal Reserve and OCC, *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*, 90 Fed. Reg. 55248 (Dec. 1, 2025).

sense to ask whether this gold plating remains appropriate, as the Bank of England recently did.¹⁹

U.S. banking organizations in Category IV and above (i.e., with \$100 billion or more in total assets) are subject to the SCB requirement that is determined individually on an annual basis for each such banking organization based, in part, on the results of the Federal Reserve's supervisory stress test, subject to a minimum of 2.5%.²⁰ This requirement introduces volatility in the total Common Equity Tier 1 capital requirement to which each such banking organization is subject, and recent proposals designed to decrease that volatility make sense.²¹

The range of banking organizations that are not small enough to be eligible for the CBLR framework, but also not large enough to be required to compute their capital under the advanced approaches or comply with the SLR or SCB, are subject to both leverage requirements and to risk-based capital requirements under the standardized approach. Banking organizations with \$11 billion in total assets are subject to the same standardized approach as banking organizations with \$99 billion in total assets.

In the Basel III Endgame proposal, the federal banking regulators proposed major changes to the capital framework, including significant refinements to the standardized risk weights that would make them more sensitive to risk and, as a result, more complex. The federal banking regulators proposed applying the enhanced risk-based capital requirements, a new standardized approach that would have operated in parallel to the existing standardized approach, to all banking organizations with \$100 billion or more in total assets.²² The proposal also would have introduced operational risk capital requirements within that new standardized approach, whereas to date operational risk requirements have only been considered under the advanced approaches.²³

I recommend that the federal banking regulators consider whether all of these new requirements are worth imposing on the wide range of mid-sized U.S. banking organizations, or whether higher thresholds are more appropriate for the Basel III Endgame version of the standardized approach in general and its operational risk

¹⁹ The Bank of England recently revisited its assessment of the appropriate calibration of capital requirements, lowering its recommended benchmark capital ratio from 14% to 13%. *See supra* n. 6.

²⁰ 12 C.F.R. § 225.8. For the SCBs effective October 1, 2025, see Federal Reserve, Large Bank Capital Requirements (Aug. 2025), <https://www.federalreserve.gov/publications/files/large-bank-capital-requirements-20250829.pdf>.

²¹ Federal Reserve, *Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement*, 90 Fed. Reg. 16843 (proposed Apr. 22, 2025).

²² FDIC, Federal Reserve and OCC, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity*, 88 Fed. Reg. 64028, 64032 (proposed Sept. 18, 2023).

²³ *Id.* at 64082.

component in particular. The federal banking regulators should also consider adopting higher asset thresholds for the SCB and CBLR frameworks.

Conclusion

As the federal banking regulators work towards a welcome update in capital regulation, I hope that we can keep in mind that capital regulation and its close cousin, liquidity regulation, have a direct impact on what the banking sector does in the economy. All policy choices have trade-offs, but our focus should be on the impact on the real economy, jobs and wealth creation. This is not a red team/blue team issue. We should approach it in a spirit of bipartisanship as a purple issue.

Chairman BARR. Thank you. Very good.

Mrs. Eversole, you are now recognized for your testimony.

**STATEMENT OF AMANDA EVERSOLE, PRESIDENT AND CHIEF
EXECUTIVE OFFICER, FINANCIAL SERVICES FORUM**

Mrs. EVERSOLE. Great. Thank you, Chairman Barr, Chairman Hill, Ranking Member Foster, and Ranking Member Waters, members of the subcommittee. My name is Amanda Eversole, and I am president and CEO of the Financial Services Forum, which represents the eight global systemically important banks, or G-SIBs, headquartered in the United States.

Every day, forum members and their nearly 700,000 employees across this Nation provide the capital that fuels America's economy. Forum members provide nearly half of all consumer lending by banks in the United States by helping Americans purchase their first homes, buy a family car, or start a business.

Forum members also support our vibrant, highly liquid capital markets, ensuring that they remain the envy of the world and forum members play a critical role in meeting the funding needs of other financial institutions, including community and regional banks.

Above all, we remain committed to ensuring a strong, stable, and healthy financial sector and economy.

The U.S. G-SIBs have never been more capitalized and more resilient. They are subject to the most stringent regulatory standards among both U.S. and foreign competitors. Over the past 15 years, the U.S. G-SIBs have tripled their capital and now maintain more than \$1 trillion in high-quality capital, but more capital is not always better. There are economic tradeoffs to higher requirements. According to academic research, a 3 percent increase in required capital costs can cost the U.S. economy between \$100-and \$150 billion per year and it is critical that we get the balance right.

After years of post-crisis implementation, now is the time to modernize large bank capital regimes so U.S. banks can better support American families, small businesses, and our capital markets.

We appreciate efforts by the administration and regulators to take a comprehensive approach to capital. There are three important factors that should be considered as this committee explores this issue further.

First, capital requirements must be supported by data and calibrated accordingly. The Basel III Endgame proposal from 2023 serves as a prime example. That proposal and the regulatory approach to the Basel III Endgame would have increased capital for forum members by 25 percent without any clear justification or analysis. More than 97 percent of commenters raised concerns with the proposals, and 86 percent of those comments came from outside of the banking industry, which is an important fact to note.

Capital rules have a clear and significant impact on homeowners, small businesses, retirees, manufacturers, and farmers. It is critical that we take the economic impacts into consideration when determining capital rules, and we look forward to the revised Basel III Endgame proposal that meets the needs of the U.S. economy.

Second, several aspects of the large bank capital framework make it harder for U.S. banks to compete, pushing activity to for-

eign banks and less regulated nonbanks. This migration of risk makes the system less safe and less stable.

The G-SIB surcharge is perhaps the best example of a self-inflicted disadvantage with our foreign competitors. The U.S. approach to the G-SIB surcharge is nearly twice that of our foreign competitors, resulting in an additional \$100 billion in capital that could be deployed into the U.S. economy.

We appreciate the commitment by regulators to review this rule, and we look forward to a proposal that will harmonize the U.S. G-SIB surcharge with the international standards to better meet the needs of U.S. business and hardworking American families.

Third, enhanced transparency and public accountability is the bedrock principle of good government. The Federal Reserve's initiative to improve the transparency of stress testing models and scenarios will improve bank risk management, reduce volatility, and allow banks to better serve their clients and customers. We look forward to providing our comments on this proposal.

The world has changed over the last 15 years, and regulations have not kept pace. Thankfully, regulators have begun to address this problem by recalibrating the enhanced supplementary leverage ratio, a move that will enable banks to intermediate the U.S. Treasury market without sacrificing overall financial stability. We look forward to continued progress in this important area.

Now is the time to modernize capital requirements so we can unleash our full economic potential, boost lending to small businesses and consumers, and drive America's economy forward. Of course, we can do that while protecting the safety and soundness of the best financial system in the world.

Thank you for the opportunity to testify today, and I look forward to your questions.

[The prepared statement of Mrs. Eversole follows:]

**Written Statement of Amanda Eversole, President and Chief Executive Officer
Financial Services Forum
Subcommittee on Financial Institutions and Monetary Policy
December 11, 2025**

1. Introduction

Chairman Barr, Ranking Member Foster, and members of the Subcommittee, thank you for the opportunity to testify today. My name is Amanda Eversole, and I am the President and CEO of the Financial Services Forum. I'm honored to testify today before this Subcommittee.

The Financial Services Forum represents the eight global systemically important banks (GSIBs) headquartered in the United States. Forum members play an essential role in the U.S. economy, lending to consumers and companies, providing underwriting and other financial services within the capital markets, and safeguarding the assets of individuals and institutions. Forum institutions hold over 55 percent of U.S. banking assets, underwrite over 75 percent of corporate and municipal debt and equity offerings, provide millions of individuals and families with essential banking services, are innovators in advancing new banking technologies, and employ nearly 700,000 people across the country.¹ U.S. GSIBs also play a vital role in advancing the economic competitiveness of American business and the U.S. economy. Companies from the smallest to the largest, most globally active rely on the largest banks to finance their operations, grow through trade, and control the risk of losses that could occur due to fluctuations in currencies, interest rates, commodity prices, and other factors.

As the largest banks, Forum members meet the most stringent set of bank regulatory requirements and undergo the most rigorous supervision from the federal banking agencies. Collectively, the U.S. GSIBs maintain over \$1 trillion in Common Equity Tier 1

¹ Data on bank assets are sourced from firm FR Y-9C reports as well as the Federal Reserve Bank of New York's Quarterly Trends in Consolidated Banking Statistics. Data on underwriting is sourced from firm FR Y-15 reports. Data on number of U.S. employees is provided by Forum members.

capital, triple the level in 2009.² The firms maintain more than \$3 trillion in highly liquid assets, more than triple the level immediately after the financial crisis.³ GSIBs meet a long list of other significant requirements put in place after the crisis, designed to result in strong and resilient institutions. Additionally, our members are annually assessed for their ability to weather severe economic conditions through stress tests administered by the Federal Reserve.

In recent years, our members have been a strong source of support to our economy during real economic stress events. During the COVID-19 pandemic, our members activated lines of credit, conducted record-setting levels of underwriting to support companies that fund themselves in the capital markets, and made accommodations for individuals and families who lost income suddenly and indefinitely. In the spring of 2023, as a few regional banks failed, the GSIBs remained demonstrably strong by consistently supporting their existing customers, accepting deposits from new customers, and providing billions in deposits to First Republic Bank. The strength and resilience of the largest banks have been cited repeatedly by government officials from both Democratic and Republican administrations responsible for financial policy and bank regulation. As stated by the Federal Reserve when it announced the results of its 2025 stress tests, “large banks are well positioned to weather a severe recession, while staying above minimum capital requirements and continuing to lend to households and businesses.”⁴

In today’s hearing, I will discuss the state of the large bank capital framework as well as the need to modernize the prudential framework to learn from the lessons of the past 15 years. I will then discuss how the large bank capital framework needs to evolve so that large banks can effectively support the economy.

² Data on capital is sourced from firm Y-9C reports.

³ Data on high-quality liquid assets is sourced from firm Y-9C reports and firm liquidity coverage ratio (LCR) disclosures.

⁴ <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627b.htm>

2. Large Banks are Essential to Our Economy

As banks, Forum members support economic growth by performing the core function of the banking system: channeling savings into investment. Forum members currently support over \$5 trillion in lending to households, businesses and communities across the country. In particular, this lending includes \$855 billion in direct lending to consumers as well as over \$100 billion in lending to small businesses.

In addition to direct lending, Forum members also support the borrowing needs of companies, communities and local, state, and federal governments through both the underwriting and holding of debt securities that are issued in our public capital markets. Forum members hold over \$1.8 trillion in U.S. Treasury securities that fund everything from our national defense to Medicare. Forum members also hold over \$82 billion in municipal securities that are critical to funding local infrastructure such as roads, bridges, transportation, schools, and airports.

Finally, Forum members serve our economy by providing businesses, households, and communities with an array of critical financial services that are needed to participate and thrive in today's economy. Forum members provide over 170 million deposit accounts for families, individuals, and community organizations (e.g., churches, schools, non-profits), and over 10 million accounts for small and medium-sized businesses to manage and navigate an increasingly complex financial world. In addition, Forum members provide households and businesses with a range of savings vehicles and wealth management services to help them plan and invest for the future.

3. Capital, Economic Growth, and Competitiveness

The Forum's ability to support the economy directly depends on the level of required capital and related prudential requirements. As intermediaries that channel savings into investment, all banks fund loans and related financial services using bank deposits and other forms of debt and equity capital. Equity capital is the most expensive form of finance because equity holders absorb all financial losses before debt holders. As a general rule of thumb, the cost of equity capital in the U.S. averages roughly 10 percent per year while the

cost of debt or deposits ranges from roughly two to five percent per year. Like any product, the cost of making a loan is simply the sum of the cost of the required inputs. Accordingly, if the cost of equity is 10 percent per year while the cost of bank deposits is 3 percent per year, then requiring banks to maintain, say, 10 percent equity capital, results in a loan funding cost of:

$$10\% \cdot 10\% + 90\% \cdot 3\% = 1\% + 2.7\% = 3.7\%$$

If regulators were to decide that banks should maintain more equity capital, say, 15 percent, then this would raise the funding cost of a loan to:

$$15\% \cdot 10\% + 85\% \cdot 3\% = 1.5\% + 2.6\% = 4.1\%$$

This arithmetic makes clear a simple and basic economic fact: equity capital is not a free resource and demanding a greater amount of equity capital increases the cost of bank lending and other financial services. And while there are countervailing arguments to suggest that changing the mix of debt and equity does not increase funding costs as directly as indicated in the above example, mainstream economic theory and research finds that increased bank capital requirements lead to increased borrowing costs.⁵ As an example, a survey of 13 studies conducted between 2010-2018 by academics, central banks and other experts, finds that raising required capital by two percentage points, e.g. from 10 to 12 percent, would reduce economic output by \$90 billion per year and raise the interest rate on loans by 0.2 percentage points throughout the economy.⁶ The precise impact of raising capital on borrowing costs and the economy varies from study to study with differences in data, time periods and modeling assumptions. And while it is the case that one can hold differing views on the precise impact of raising capital on borrowing costs

⁵ Perhaps the best-known countervailing argument is the Modigliani-Miller hypothesis. In the simplest version of this theory, as bank capital rises and leverage declines, equity capital costs decline reflecting reduced leverage. At the same time, and as indicated by Modigliani-Miller, the presence of both tax-advantaged debt and financial distress costs renders the simplest version of the theory inapplicable.

⁶ See, [Fixing What Ain't Broken: The Real and Hidden Costs of Excessive Bank Capital Regulation](#), BankNotes Blog, 1/29/2023.

and the economy, mainstream economics does not take issue with the fact that increased capital requirements impose a real cost on the economy.

The impact of capital on borrowing rates and the economy deserves additional mention considering current economic conditions. For the last few years, economists have puzzled over the exceedingly low level of consumer sentiment despite low unemployment and relatively strong economic growth. Indeed, today, consumer sentiment is lower now than it was in 2008 and is near its all-time low since the late 1970s.⁷ Recent economic research suggests that the gap between sentiment and standard measures of economic performance such as GDP and unemployment can be explained by high borrowing costs.⁸ Importantly, while the level of interest rates do not enter traditional price indexes such as the CPI, interest rates do significantly influence the cost of buying a home, a car, or any other significant purchase that determines the overall level of affordability in our economy. And while the main driver of interest rates are factors beyond bank capital such as monetary policy and economic growth, the link between borrowing costs and bank capital should not be ignored. As higher capital requirements increase bank funding costs and borrowing costs, so too do they contribute to a general lack of affordability that weighs on consumer sentiment and the economy.

Accordingly, while capital is needed to ensure a safe and sound banking sector, there is an economic cost to higher capital requirements that must be considered as regulators manage the inherent trade-off between greater stability and higher costs, reduced lending, and reduced economic growth.

4. Large Bank Capital: Where Do Things Stand and Where Should We Be Headed?

Large bank capital levels are strong and robust. As of the third quarter of 2025, Forum members maintain over \$1 trillion in Common Equity Tier 1 (CET1) capital which has more

⁷ Consumer sentiment as measured by the University of Michigan registered 53.6 in October 2025. During 2008, consumer sentiment averaged 63.8. Since the monthly sentiment index launched in 1978, consumer sentiment has been below its October 2025 level in 6 out of 564 months.

⁸ See, "[The Cost of Money is Part of the Cost of Living: New Evidence on the Consumer Sentiment Anomaly](#)", NBER Working Paper 32163, February 2024, Bolhuis, Cramer, Schulz, Summers.

than tripled since 2009.⁹ Forum members have steadily raised their capital levels – in both dollar and percentage terms – since the raft of post-crisis capital reforms were introduced. Indeed, as far back as 2019, Federal Reserve Chair Jerome Powell publicly stated that large bank capital levels are “about right.”¹⁰ Since that time, both large bank capital levels and requirements have grown. Between the fourth quarter of 2020 and the third quarter of 2025, Forum member bank capital requirements have grown by roughly 25 percent in dollar terms and 9 percent in percentage terms.

The steady increase in required capital can be directly traced to increases in the Federal Reserve’s stress capital buffer requirements and GSIB capital surcharge requirements. Over the 2020 to 2025 period, the weighted average stress capital buffer, or SCB, for Forum members has increased from 3.3 percent to 4.0 percent while the weighted average GSIB capital surcharge has increased from 2.7 percent to 3.2 percent. As will be discussed below, these increases are not driven by fundamental increases in risk, rather they are driven by problematic features of the regulatory capital framework that need to be remediated in the near term.

While the strong level of large bank capital maintained by Forum members is a clear signal of our banking system’s resilience, unchecked increases in required capital are not an unalloyed good. Continually rising capital requirements exert downforce on our economy’s ability to grow, thrive, and compete globally. Today, our collective goal should be to take a clear-eyed view of the existing capital regime, assess what is working and what is not, and make appropriate changes that are informed by data and the clear lessons of the past 15 years to produce a better regulatory system that supports the economy while supporting financial stability.

⁹ Bank capital levels are sourced from the Federal Reserve Y-9C reports.

¹⁰ Jerome Powell, Chair of the Federal Reserve (Feb. 27, 2019): “I think that the overall level of our capital, particularly at the largest firms, is about right.” <https://www.govinfo.gov/content/pkg/CHRG-116hhrg35694/html/CHRG-116hhrg35694.htm>

5. Putting the Lessons of the Past 15 Years into Practice: Large Bank Capital Reform to Unlock Economic Growth

Before describing the most significant areas in need of capital reform, it is helpful to articulate a guiding principle that should inform how the regulatory framework is evaluated. The large bank regulatory framework should be rigorously evaluated on its merits and in a data-driven manner that consciously considers costs and benefits and whether a particular regulation is achieving its stated goal. Capital reform should not be driven by any pre-conceived and arbitrary notions of the “right” level of capital. Nor should any element of the capital framework be viewed as a “residual plug” that can be used so that the overall level of capital is “right.” Each element of the capital framework should be rigorously evaluated on its merits – both on a standalone basis and as part of the larger system – and reformed as indicated by an uncompromising and data-driven analysis.

Regulators have already made significant progress in evaluating and reforming the large bank capital framework. Accordingly, it is appropriate to consider progress that has been made to date as well as areas still requiring reform. Below, I briefly outline the progress that has been made on leverage reform via the Supplementary Leverage Ratio and progress on bringing transparency to the stress tests that apply to large banks.

I. *Leverage Reform*

Regulators have recently reformed the enhanced Supplementary Leverage Ratio (eSLR) to ensure that risk-blind leverage requirements do not act as a binding capital constraint. When leverage requirements are binding, banks are disincentivized from robustly engaging in low-risk, low-return activities such as the intermediation of U.S. Treasury securities. The recent action from regulators to improve the calibration of the eSLR is an important step toward modernizing the large bank capital regime and ensuring that risk-based capital requirements are the primary determinant of bank capital.

It is instructive to look at the eSLR issue in greater detail to get a sense for both why eSLR reform was needed and what additional reform may be needed to address the same fundamental issue addressed by eSLR reform. Until recently, the eSLR applied a flat five

percent capital charge to every asset on a bank's balance sheet regardless of risk – including zero risk and low-risk bank reserves and U.S. Treasuries. Since the onset of the COVID-19 pandemic in 2020, both the level of bank reserves and the level of outstanding U.S. Treasuries have undergone a seismic shift. Since COVID-19, the level of bank reserves has roughly doubled from \$1.6 trillion to \$3.0 trillion while the outstanding amount of U.S. Treasuries has increased from roughly \$17 trillion to \$29 trillion¹¹. This massive increase in the level of low-risk, safe assets in the economy has significantly increased the amount of required leverage capital as both reserves and U.S. Treasuries require a flat capital charge of five percent. When the eSLR was introduced in 2015, the level of safe assets was markedly lower and, at that time, policymakers likely would not have contemplated the levels of safe assets that exist today. The unprecedented increase in the supply of safe assets made the eSLR considerably more binding than was ever expected by regulators in 2015.

The lesson provided by the case of the eSLR has two wider ramifications. First, in addition to the eSLR, large banks are also subject to the Tier 1 Leverage Ratio that predates the eSLR. Like the eSLR, the Tier 1 Leverage Ratio applies a flat, four percent, capital charge to bank reserves and U.S. Treasuries. Accordingly, the motivations that led to eSLR reform are also present in the case of the Tier 1 Leverage Ratio, which is or will become the binding leverage requirement for certain firms, particularly those with liability driven balance sheets or those that hold large amounts of low-risk central bank reserves and U.S. Treasuries. Excluding cash reserves and Treasuries from leverage ratios can address the bindingness of Tier 1 Leverage Ratio requirements and therefore complement recent efforts to address the bindingness of the eSLR buffer while also helping to bring down borrowing costs, strengthen market infrastructure, and build capacity in the system. Second, the leverage ratio is not the only regulatory capital requirement that is influenced by the supply of safe assets in the financial system. Importantly, the GSIB Surcharge also mechanically

¹¹ Board of Governors of the Federal Reserve System (US), [Reserves of Depository Institutions: Total \[TOTRESNS\]](#), retrieved from FRED; US Department of the Treasury. Fiscal Service, [Federal Debt Held by the Public \[FYGFDPU\]](#), retrieved from FRED.

depends on the nominal size of safe asset supply. Since COVID-19, GSIB Surcharges have risen steadily for reasons that are directly linked to increased bank reserves and U.S. Treasury issuance and are completely unrelated to risk.¹² Quite paradoxically, heightened reserves and U.S. Treasuries have reduced risk in the banking system yet large bank capital requirements have risen as a result of a mechanical and atheoretical link between the supply of safe assets and GSIB Surcharges. Regulators should ensure that the broad lessons that have informed SLR reform are also brought to bear on outstanding policy concerns with the Tier 1 Leverage Ratio and the GSIB Surcharge.

II. *Stress Test Reform*

In addition to eSLR reform, regulators have already begun the process of improving the transparency of the stress tests. Transparency in the stress tests is a critical financial regulatory and public policy issue that has garnered wide attention, including the attention of this committee.¹³ Transparency in regulation is a bedrock principle of good government that undergirds our political and regulatory system. Before now, banks were unable to comment on the form of the tests to which they were subject, nor did they have a clear understanding of the models and quantitative methods that were used to determine the results of the stress tests and ultimately their level of required capital. Bringing the transparency of the stress tests in line with that of other prudential regulations with standard public notice and comment requirements will improve the accuracy, validity and legitimacy of the stress tests while supporting a sound financial system.

While regulators have already made an impressive start on reforming the large bank framework, there are additional areas that need significant attention in the near term. Below, I outline two specific prudential initiatives that require significant reform by regulators: Basel III Endgame and the GSIB Surcharge.

¹² See, *The Rising Tide of Safe Assets and Large Bank Capital Requirements: Safe Asset Supply, the COVID Pandemic, and GSIB Surcharges: 2016-2024*, Sean Campbell, Emma Tong, September 2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5527632

¹³ On June 26, 2024, the House Financial Services Subcommittee on Financial Institutions and Monetary Policy held a hearing “Stress Testing: What’s Inside the Black Box”.

III. *Basel III Endgame*

Basel III capital reform was first implemented in the U.S. in 2013. Basel III represented an extensive, post-crisis capital reform that was implemented over a period of years through several lengthy rulemakings. Basel III “Endgame” (B3E) was to be the final chapter in Basel capital reform and was primarily intended to achieve two goals. First, provide various technical “clean up” changes to the Basel capital framework that were not of first order importance but were consistent with good “housekeeping.” Second, and more importantly, to ensure that non-U.S. Basel signatories would achieve capital levels commensurate with the U.S. by limiting the extent to which non-U.S. jurisdictions would be allowed to use internal models in determining their capital requirements.¹⁴ Overall, B3E was intended by global regulators to be a “finishing touch” on Basel capital reform and was never intended to materially raise capital requirements.¹⁵ The significant capital raise had already been achieved through the implementation of Basel III in 2013.

In July of 2023, banking regulators issued a B3E proposal that would have increased capital requirements for the largest U.S. banks by 25 percent. This increase was achieved by deviating significantly from the global B3E agreement in various ways that resulted in capital requirements that were not tied to risk and were punitive by design. The B3E proposal was roundly criticized for its approach by a wide array of stakeholders including public interest groups, members of Congress, and representatives of industries outside the banking sector. A study by Latham and Watkins found that 97 percent of all commenters opposed the proposal.¹⁶

¹⁴ U.S. banks are largely prohibited from using internal models to set capital requirements due to the so-called “Collins Requirement” of the Dodd-Frank Act. Non-U.S. banks have wide discretion to use internal models in calculating their capital requirements.

¹⁵ In 2017, Mario Draghi, Chairman of the Group of Central Bank Governors and Heads of Supervision who oversaw Basel III, stated “[t]he focus of the exercise was not to increase capital. As a matter of fact, the GHOS almost a year ago endorsed this review by the Basel Committee, provided it wouldn’t create a significant capital increase in the aggregate of the banking system.” See, https://www.bis.org/bcbs/b3/ghos_20171207_2.htm.

¹⁶ [Comments on the Basel III Endgame](#), Latham and Watkins, February 2, 2024.

Large banks are keen to move ahead and finalize B3E to gain regulatory certainty, which is needed to ensure that banks can plan and manage their businesses and allocate resources to support consumers and businesses throughout the economy. Regulators should expeditiously move ahead with B3E in a manner that is consistent with the global regulatory agreement and does not seek to artificially raise capital requirements for large banks. Moreover, the implementation of B3E should be based on a data-based analysis that is calibrated for the needs of large U.S. banks and the U.S. economy.

IV. *GSIB Surcharge*

Like B3E, the GSIB surcharge is a bank regulatory requirement that emerged from an international regulatory standard that was then implemented in the U.S. in a manner that was out of step with the international agreement and has resulted in punitive capital requirements that are mis-aligned with risk. The GSIB Surcharge has been a part of the U.S. bank capital framework for U.S. GSIBs, since 2015. From the outset, the U.S. version of the GSIB Surcharge (so-called Method 2) was more stringent than the international version (so-called Method 1). Today, the average GSIB Surcharge faced by Forum members is 3.2 percent and results in roughly \$242 billion in required capital. If Forum members were subject to the international standard GSIB Surcharge (Method 1), the requirement would be 1.8 percent and would result in roughly \$139 billion in required capital. Accordingly, the increased stringency of the U.S. (Method 2) GSIB Surcharge results in Forum members maintaining an additional \$100 billion in required capital.

Also, in addition to a more stringent GSIB Surcharge, its impact only grows over time due to the “fixed coefficients” approach taken by the Federal Reserve back in 2015. Accordingly, the gap between the GSIB Surcharge applied to Forum members and the GSIB Surcharge applied to their foreign competitors has grown steadily over time. Importantly, the large-scale growth in the supply of safe assets that followed the COVID-19 pandemic has only increased the pace of divergence between U.S. and foreign GSIB Surcharge levels. As discussed in the context of the SLR, these recent increases in GSIB Surcharges are

primarily the result of poor regulatory design and the massive growth in low-risk, safe assets which, perversely, results in higher bank capital requirements even though the increase in low-risk assets reduces the riskiness of the banking sector.

Regulators have been aware of this seemingly technical issue with the GSIB Surcharge since 2015. At the time that the Federal Reserve finalized the GSIB Surcharge, they said: “The Board acknowledges that over time, a bank holding company’s Method 2 score may be affected by economic growth that does not represent an increase in systemic risk. To ensure changes in economic growth do not unduly affect firms’ systemic risk scores, the Board will periodically review the coefficients and make adjustments as appropriate.”¹⁷

More than 10 years after the finalization of the GSIB Surcharge, no such “periodic” review has taken place, and the events of the past several years have made the problems that were acknowledged a decade ago even more pressing. The Federal Reserve, the sole regulator with the unilateral authority to change the GSIB Surcharge, should move quickly to address these pressing problems to ensure that large U.S. banks are not put at an automatic competitive disadvantage relative to their foreign competitors that results in higher costs and reduced credit supply for U.S. households, businesses and communities. Finally, any solution to right-size the GSIB Surcharge should be long-lasting and durable. We have already seen what happens when temporary measures are offered that need to be “periodically reviewed.” It is unlikely that the current U.S. GSIB Surcharge would be intentionally designed as it stands today. I appreciate the Federal Reserve’s commitment to revisit its approach and devise a durable and long-lasting fix for the GSIB Surcharge to help ensure that large U.S. banks can serve the economy consistently over the long-term.

6. Large Bank Capital, the Competitive Landscape, and Financial Stability

I. *International Disparities in Capital Regulation*

Large bank capital requirements applied in the U.S. are significantly more stringent than those applied abroad. As of the fourth quarter of 2024, Forum members are subject to an

¹⁷ [Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies](#), Federal Reserve System 12 CFR Parts 208 and 217

overall risk-based capital requirement of 11.7 percent while similarly situated EU banks are subject to a requirement of 9.9 percent¹⁸.

U.S. bank capital requirements – both their overall level and relation to standards applied in foreign countries – are a primary determinant of the competitive stance of both the banking system and the overall U.S. economy. Increasingly, the banking system is focused on domestic credit extension. According to data from the Bank for International Settlements, in 2012, roughly 37 percent of global bank assets were comprised of cross-border claims while only 30 percent of global bank assets were comprised of cross-border claims in 2024.¹⁹

These data have two important implications for how globally divergent capital requirements degrade the competitiveness of the U.S. economy. First, most bank credit to U.S. businesses is extended by domestic banks. Stringent capital requirements for U.S. banks that deviate from global capital standards raise borrowing costs for U.S. businesses who obtain a significant majority of bank credit from domestic banks. As these U.S. companies compete globally, they face a built-in disadvantage relative to foreign competitors who can borrow on more favorable terms due to the more favorable capital requirements applied in foreign jurisdictions. Second, large U.S. banks that compete globally are handicapped by higher U.S. capital requirements that limit their ability to compete for foreign business against their foreign competitors. Accordingly, unnecessarily stringent U.S. capital requirements that deviate from global standards reduce the ability of U.S. financial and non-financial businesses to compete on the global stage.

Since at least the financial crisis, U.S. regulators have regularly negotiated international prudential standards and then applied a more stringent version of these requirements at home. This trend is both troubling and paradoxical because the establishment of international capital standards was intended to ensure competitive equality across major banking jurisdictions. The reality of the past 15 years has been exactly the opposite:

¹⁸ ECB 2024 [Supervisory Review and Evaluation Process \(SREP\)](#)

¹⁹ Data sourced from [BIS locational banking statistics](#).

international capital standards have consistently resulted in an ever-widening rift between U.S. and non-U.S. capital requirements.

Some have downplayed this trend by noting that large U.S. banks are still highly competitive and successful in international markets. This argument is an all-too-common trope that is undeserving of serious consideration. Large U.S. banks are among the most successful financial institutions in the world. The U.S. regulatory regime should not be designed by U.S. regulators to limit their success. Moreover, U.S. regulators should not base their assessment of the U.S. regulatory regime on their private assessment of whether U.S. banks are successful “enough.” A competitive marketplace should ultimately determine the global success of the U.S. banking system.

II. *Disparities in Capital Regulation with Non-Banks*

Large bank capital requirements are also increasingly creating competitive inequities with non-banks. Since the financial crisis, non-banks have gained significant market share relative to the banking sector. According to data from the Financial Stability Board, in 2023 non-banks owned or controlled 49 percent of global financial assets, up from 43 percent in 2008.²⁰ While some of this trend reflects changing technology and a healthy broadening of the financial system, a measurable amount of this shift can be attributed to tighter bank capital regulation.

A few clear and compelling examples where non-banks have leveraged their regulatory advantage relative to banks are in the mortgage and private credit spaces. Mortgage underwriting and servicing underwent significant scrutiny following the financial crisis and the resulting changes to bank capital regulation significantly reduced the economic viability of bank financed mortgage activity. According to data from the Federal Reserve Bank of Kansas City, in 2008, non-banks originated roughly 20 percent of conforming home mortgages. In 2023, the non-bank share had grown to roughly 60 percent.²¹ Over the same

²⁰ [Global Monitoring Report on Non-Bank Financial Intermediation 2024](#), Financial Stability Board.

²¹ [Interest Rates and Non-Bank Market share in the U.S. Mortgage Market](#), Federal Reserve Bank of Kansas City Economic Review, Vol. 110, No.1.

period, capital requirements for mortgages and mortgage servicing became increasingly stringent relative to the requirements faced by non-banks.

The case of private credit, essentially non-bank corporate lending, is a more recent phenomena but shows many of the signs that were present in the mortgage market 15 years ago. Non-banks are gaining a significant presence in corporate lending. According to data from the Federal Reserve Bank of Boston, private credit has grown ten-fold, from roughly \$50 billion to \$1 trillion, since 2020²². Again, this has all occurred over a period during which bank capital requirements have been raised and, perhaps importantly, capital requirements for corporate lending have increased substantially.²³

These trends are, to a significant degree, driven by differential trends in bank versus non-bank regulation. Post-crisis bank regulations have tightened considerably. Bank regulations for capital, liquidity, resolution, and a host of other areas have uniformly increased. Non-bank regulation, especially as it relates to prudential regulation, is still in its infancy due, in large part, to a lack of clear regulatory authority at the Federal level. These trends are worth further scrutiny for two key reasons. First, as a general principle, capital requirements for the same activity and the same risk should be the same regardless of the vehicle that engages in the activity. Ever increasing bank capital requirements that are not rationalized across the financial system risks weakening the ability of our economy to channel savings into investment via the banking system. Second, rapid growth outside the highly regulated banking sector raises clear financial stability risks that regulators are charged with overseeing and managing.

Today, we find ourselves in a situation in which the capital framework for the largest U.S. banks has become significantly more stringent than the capital framework for non-banks. At the same time, we have witnessed, and continue to witness, a steady migration of activities away from large banks and toward non-banks. Whether we are considering

²² [Could the Growth of Private Credit Pose a Risk to Financial System Stability?](#) Federal Reserve Bank of Boston, May 21, 2025.

²³ As an example, Pre-Basel III an A-rated corporate received a risk weight of 50 percent. Under Basel III requirements, an A-rated corporate receives a risk-weight of 100 percent.

mortgage servicing and underwriting, corporate lending, or financial innovation in the digital asset arena, activity is steadily flowing toward less stringently regulated players. While it is always impossible to predict the next crisis, this trend raises important financial stability concerns that regulators should actively consider as they calibrate large bank capital requirements.

7. Conclusion

In 2008, the U.S. economy suffered a deep financial crisis. In its wake, regulators began a lengthy process of significantly overhauling bank capital regulation. Fifteen years on, much of that framework has yet to be critically examined in light of our lived experience and the significant changes to the economy and the financial system that have occurred – especially since the onset of the COVID-19 pandemic.

Regulators have begun to make important progress on reforming the large bank capital regime. The initial steps that regulators have taken on leverage capital and stress testing represent critical progress that is already making an important difference. We applaud these efforts and look forward to further progress by bank regulators to modernize the large bank capital framework.

Specifically, regulators must finish the work to: 1) improve the transparency of the stress testing regime, 2) implement Basel 3 Endgame in a manner that improves rather than worsens competitive equity with our international competitors, 3) address the longstanding problems with the GSIB Capital Surcharge that creates further competitive inequities while limiting the ability of Forum members to support our domestic economy, and 4) continue adjusting leverage requirements, including the Tier 1 Leverage Ratio, so that they serve as a capital backstop for all banking organizations. These steps, if implemented faithfully and expediently, will serve to ensure that large bank capital requirements promote a strong and competitive economy, and a safe and sound financial system.

Chairman BARR. Thank you.
Mr. Olmem, you are now recognized.

**STATEMENT OF ANDREW OLMEM, MANAGING PARTNER AND
CO-LEADER OF THE FINANCIAL SERVICES GROUP, MAYER
BROWN**

Mr. OLMEM. Chairman Barr, Ranking Member Foster, Ranking Member Waters, and the members of the subcommittee, I appreciate the opportunity to testify today on rightsizing U.S. bank capital framework. My testimony is given in my personal capacity and not on behalf of Mayer Brown or any of its clients.

I want to start by commending the subcommittee for holding this hearing because capital requirements are at the core of effective bank regulation. They have a major impact on the safety and soundness of the banking system as well as on the overall economy and each American household. It is, therefore, critical that they are appropriately calibrated.

This committee's oversight of the prior Basel III Endgame proposal played a valuable role in raising bipartisan concerns about its potential adverse consequences. Those concerns prompted the banking regulators to pause and reconsider the proposal. Thanks to this committee's work, the Basel endgame is moving in a better direction.

As the subcommittee now prepares to evaluate the upcoming revised Basel III Endgame proposal, I have included in my written testimony several recommendations for your consideration. I concur with the prior remarks of my panelists about the importance of basing capital requirements on the best data and research available and that choices about capital requirements are public policy choices.

I would like to highlight three additional points from my written testimony.

First, it is important to view any capital proposal within the context of the larger regulatory reforms the banking regulators are currently undertaking. The most important, in my view, of these is the ongoing reform of bank supervision.

Effective supervision is an essential companion to capital requirements because supervisors can identify and address risks that do not show up on balance sheets. Unfortunately, bank supervision has become far too bureaucratic, with supervisory matters lingering for years unresolved. Supervision should be focused on identifying problematic and material risks, addressing them, and returning a bank to normal operations.

Reforming bank supervision will facilitate better compliance with bank capital requirements, as well as faster resolution of problems with bank capital and other safety and soundness matters. The banking regulators' efforts to reform banks' supervision should have Congress' full support.

Second, one-size-fits-all regulation can undermine competition and the ability of banks to devise unique business models to serve their communities and customers. As noted, to address this problem, Congress has statutorily mandated in both the Dodd-Frank Act and in the Economic Growth, Regulatory Reform, and Consumer Protection Act, known as S.125, that the banking regulators

tailor enhanced prudential regulation. This mandate sensibly seeks to prevent a \$300 billion bank from being regulated in the same manner as a \$2-, \$3-, or \$4 trillion bank.

However, changes in the marketplace and inflation can push banks into inappropriate tailoring categories. Given the clear congressional mandate, the banking regulators have reasonable grounds for revising and updating the existing tailoring categories.

Finally, it is important to consider the vital national interest at stake in ensuring that the U.S. has the world's safest, most sophisticated, and technologically advanced financial regulatory system. The U.S. benefits greatly by being the world's financial capital, where all major financial institutions want to participate and invest.

These benefits include lower financing costs for, not only U.S. consumers and businesses, but also for the Federal Government's now \$38 trillion debt. Furthermore, the dynamic \$30 trillion U.S. economy requires an equally dynamic financial system that can fund the remarkably diverse and complex needs of consumers and businesses.

Unfortunately, U.S. bank regulation has diminished the attractiveness of the U.S. market and made the banking system less innovative and less adaptable. These trends need to be corrected; otherwise, Americans will face higher costs of living in the short run and will build wealth at a slower pace in the long run.

The finalization of the Basel endgame proposal, updating the tailoring thresholds, and reforming bank supervision are important steps for modernizing U.S. bank regulation and ensuring that the U.S. has the banking system it needs to see the economy thrive and American households' living standards rise.

Thank you.

[The prepared statement of Mr. Olmem follows:]

WRITTEN TESTIMONY OF
ANDREW OLMEM
PARTNER, MAYER BROWN LLP
BEFORE
THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
OF THE U.S. HOUSE COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

RIGHT-SIZING THE U.S. BANK CAPITAL FRAMEWORK: A RETURN TO
TAILORING, ECONOMIC GROWTH, AND COMPETITIVENESS

DECEMBER 11, 2025

Chairman Barr, Ranking Member Foster and the members of the Subcommittee, I appreciate the opportunity to testify today on right-sizing the U.S. Bank Capital Framework. My testimony is given in my personal capacity and not on behalf of Mayer Brown LLP or any of its clients.

I commend the Subcommittee for holding this hearing as Congress has an important responsibility to oversee the implementation of U.S. capital requirements. Capital requirements are at the core of bank regulation due to their impact on the stability and efficiency of the banking system and the overall economy. It is therefore critical that they are appropriately calibrated.

While the banking regulators are ultimately responsible for setting capital requirements, it is Congress's constitutional responsibility to both establish the statutory mandates that dictate how the banking regulators must calibrate capital requirements and then oversee their implementation. It is vital that Congress play this important role because of the consequential public policy choices inherent in setting capital requirements. Setting capital requirements is not a mere technical exercise. It involves making public policy decisions that impact every American.

On the one hand, capital requirements help ensure that banks can pay their obligations to their depositors and thereby protect the savings of American households and businesses. By offsetting potential moral hazard risk arising from the existence of deposit insurance, capital requirements also reduce financial losses to the federal deposit insurance system when banks fail. Further, from a macroeconomic perspective, properly calibrated capital requirements can strengthen the resilience of the U.S. economy by enhancing banks' ability to absorb losses arising from economic shocks (such as recessions, bank failures or even, as we saw in 2020, pandemics).

Yet, capital requirements are not cost free. Improperly calibrated capital requirements can reduce access to credit and increase borrowing costs for Americans for everything from car and home purchases to educational loans and daily credit card transactions. Because capital requirements impact the allocation of credit throughout the economy, improperly calibrated capital requirements also can diminish economic growth by diverting resources to less productive sectors of the economy. In the short run, this means Americans have a higher cost of living. In the long run, it means Americans build wealth at a slower rate and their living standards are diminished.

Improperly calibrated capital requirements also reduce the resilience of the banking system and the economy overall. Economic growth and a dynamic financial system are the front-line defense against systemic risk. Healthy banks can better absorb losses and avoid, or at least minimize, the impact of shocks on their capital levels. In effect, economic growth can provide an additional buffer ahead of bank capital. Similarly, when American businesses are growing and American households have stronger finances, they are less vulnerable to spillover effects of economic shocks, including unemployment and business and individual bankruptcies.

Due to the major policy implications inherent in calibrating capital requirements, Congress has enacted statutory mandates to govern capital requirements, starting with the National Bank Act,

which established the national banking system in the 1860s. Over the last few decades, Congress has enacted a series of new mandates to further prescribe how the banking regulators must set capital requirements. It has mandated not only risk-based and leverage requirements, but also enhanced and minimum capital requirements for larger banking organizations.¹ It has further mandated that these enhanced capital requirements be tailored based on the risk-profile of banking organizations and specified separate capital requirements for small and community banks and custody banks.² Additionally, Congress has mandated that large banking organizations be subject to both company and supervisory-run stress tests to assess whether their capital levels are sufficient to withstand a major economic shock.³ Further, Congress has established specific capital requirements to govern troubled banks under the Prompt Corrective Action framework.⁴

The banking regulators have implemented these statutory capital requirements into a highly-complex and technical series of regulations often based on text initially produced by the Basel Committee on Banking Supervision (“Basel Committee”). However, the banking regulators have in recent years substantially deviated from proposals agreed to by the Basel Committee when implementing them into U.S. regulations. These deviations have created regulatory disparities between the U.S. and the rest of the world.

Currently, U.S. banking regulators are preparing to issue their proposal for implementing the Basel III Endgame capital requirements. This proposal will be the final piece of the reforms put forth by the Basel Committee to strengthen global capital standards in the wake of the 2008 Global Financial Crisis. In 2023, the U.S. banking regulators issued a proposal that purported to implement the Basel III Endgame, but which again contained numerous, substantial and unexplained deviations from the Basel Committee’s agreed-upon text. After receiving comments on the proposal, however, the banking regulators ultimately withdrew the proposal due to, in part, bipartisan concerns from Congress and the public about its potential impact on the availability and cost of credit to American households and businesses and on the American economy overall.

As this Subcommittee prepares to review a new Basel III Endgame proposal, I offer several considerations to guide your assessment.

1. Data-Driven Process. Capital requirements should be set based on the best available data and research. Congress has already mandated the framework for capital requirements. The task now is for the banking regulators to implement those statutory mandates. The data should drive this decision-making, so that capital requirements correspond to the risks presented by particular assets. Such a data-driven process will increase the chances that the proposal results in appropriate and durable capital requirements.

During the notice and comment period for their proposal, the banking regulators also should welcome additional data from the public to further inform their decision-making. We have a remarkable financial system that has evolved to support the sophisticated financing needs of the \$30 trillion U.S. economy. The U.S. has more than 4,000 banks

¹ 12 U.S.C. §§ 3907, 5365, 5371.

² 12 U.S.C. §§ 5365, 5371.

³ 12 U.S.C. § 5365.

⁴ 12 U.S.C. § 1831o.

that vary greatly by size, business models, geographic markets and customers. This diversity is a strength of the U.S. economy because it enables the banking system to provide customized services that address the specific needs of business sectors, entrepreneurs, and individual consumers. However, it also makes it harder for banking regulators to fully understand how their regulatory proposals could impact every bank and its customers and local economies. A robust notice and comment period as contemplated by the Administrative Procedure Act will help ensure that the final rules incorporate the best data and reflect the unique aspects of the American economy.

2. Simplification. U.S. capital regulations have become very complex, especially since the enactment of the Dodd-Frank Act. They involve hundreds of pages and tomes of supporting guidance and implementation manuals. This complexity has made banks' internal compliance processes very costly both in financial terms and in the number of individuals and hours needed to ensure compliance. It has also made capital requirements less transparent and more difficult for Congress and public to evaluate. Overly complex capital requirements can also have anticompetitive effects. While large banking organizations can certainly be complex and thereby require more complex capital requirements, banking regulators still should seek to simplify capital requirements for all banking organizations to the extent possible. In particular, they should avoid duplicative capital requirements that cover the same risk with different and compounding capital charges.
3. Capital Requirements Should Be Viewed in Totality. Due to the numerous capital requirements now applicable to banking organizations, capital requirements should be crafted and assessed holistically, recognizing that it is their collective impact that matters. All of the various capital requirements should synch together to produce a coherent capital system.
4. 2025 is Different Than 2008. The banking system is in a fundamentally different position than it was during the 2008 Great Financial Crisis. Banking organizations hold substantially more high-quality capital and liquid assets and are subject to far more regulatory constraints and oversight (such as living wills, the Volcker Rule, and risk retention requirements). Further, many banks have shifted their activities from higher-risk activities (such as proprietary trading covered by the Volcker Rule prohibition) to lower-risk activities (such as wealth management and high-quality consumer and business lending). Collectively, these regulatory and market changes mean that the risk-profile for the banking industry has shifted and the pressing issues of today are not the issues of 2008. For example, more recent problems include regulatory distortions that reduce broker-dealer portfolios and contributed to a lack of liquidity in securities markets during the 2020 COVID-19 downturn.
5. Congressional Mandate on Tailoring. In the Dodd-Frank Act and then again in the Economic Growth, Regulatory Relief, and Consumer Protection Act (S. 2155), Congress mandated that capital regulations and other enhanced prudential regulations be tailored based on the risk profiles and business models of banking organizations.⁵ The purpose of

⁵ 12 U.S.C. § 5365.

this tailoring mandate was to prevent one-size-fits-all regulations from producing uniformity in the banking system and reducing the diversity of banks that is a hallmark of the U.S. banking system. Further, the tailoring mandate aimed to ensure that banks could manage risks in the manner most appropriate for their businesses and could adopt business models designed to serve unique needs of their customers and their local economies. In doing so, the tailoring mandate sought to improve the safety and soundness of the banking system while also promoting affordability and access to credit for American households and businesses.

To ensure compliance with this Congressional tailoring mandate, the banking regulators should review the existing tailoring framework and thresholds to prevent banking organizations from moving into inappropriate enhanced prudential regulatory categories due to the effects of inflation or other factors unrelated to their risk-profiles.

6. Supervision Matters. As important as capital is to the safety and soundness of banks, capital is not a panacea. Capital can quickly evaporate at a troubled bank, especially during a time of general economic stress. Many failed banks had strong levels of capital just months before they failed, but unappreciated risks quickly emerged and produced substantial losses, triggering a loss of confidence in the bank. When customers abandon a bank, no amount of capital can fully protect it. As a result, capital regulations must be supported by effective bank supervision, which can spot and prospectively address safety and soundness risks, particularly such risks that do not emerge on balance sheets or are not otherwise addressed by regulation.⁶

The ongoing reform of supervision by the banking regulators is a very promising initiative for strengthening the U.S. banking system. The current supervisory system has become far too bureaucratic and focused on process rather than risks, resulting in supervisory matters lingering for years unresolved and supervisory resources being diverted from true safety and soundness risks. Additionally, supervision has been used to advance political goals or simply secure more regulatory control over banks. Supervision should focus on identifying problems at a bank, solving them, and returning the bank to normal operations. In doing so, problematic risks will be addressed faster, averting more serious problems down the road. Undoubtedly, improving the supervision of more than 4,000 banking organizations is not easy. However, successfully accomplishing this task would substantially enhance U.S. bank regulation and strengthen the safety and soundness, as well as the resilience and efficiency, of the U.S. banking system. Accordingly, the banking regulators' ongoing managerial and supervisory reforms deserve Congress's strong support and encouragement.

7. American Interests. Finalizing a revised Basel III Endgame proposal, updating tailoring thresholds and requirements, and reforming bank supervision will not only modernize U.S. bank regulation, but also advance important U.S. interests. First, many countries are waiting to finalize their Basel III Endgame rules until the U.S. finalizes its proposal. To

⁶ Liquidity regulations, Federal Reserve Bank discount window lending, and federal deposit insurance also play important roles in preventing bank runs.

the extent other countries follow the U.S.'s lead and adopt the Basel III Endgame, it should create a more level playing field around the globe.

Second, modernizing U.S. bank regulation is important for preserving the U.S.'s status as the world's financial capital. The U.S. benefits greatly from being the jurisdiction in which every major financial institution wants to participate and invest. This investment provides valuable funding for the U.S. economy, helps support the U.S.'s \$38 trillion federal debt, and keeps interest rates lower for American households and businesses. However, because capital can move faster than ever around the globe, the U.S. needs to be vigilant in ensuring that its financial regulatory system is considered by the marketplace as the safest, most sophisticated and technically advanced. Yet, the rising cost and complexity of U.S. regulation has made the U.S. a less attractive market. Modernizing bank regulation can help address some of these problems and improve the competitiveness of U.S. financial markets while maintaining the U.S.'s high regulatory standards.

* * * * *

Chairman BARR. Thank you.

Mr. Flood, you are now recognized for 5 minutes.

STATEMENT OF MIKE FLOOD, HEAD OF CENTER FOR CAPITAL MARKETS COMPETITIVENESS, U.S. CHAMBER OF COMMERCE

Mr. FLOOD of Nebraska. Good morning. Chairman Barr, Ranking Member Foster, Ranking Member Waters, members of the subcommittee, thank you for the opportunity to testify on rightsizing the U.S. bank capital framework. My name is clearly the other Mike Flood.

With over 27 years of experience in the financial services industry, I am honored to represent the U.S. Chamber of Commerce, the world's largest business association representing businesses of all sizes.

Capital decisions affect every consumer and business in your district, whether they are a first-time home buyer, a local tailor, or a new business. Since the release of the previous Basel III Endgame proposal in 2023, both parties in Congress, numerous State and local governments, industry and bank customers have all raised significant concerns.

In reaction, the previous Fed Reserve Vice Chair Barr recognized that not only raising capital but raising it beyond global standards should be recalibrated. We applaud the current leaders of prudential regulators for continuing this process, including updating the enhanced supplementary leverage ratio and reforming the stress testing framework.

We thank the members of this committee also for your continued oversight and engagement.

There are three reasons why businesses care about capital.

First, banks supply a substantial majority of small business financing. Last year, banks provided 9.1 million small business loans, of which the G-SIBs comprise 25 percent.

Two, increased capital increases costs or reduces credit availability. A Chamber survey of over 300 treasurers—not 300 bank treasurers, 300 treasurers—makes clear that capital increases are felt by businesses and consumers. It found that 87 percent of businesses have been negatively affected by financial regulation and, more importantly, 40 percent have decreased services to their customers.

Furthermore, a Basel study stated that for every 1 percent increase in capital, we should expect a 13 basis point increase in loan spreads. Think about that if we were to increase capital by 20 percent.

Furthermore, the Basel Committee itself said higher capital and liquidity requirements are soon to increase the cost of bank credit.

Three, more capital is unnecessary. Results in statements from the regulators themselves do not support increasing capital.

First, in the past three stress tests reveal that banks can withstand, quote, a substantial downturn, remain above minimum capital requirements, and lends to the U.S. economy. Two, bank capital has more than tripled since 2009 and let us not forget that coronavirus disease (COVID) was a real-life stress test. If you do not believe me, let us believe the results from the Federal Deposit Insurance Corporation (FDIC).

Over the past 5 years, 11 banks have failed equally to a .052 percent failure rate. At the same time, bank charters have decreased by 3 percent annually with a mere 45 new charters granted.

So what is the impact on your constituents? I am going to give you a few examples of the Chamber's analysis of the previous proposal found.

One, private companies will pay more than public companies if we have excessive capital. Despite that 99 percent of U.S. companies are private companies, they are seen by Basel III Endgame as more risky than public companies. Quite frankly, it is hard to imagine, outside of taste, how Five Guys, a private company, and Shake Shack, a public company, are different.

Two, lines of credit under Basel III Endgame would be more expensive. This is the monthly lifeblood of nearly any business. Your local tailor will pay more for the used line of credit and, oddly, pay more for the unused line of credit. Again, this is beyond global standards.

Three, mortgages, credit cards, and automobiles will cost more. Especially for constituents with low credit scores and individuals with low or moderate incomes will be most affected.

In conclusion, at a time of significant affordability concerns, it is critically important to calibrate the entire bank capital structure to fit the size and complexity of the U.S. banking system. This does include all banks—local, community, regional, super-regional, national, international, and global banks.

The Chamber appreciates the current regulatory efforts to update the capital framework and bring supervision back to materiality. We, therefore, urge regulators to adopt the following recommendations:

Calibrate any final rule to preserve affordable lending, market-making liquidity, and a competitive U.S. banking system.

Two, base requirements on robust economic analysis that considers the impact on lending and economic growth.

Three, update and tailor capital requirements, as well as thresholds to reflect the size and risk profile of individual institutions for all categories of banks.

Thank you, and I look forward to answering your questions.

[The prepared statement of Mr. Flood follows:]



U.S. Chamber of Commerce

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December 11, 2025

Hearing Before the House Financial Institutions Subcommittee Entitled: "Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness."

Chairman Barr, Ranking Member Foster, and Members of the Subcommittee:

On behalf of the U.S. Chamber of Commerce and the businesses we represent, I appreciate the Subcommittee's leadership in examining how capital requirements can be tailored to promote economic growth, competitiveness, and financial stability. Thank you for the opportunity to testify today on the critical issue of right-sizing the U.S. bank capital framework.

Bank capital requirements are not just a prudential regulatory issue—they are also economic and access-to-credit concerns for constituents, particularly small businesses, who receive a substantial majority of their financing from banks. In fact, CRA-reporting institutions recorded about 9.1 million small-business loans totaling roughly \$276.6 billion in 2024, showing the large count and dollar volume of small-business lending reported by banks.¹

These businesses are the backbone of our economy, and their ability to access affordable credit is essential for growth, job creation, and innovation.

Bank capital is not just one promulgated rule, but includes four major components comprised of the Basel III Rule, G-SIB Surcharge, Stress Tests, and the Supplemental Leverage Ratio. A significant change to any one portion has downstream effects on bank clients, including consumers and businesses of all sizes. We appreciate the work by the Regulators to undertake a holistic review of capital requirements, and we appreciate Congresses continued leadership to ensure they get this right.

The next piece of the puzzle to get right is Basel III.

¹ <https://bankingjournal.aba.com/2025/11/banking-agencies-release-cra-data-on-small-business-small-farm-lending-in-2024/>

Previous Bank Capital Proposals Would Increase Costs or Limit Access for Businesses

The previous Basel III Endgame proposal would have substantially raised capital requirements for banks, making credit more expensive and harder to obtain for Main Street businesses. Small and mid-size businesses, which rely heavily on bank financing, would be disproportionately harmed by higher capital costs and reduced lending availability.

For example, the Federal Reserve Banks' 2024 Small Business Credit Survey, which surveyed over 7,600 employer firms, found that a majority seeking external financing applied to banks—the largest single source of external credit. If capital requirements rise, banks are forced to choose between reducing lending or charging higher rates, making financing more expensive for corporations, small businesses, and consumers.

Research consistently links stricter bank capital standards to higher loan costs. A recent Chamber survey of 300 treasurers found that 68% believe net increases in bank capital requirements could hurt their business, while 87% reported negative impacts from financial regulation, and 46% delayed or canceled investments due to regulatory costs.²

These concerns are not without merit. According to research from the regulators who promulgate global capital standards, for every percentage point increase in bank capital, there is an associated increase of up to 13 basis points in loan spreads.³

A capital increase of 10%-20% layered on top of current requirements would have a significant effect on either loan pricing or availability.

After the proposal was released, the Chamber published a report entitled "*Endgame*" for Main Street Lending⁴ on the "gold plated" recommendations and found significant concerns for business financing with little justification or understanding. In addition to the examples noted below, the report contains case studies of how various business lines would be negatively impacted by increased capital requirements.

Three notable examples are:

² https://www.uschamber.com/assets/documents/CCMC_Survey-FinancialChallenges_Fall2023.pdf

³ <https://www.bis.org/publ/bcbs173.pdf>

⁴ <https://www.uschamber.com/assets/documents/Endgame-for-Main-Street-Lending-Basel-III-White-Paper.pdf>

1. Public and Private Companies Treated Differently

The Proposal introduces a range of risk weights on corporate borrowers; however, the risk weight determination disproportionately affects privately held companies. Specifically, companies that are investment grade⁵ and have (or are controlled by a company that has) publicly traded securities would garner a 65% risk weight, while privately held companies would be risk weighted at 100%, all else being equal. Approximately 99% of all U.S. companies are privately held,⁶ and the Proposal would penalize these companies relative to their publicly traded competitors.

For example, assume Bank A received a loan application from an investment-grade public company (Borrower A) and a privately held small business (Borrower B). For identical \$5 million principal amounts amortized at 10 years, Bank A would likely price the loan to Borrower B at a higher rate, assume 10.5%,⁷ than the loan to Borrower A, assume 7%, even if both borrowers have identical risk profiles. Borrower B would be charged a higher rate only because the Proposal mandates an increased capital requirement for that loan. This would result in Borrower B paying approximately 51% more than Borrower A in interest costs over the life of the loan—only because of different regulatory treatment and not because of any real-world difference in risk.

This aspect of the Proposal disincentivizes bank lending to privately held small and medium-sized enterprises. As a result, privately held companies, which are already at a disadvantage given their lack of access in public markets, will be placed at a further disadvantage due to the Proposal.

2. Lines of Credit

A foundational product for most financial institutions is lines of credit or credit commitments. These credit products are vital to the operation of small businesses, since they provide flexibility and access to funding on an as-needed basis. This is especially true for businesses that are highly seasonal, such as retail and agriculture. Warehouse lending is a type of credit line extended to non-depository mortgage companies, which, in turn, use it to facilitate providing credit

⁵ 12 C.F.R. 217.2.

⁶ <https://businessreview.studentorg.berkeley.edu/why-your-favorite-companies-are-privately-held/>

⁷ Credit RWA for Borrower A equals \$3.25 million (i.e., \$5 million times 65%) compared with \$5 million (i.e., \$5 million times 100%) for Borrower B. Thus, the rate differential in this example approximates interest rates based on the approximate return on risk-adjusted capital using Borrower A as the base. The 7% interest rate for Borrower A was randomly selected

to home buyers. Warehouse lines are typically revolving lines of credit or repo-style transactions.

Assume Bank A has underwritten an inventory line of credit (e.g., non-depository mortgage lender, auto dealer, or agricultural equipment dealer) totaling \$100 million, with the current amount drawn totaling \$50 million. The credit risk-weighted asset (RWA) calculation in the Proposal would treat the funded portion differently from the unfunded portion. Under the Proposal, the funded portion (i.e., \$50 million) would be subject to a 110% risk weight, totaling \$55 million RWA. The unfunded portion (i.e., \$50 million) would likely be subject to a 50% risk weight, totaling \$25 million RWA. This differs from the current rules, under which the funded portion would be subject to a 100% risk weight (i.e., “Corporate”) and the unfunded portion would be subject to a 20% risk weight (assuming 1-year maturity). So, under the Proposal, the credit RWA for this transaction would be \$80 million, as opposed to \$60 million under the current rules, or a 33% increase.

The increase in the risk weight (i.e., from 20% to 50%) on the unfunded portion is likely to cause banks to reduce commitment amounts to their borrowers, removing a key source of capital and liquidity from the largest consumer lending market in the country. But non-depository mortgage lenders are not the only ones that might be adversely affected by the Proposal. There are broad implications for all businesses and consumers that take out lines of credit.

The increased capital requirements for these credit facilities are likely to raise interest rates and other credit costs for the borrower. This could reduce profitability for businesses—including being the difference between staying operational and going out of business. These increased costs could also curtail the establishment of new small businesses. Individual consumers who take out lines of credit could also see their borrowing costs increase with the corresponding erosion of their personal financial situations. These broad implications, in aggregate, would ultimately harm the overall economy and lead to slower economic growth.

3. Risk Mitigation/Hedging

Derivative markets are critical for hedging price risks in the agricultural supply chain. Agricultural producers (e.g., farmers and ranchers) use derivatives to ensure they can cover their costs of production, while companies that process

agricultural products into food and other products use derivatives to protect their profit margins from a steep increase in input costs. The business offering derivatives for hedging is already an expensive business, and the changes to the market risk capital requirements could make this business even more expensive.

Take for example Food Producer A, who processes grain into food products and sells to grocery chains. Food Producer A uses derivatives to manage market volatility, such as weather or geopolitical risk. To compensate for the increased capital requirements related to market RWA, Bank A increases its costs associated with its derivative products. Food Producer A determines that it is no longer beneficial or cost effective to use derivatives, assuming the risk and reflecting an unhedged position. Unexpectedly, Russia invades Ukraine, and the cost of grain increases significantly. Being unhedged, Food Producer A now must pay much more for the grain that is needed to produce the final product. Food Producer A's costs go up, resulting in higher prices for the grocery chain customer, who then also passes these costs to its customers. The result is increased costs throughout the supply chain, ultimately affecting the individual consumer and impairing future economic growth.

It is hard to imagine that a risk-mitigation product – the purpose of which is to lower risk for both the farmer and the bank – would be more expensive and less readily available.

Capital Requirements Must Be Based on Robust Economic Analysis

Capital requirements are a critical tool for ensuring financial stability, but they are not applied to banks in a vacuum. Increases have significant impacts on individuals and businesses. That is why capital requirement increases must be informed by rigorous economic analysis that considers their broader impact on lending and economic growth.

The previous Basel III Endgame proposal saw regulators formulating a rule and then looking for data to support it. Only 17 of the proposal's 1,087 pages were dedicated to economic analysis. Furthermore, the regulators said they would publish a separate Quantitative Impact Study – analysis that typically is released along with a proposal – but failed to do so. This approach was out of order as demonstrated by many bipartisan

letters to the regulators.⁸⁹¹⁰ The new rule must be set to manage the true risks to banks and the financial system, rather than imposing unnecessary burdens that harm economic growth.

The U.S. banking system is already well-capitalized and resilient, as demonstrated by both regulator stress testing and real-life examples such as the early stages of the COVID 19 shutdown. In 2023, the year the Basel III proposal was released, stress tests revealed that financial institutions demonstrated resilience, enabling them to endure a sharp economic downturn and sustain lending to households and businesses.¹¹ And last week, the Federal Reserve published a report that stated, "As of the second quarter, over 99 percent of all banks were well capitalized. Aggregate Common Equity Tier 1 risk-based capital ratios were about 13 percent for both large and small banks..."¹² And according to the FDIC Quarterly Report, published on December 1st, the institutions they regulate had an aggregate Common equity tier 1 capital ratio of 14.21%.¹³

Finally, there is some proof in the pudding that banks are more than well-capitalized. FDIC data shows that bank failures since 2020 have been very limited, with only 11 institutions failing between 2020 and 2024, equating to an **annual average bank failure rate of .052%**.¹⁴

Over the same five-year period the total amount of banks in the United States declined by roughly 3% per year, while 45 new bank charters were granted.

Year	Banks	Failures	Failure Rate	YOY Bank Change	New Charters
2020	4379	4	0.09%	N/A	7
2021	4238	0	0.00%	-3.33%	9
2022	4136	0	0.00%	-2.47%	14
2023	4036	5	0.12%	-2.48%	9
2024	3926	2	0.05%	-2.80%	6

Source: FDIC

⁸ https://punchbowl.news/wp-content/uploads/FILE_5283.pdf

⁹ <https://www.regulations.gov/comment/OCC-2023-0008-0211>

¹⁰ <https://www.uschamber.com/finance/u-s-chamber-of-commerce-comments-on-federal-reserves-quantitative-impact-study-on-basel-iii-endgame-rule>

¹¹ <https://www.federalreserve.gov/publications/files/2023-dfast-results-20230628.pdf>

¹² <https://www.federalreserve.gov/publications/files/202512-supervision-and-regulation-report.pdf>

¹³ <https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-third-quarter-2025-pdf.pdf>

¹⁴ <https://www.fdic.gov/resources/resolutions/bank-failures/in-brief/index>

The Chamber supports well capitalized and regulated banks. However, unnecessary capital increases could harm economic growth by restricting credit availability and raising borrowing costs on businesses of all sizes.

Capital Requirements Should be Tailored

Congress has explicitly required, on a bipartisan basis, that bank regulators tailor their regulations based on bank size and other factors. While regulators have made some progress in tailoring regulations for banks in categories I through IV, the thresholds for these categories have not been updated in over six years.

When the Federal Reserve finalized tailoring its rule in 2019, it acknowledged the need to periodically review and update these thresholds to reflect macroeconomic and industry-wide growth.¹⁵ However, despite this promise, the thresholds have not been revisited.

Now is the time for regulators to update these thresholds. Doing so will ensure that capital requirements are appropriately calibrated to the size and risk profile of individual institutions, rather than imposing a one-size-fits-all approach that disproportionately burdens smaller and mid-sized banks.

Recent Positive Actions

The Chamber appreciates the recent work of the Prudential Regulators to address these concerns, including:

1. Finalization of the rule to update Supplementary Leverage Ratio¹⁶,
2. Disclosure of the Federal Reserve's Stress Testing models and scenarios,¹⁷ and
3. The joint regulatory commitment to review regulatory thresholds.¹⁸

As mentioned earlier, the four pillars of capital must be considered and adjusted together as they are all pieces that comprise our banking system's capital framework. We are encouraged that the Prudential regulators are taking this holistic approach, and

¹⁵ <https://www.federalregister.gov/d/2019-23800/p-182>

¹⁶ <https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us>

¹⁷ <https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios>

¹⁸ <https://www.federalreserve.gov/newsevents/testimony/bowman20251202a.htm>

the Chamber will continue to engage on these and other forthcoming rulemakings to ensure this thoughtful work continues.

Conclusion

In conclusion, the U.S. Chamber of Commerce urges policymakers to adopt a balanced and tailored approach to bank capital requirements. This approach should:

1. Calibrate any final rule to preserve affordable lending, market-making liquidity, and the competitiveness of the U.S. banking system.
2. Base capital requirements on robust economic analysis that considers the impact on lending and economic growth.
3. Update and tailor capital requirements to reflect the size and risk profile of individual institutions.

By right sizing the U.S. bank capital framework, we can ensure a resilient and nimble financial system that supports economic growth, job creation, and innovation.

Thank you for the opportunity to testify today. I look forward to answering your questions and working with the Subcommittee to advance these important goals.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mike Flood", with a stylized flourish at the end.

Mike Flood
Senior Vice President
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce

Chairman BARR. Thank you.

Finally, Mr. Johnson, you are recognized.

STATEMENT OF SIMON JOHNSON, PROFESSOR OF ENTREPRENEURSHIP AT THE MIT SLOAN SCHOOL OF MANAGEMENT

Mr. JOHNSON. Thank you.

Chairman Barr, Ranking Member Foster, members of the subcommittee, thank you for asking me to testify at this timely and important hearing. My name is Simon Johnson. I am a professor at MIT. I was previously the chief economist at the International Monetary Fund. I am a former board member at Fannie Mae. I am currently co-chair of the Chartered Financial Analyst (CFA) Institute Systemic Risk Council.

I would like to make three points. The first is about the numbers. Tier 1 capital, as you know, is the strongest form of capital because it is fully loss-absorbing; this includes shareholders' equity and retained earnings.

The supplementary leverage ratio, SLR, calculates the amount of Tier 1 capital in 13 large banks relative to their total leverage exposure, which includes total assets and certain off-balance sheet items, such as derivatives and loan commitments.

The weighted average SLR for the eight American globally systemically important banks, the G-SIBs, peaks at close to 7 percent in 2017, and it is now 5.8 percent. That is an increase in leverage. This is all from that publicly available data as compiled by the Kansas City Fed.

European and Canadian G-SIBs are more leveraged, with an average SLR at 4.89 percent. Now, this is exactly the same relative situation as prevailed before the global financial crisis of 2008. The biggest European banks are more leveraged than the biggest U.S. banks, but when a crisis breaks, more leverage means more vulnerability for individual banks and the financial system. Thank goodness that the FDIC pre-2008 resisted attempts to allow more leverage in the U.S. banking system. By insisting on lower leverage, the FDIC under Sheila Bair, helped protect the taxpayer, limit the fiscal damage, and reduced the number of jobs lost when the crisis hit.

It is not—and I repeat “not”—to the European advantage that their big banks are more leveraged. That is a major vulnerability for them, exposing their taxpayers and their workers and their nonfinancial businesses to more risk. Do not race the Europeans to the bottom.

Second, unfortunately, the FDIC today is in the exact opposite position to what it was before 2008 and just signed off, along with the Federal Reserve and the SEC, on reducing the SLR.

Now, based on the regulators' own calculations, this recent rule change will allow the SLR—so, again, setting the maximum leverage for big banks—to reach around 3.8 percent for those 13 mega banks and we are now discussing how to adjust risk-weighted capital and stress tests and other things that will allow the banks to move closer to that leverage.

The regulators have clearly signaled that we are heading back toward the leverage ratios that prevailed before the crisis of 2008 and we are doing this without a proper cost-benefit analysis, with-

out any kind of robust economic analysis. What we need is a careful and complete study from the regulators of what will happen to the system's stability with lower capital requirements. They have not provided this despite repeated requests from responsible parties.

Third, the arrival of artificial intelligence is a game changer for finance, as was discussed and emphasized at the House Financial Services Committee hearing yesterday. One presumed impact is that decisionmaking will speed up globally. AI agents will rush into trades pushing up asset prices. These same algorithms will also rush out creating various kinds of potential runs and fire sales. We are quite likely to experience, as Dr. Foster said, various forms of AI agentic runs on our banks. What happened to Silicon Valley Bank will seem slow by comparison.

Bank capital protects against insolvency. This is the loss-absorbing buffer. If the world is becoming more unstable, we should want our big banks to have more loss-absorbing capital. Instead, the regulators are pushing in a reckless manner toward allowing less capital.

In summary, capital of the largest banks is eroding. This undermines our system and our economy. It makes us weaker in the global economy. In 2008, we barely had enough capital in our biggest banks. Since 2008, the world has become more unstable—pandemic, global financial crisis, rise of China, AI.

The U.S. economy needs a resilient banking system. The regulators are failing you and failing the American people when they allow leverage to rise to pre-2008 levels.

Finally, I would like to quote from the National Security Strategy just released by the White House. Quote starts, We want a resilient national infrastructure that can withstand natural disasters, resist and thwart foreign threats, and prevent or mitigate any events that might harm the American people or disrupt the American economy. No adversary or danger should be able to hold America at risk, end quote.

To achieve this goal, as stated in this document, you need more loss-absorbing equity capital in the bank system, not less.

Thank you very much.

[The prepared statement of Mr. Johnson follows:]

Written testimony of Simon Johnson, Ronald A. Kurtz (1954) Professor of Entrepreneurship, MIT Sloan School of Management, [Co-Chair of the CFA Institute Systemic Risk Council](#), Co-Director of MIT's Stone Center, and winner of the 2024 Nobel Prize in Economics.

Before the Subcommittee on Financial Institutions of the Financial Services Committee, United States House of Representatives. Hearing on "Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness," Thursday, December 11, 2025, 10am.

1. The Vital Importance of Bank Capital

In its simplest terms, any corporate balance sheet comprises assets on the left and liabilities (various forms of debt) plus equity on the right. By definition, assets equal liabilities plus equity, with equity performing the balancing role. Banks issue liabilities such as deposits, commercial paper, and bonds, and use these funds to make loans and investments, typically with a degree of "maturity transformation" (i.e., many liabilities are potentially due before the bank's assets mature). When the value of assets grows relative to liabilities, so too does the value of shareholder equity - the owners of the bank participate in the upside. However, if asset values shrink relative to liabilities, so too does the value of shareholder equity. And if assets become sufficiently impaired, as happened for example for prominent financial firms during Fall 2008, the value of equity falls to zero and the ability of a firm to meet its liabilities (i.e., deposits and borrowings) is compromised and the bank is technically insolvent. Financial markets usually anticipate this development and troubled financial institutions find themselves cut off from private sources of funding. Illiquidity typically precedes (and anticipates) insolvency.

For this reason, a top priority for legislation and regulation is to ensure that banks have enough shareholder equity so that this equity can serve as fully "loss-absorbing" over the economic cycle (and in the face of even the largest plausible shocks). Ideally, any country wants to have a banking system that can absorb losses without resorting to cutting back on credit, because forced credit contractions have additional negative effects on the real (non-financial) economy. Credit contraction caused by distressed banks was a major cause of the deep recession that followed the Global Financial Crisis of 2008.

Banks have a privileged position in the credit system and credit plays an essential role in how the American economy functions. We need the private allocation of credit and we provide deposit insurance to reduce the risk of bank runs by retail depositors. The U.S. fiscal and monetary authorities have also provided extraordinary support to the financial system (banks and non-banks) during periods of extreme stress, such as 2008 and again in 2020 and 2023.

From the perspective of bank (and other financial sector) executives, there is an important asymmetry in their payoffs. This is due primarily to the fact that they are compensated on the basis of *return on equity unadjusted for risk*. When things go well, senior management and other key personnel receive large bonuses. But when things go badly and there is incipient or imminent bankruptcy, the authorities feel pressure to step in, effectively providing downside protection for executives. Small banks may be allowed to fail, if this failure does not have systemic implications. But medium and larger banks can create major externalities if they fail. For this

reason, it is important that *all banks with potential systemic implications* fund themselves with enough equity to keep the probability of failure as remote as possible.

It is important also to emphasize that while the authorities can save particular financial institutions, in the sense of fully protecting some liabilities under stress, experience in 2008 (and many other financial crises) is clear: such extraordinary measures do not necessarily prevent a deep recession, with many people losing their jobs. “Bailouts” of this kind protect relatively wealthy people; almost everyone else still suffers severe adverse consequences.

Low levels of bank equity capital create an important negative externality. Decision-makers within the financial system do not take into account the potentially catastrophic consequences of their actions (choosing low levels of bank equity capital) on regular Americans. This is not a question of morality but rather a simple statement about incentives - supported by repeated historical examples, including several times in the past two decades.

2. Some Misunderstandings About Bank Capital

It is common in the financial press and other circles to speak loosely about banks as “holding” capital. This terminology is problematic as it creates the impression that capital (loss-absorbing equity) is on the asset side of the balance sheet, whereas it is on the liability side (as money belonging to and therefore legally and practically owed to shareholders), as explained above. In fact, a much better gerund to use with regard to capital is “funding”, for example as in a statement such as “banks are funding themselves with 95% debt and 5% equity”.

It is also common for industry representatives to say or imply that “holding more capital” (i.e., higher capital requirements) somehow restricts credit for the economy as a whole. This is an incorrect statement. For the modern United States, the Federal Reserve System effectively controls the availability of credit. The sole exception to this statement is when the banking system is in danger of collapse due to too little capital (shareholder equity), as happened in 2008-09. In this case, banks become paralyzed by the fear of failure or, even worse, attempt to liquidate their assets in a fire sale and/or pull back on previously committed credit wherever possible. In 2009, the Troubled Asset Relief Program (TARP) provided capital on favorable terms to a wide range of banks, precisely to encourage them to lend again.

During the normal business cycle, such as in Fall 2025, if the Federal Reserve determines that credit is lacking in any aggregate sense, interest rates can be lowered and lending will expand. This is precisely why the Federal Open Market Committee (and many commentators) are debating whether and by how much to cut interest rates. Monetary policy works as long as banks are sufficiently well capitalized. If a large number of banks are under pressure because investors - either in equity or debt markets - regard their capital levels as deficient, then banks attempt to shed assets and monetary policy will struggle to stimulate the economy. This is what happened in 2008-09.

When the US economy is doing relatively well (with low unemployment, etc.), it is very common for bank representatives to argue that capital requirements should be lowered. Given that bank executives are compensated for return on equity unadjusted for risk, this will boost their bonuses. But allowing capital requirements to decline when times are good only increases the probability of serious problems when there is any kind of economic downturn. Looking at the American economy today (Fall 2025) and in the near future, it is vitally important not to allow

banks to deplete their equity capital. Anyone who is concerned about economic performance (including jobs and the rate of business startups) in 2026 should strongly resist the pressure to lower capital requirements.

The best way to ensure robust economic growth and shared prosperity in the United States is to require banks to fund themselves with more loss-absorbing equity (relative to debt and as a percentage of their assets). Capital requirements (i.e., the share of assets funded by shareholder equity) should be kept as high and as simple as possible.

For further reading on how to think about bank capital and avoid consequential misunderstandings, I strongly recommend *The Bankers' New Clothes* by Anat Admati and Martin Hellwig.

3. Serious Concerns Regarding Bank Capital Today

There are two main forms of bank capital requirements: the leverage ratio, and risk-based capital. The leverage ratio is stated as shareholder equity as a percentage of assets. This is a straightforward and transparent measure that is hard for banks to game. It is also robust against misjudgments of risk. This is important because most financial crises involve major misjudgments of risk by the private sector and by regulators. For example, U.S. mortgage backed securities pre-2008 were widely regarded as “low risk” until Lehman Brothers failed, and similarly European sovereign debt pre-2010 was considered “low risk” - until it wasn't.

Recently, the prudential regulators reduced the “enhanced Supplementary Leverage Ratio” (“SLR”) from 5% for Global Systemically Important Banks (“GSIBs”) and 6% for their subsidiary Insured Depository Institution (“IDIs”) to on average around 3.8% for both.¹ The CFA Institute Systemic Risk Council (“SRC”),² which I currently co-chair, has advocated for higher leverage ratios (i.e., more equity relative to assets) for over a decade.³ Specifically the SRC has called for leverage ratios of at least 8%. The SRC strongly opposed the rule for a number of reasons that will be relevant to the broader conversation today. (As part of my testimony today, I am including a letter that I co-authored, from the SRC to the relevant regulators in August 2025, in which we confront all the technical dimensions of their flawed proposal.)

¹ See Table 6 of the proposal showing an average 23% reduction from the current 5% SLR at the holding company level and an average 36% reduction from the current 6% SLR at the IDI level.

² CFA Institute Systemic Risk Council is a private sector, non-partisan body of former government officials and private sector experts committed to addressing regulatory and structural issues relating to global systemic risk, with a particular focus on the United States and Europe. It was formed to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability. The SRC's mission is to help ensure a financial system in which we can all have confidence and that really works for Main Street. The SRC was founded by Sheila Bair, former chair of the FDIC, following the Global Financial Crisis.

³ See, for example, the Systemic Risk Council letter to The Honorable Ben Bernanke, et. al., “Re: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions” (October 15, 2013). Available at: <https://systemicrisk.wpengine.com/wp-content/uploads/2013/10/Final-SRC-Comment-Letter-re-Leverage-Ratio-10-15-13.pdf>

The systemic (and public policy) purpose of shareholder equity is to provide protection against losses in times of crisis. Reducing shareholder equity (for example through increased dividends) today means there will be less equity available to absorb losses in the future. Under the new rule, systemwide reduction in shareholder equity may be over \$200 billion. This represents a significant increase in systemic risk. According to the best available data, leverage ratios are already moving towards 4% - i.e., the same levels that prevailed before the 2008 crisis (see this [Better Markets fact sheet](#)).

This is a very dangerous development, which can imperil both short- and medium-term economic performance, including job creation, in the United States.

4. The Problem With Risk-Based Capital

The leverage ratio compares “Tier 1 capital” - the truly loss-absorbing shareholder equity cushion - with a catchall measure of leverage, including some *off-balance* sheet exposures. This is a deliberately simple and transparent measure meant to take into account the unfortunate reality that in any modern economy, there are many “unknown unknowns”. A higher leverage ratio means that a bank has less leverage (more equity relative to debt).

In contrast, “risk-based capital requirements” (“RBC”) attempt to take into account the perceived riskiness of different types of assets. The notion of “risk-weighted assets” is appealing in principle but history demonstrates that the private sector (and officials) regularly get these risk assessments wrong. For example, the presence of zero risk-weighted assets in the Basel II framework encouraged financial institutions to have far greater effective leverage pre-2008 than was advisable. This was particularly a problem for big European banks, some of which approached 98 percent debt and just 2 percent equity; it does not take a big market disturbance to wipe out such a thin sliver of equity and create the prospect of bankruptcy. Fortunately, in the United States the FDIC resisted abandoning the leverage ratio and, in retrospect, this was wise - and prevented a lot more economic damage and taxpayer expense in the U.S.

The RBC rules embed other structural problems in the capital framework. They have become highly complex, at the same time as being static and generally backwards looking. They are driven by the risk perceptions of regulators or firm management, which may be affected by moral hazard. And they may create artificial incentives to hold lower-risk-weighted assets, which in turn may lead to “crowded trades” and correlated holdings among banks. The RBC rules offer their own logic but *need* the complementary leverage ratios to deal with some of these structural flaws and well-established problems.

5. At What Scale Do Banks Become Systemically Important?

In March 2015, I participated in a Senate Banking Committee hearing that dealt in part with the issue of thresholds, by asset size, for bank regulation.⁴ The CEO of SVB Financial Group submitted a letter on behalf of Silicon Valley Bank (SVB) arguing that his bank was so small and so simple that it should be exempted from systemic considerations (e.g., “SVB, like our mid-sized bank peers, does not present systemic risks” (p.117 of the hearing record).

⁴ <https://www.govinfo.gov/content/pkg/CHRG-114shrg94375/pdf/CHRG-114shrg94375.pdf>. Greg Becker’s letter is on pp.115-121.

Following changes implemented by Congress and the financial regulators in 2019, banks in the \$50-250bn asset range were no longer subject to the enhanced prudential standards.⁵ SVB was not subject to the liquidity coverage ratios, underwent lighter stress tests, and perhaps most significantly in SVB's case, they were able to exclude Accumulated Other Comprehensive Income (AOCI) from their regulatory capital - meaning, in effect, they could ignore unrealized gains and losses for the purposes of measuring their capital requirements. Banks considered to be below certain risk thresholds can still impose significant costs and contagion risks on the financial system and on taxpayers.

6. Bank Capital in the Age of Unfettered Artificial Intelligence (AI)

We are now in a phase of intense development for a set of new technologies known loosely as AI. The precise impact on the banks, the broader financial sector, and the global economy remain unclear. However, three points relevant to this hearing are already quite evident.

First, the speed of decision-making by algorithms running on computers far exceeds the reaction time of humans. As the financial advantages from ultra-rapid trading increase, all attempts to keep a "human in the loop" will prove futile. The speed of the run on SVB was extraordinary, and that was powered only by well-established social media and digital banking. The speed and variety of bank runs, broadly defined, will only increase as AI becomes more widely adopted.

Second, on its best days, AI is very good at cutting through verbiage, to discover underlying realities. This creates an attractive tool for investors. It is not yet clear how many "foundational models" will survive today's intense market and technology development phase, but it would not be a surprise if the world ends up with between 2 and 5 truly powerful models. All informed investors will attempt to use one of these models, precisely because the capabilities of these models will be so impressive. This will have the effect of exacerbating asset price cycles - everyone will crowd into the same trades on the upswing and then rush for the doors when the news turns negative. Smaller pieces of news (e.g., about banks' holdings of crypto, or anything else) are likely to result in bigger market swings.

Third, AI can also be manipulated by bad actors in various ways. We have only just begun to understand the scope for misinformation and disinformation powered by AI. Most informed observers agree that the United States is now - and will likely always be - engaged in hybrid warfare (although there is disagreement about the identity of our most dangerous opponents). Cyber-attacks of all kinds will increasingly be powered by AI. Some of these attacks will be against specific firms. If an adversary wants to destabilize the US economy, our banking system presents an attractive attack surface. Without question, the US should and will develop its own countermeasures. But it would be unwise to assume that our defences can prevent wild asset price swings and the consequences for financial system stability.

In the new AI-driven world, which is forming around us, it is of vital importance that our core banking system remains well capitalized. This bank equity capital needs to be simple and transparent, further emphasizing the importance of maintaining a high leverage ratio (i.e., low leverage) for all banks whose failure can have potential systemic consequences.

⁵ See [How US Bank Regulation Failed SVB and Its Supervisors](#), *Journal of Financial Crisis*, Volume 7, Issue 2, June 2025.

Legislators of all parties should be concerned about today's precipitate rush by regulators to allow more leverage in American banks. More leverage in this context will not speed growth or create more good jobs. This deregulation will help boost bonuses of financial sector executives who are already wealthy (aka "Wall Street"), it will not help most Americans ("Main Street") - in fact, this deregulation/increased leverage poses great dangers for jobs and for the financial security of most people. In the pre-AI world, excessive leverage in the financial system eventually led to trouble – as seen in the intense economic and human suffering that followed the 2008 financial crisis. But with AI, we should expect all effects to be brought forward in time, because the decisions of investors (big and small) will be made more quickly and with greater implicit coordination.

I strongly recommend that you speak with the full suite of U.S. bank regulators and ask them to examine carefully and report (to you and in public) the implications of AI-powered boom and bust asset price cycles for their quantitative models and for their qualitative thinking about bank capital. The regulators have not yet done this, and this lacuna represents a major and pressing risk to the financial system and to all Americans. Allowing core banking system leverage to increase in this situation – without proper evaluation of AI impact – creates significant commercial and national security risks. Pushing regulators to address (and mitigate) these risks should be a top priority for this Congress.

Appendix (attached below):

Letter from SRC to Bank Regulators, August 2025, regarding the Supplementary Leverage Ratio



Department of the Treasury
Office of the Comptroller of the Currency
Docket ID OCC—2025-0006
RIN 1557-AF31

Federal Reserve System
Docket No. R-1867
RIN 7100-AG96

Federal Deposit Insurance Corporation
RIN 3064-AG11

Submitted via publiccomments@frb.gov, comments@FDIC.gov, and <https://regulations.gov>

August 25, 2025

Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for US Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for US Global Systemically Important Bank Holding Companies

Dear Vice Chair Bowman, Acting Comptroller Hood, and Acting Chairman Hill:

The Systemic Risk Council (“the Council”)¹ appreciates the opportunity to respond to the recent rulemaking proposal to modify the enhanced Supplementary Leverage Ratio (“eSLR”)², Total Loss-Absorbing Capacity (“TLAC”), and long-term debt-related capital requirements for US Global Systemically Important Banks (“GSIBs”) and their Insured Depository Institution subsidiaries (“IDIs”).³

¹ CFA Institute Systemic Risk Council (CFA Institute SRC) is a private sector, non-partisan body of former government officials and financial and legal experts committed to addressing regulatory and structural issues relating to global systemic risk, with a particular focus on the United States and Europe. It has been formed to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability. Its goal is to help ensure a financial system in which we can all have confidence.

² Please note that we use “SLR” to refer to the enhanced supplementary leverage ratio as well as the supplementary leverage ratio throughout this letter.

³ The full proposal is available here: <https://www.federalreserve.gov/aboutthefed/boardmeetings/files/fm-leverage-ratio-20250625.pdf>. Page number references throughout this letter refer to the Federal Reserve version of the release.



We are writing to strongly oppose the proposed changes, which we believe will add significant risk to the US banking system and deplete anti-crisis safeguards without any documented corresponding benefit to the real economy. Further, we seriously doubt that the stated rationales have a sound empirical basis. We also find it unconvincing to argue that the SLR functions as an improper constraint or a barrier to liquidity in the US Treasury ("UST") market.

I. Executive Summary

We urge the Agencies to withdraw this proposal for the reasons discussed here. Failing that, the Agencies must repropose the changes in the context of all contemplated changes to the capital rules in the US. Further, such reproposal must address the gaps in data and analysis highlighted in the letter below. Specifically, we would like to draw your attention to the following:

- The SLR was designed to address well-established shortcomings of the risk based capital regime, which played heavily into financial crises in 2008 and 2010.
- The Agencies' analysis lacks any credible estimate of how much capital could potentially leave the US banking system (through distribution to shareholders) or an analysis of the corresponding risks and costs from a decline in loss-absorbing capital.
- The Agencies fail to consider (or even mention) the broader deregulatory context in which they are making this proposal. They explicitly rely on other existing rules to rationalize this proposal while simultaneously contemplating weakening (or even abolishing) those same rules.
- Two important stated rationales are factually incorrect:
 - First, the SLR was intended as a backstop to complement the risk-based capital rules, and
 - Second, US capital regulations do not aim to reduce government interest costs. The Agencies have provided no credible evidence that the existing leverage ratio is interfering with the smooth functioning of the US Treasury market.
- Dramatic steps to reduce capital buffers should be reserved exclusively for macroeconomic emergencies and/or periods of extreme market stress.

The Agencies carefully calibrated current bank capital requirements, including the SLR, when they were originally imposed on the heels of the Great Financial Crisis.⁴ Numerous studies conducted since then show that banks with relatively low leverage levels do a better job of lending through the cycle and that at current levels, capital requirements provide benefits to financial stability that outweigh any incremental impact on lending.⁵

⁴ See "Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions" Proposed by the Comptroller of the Currency, the Federal Reserve System, and the Federal Deposit Insurance Corporation (Aug 20, 2013). Available at: <https://www.federalregister.gov/d/2013-20143/p-68>

⁵ See, for example, Barth and Miller, "Benefits and Costs of a Higher Bank Leverage Ratio" *Mercatus Center: George Mason University* (2017). Available at: <https://www.mercatus.org/system/files/barth-leverage-ratio-mercatus-working-paper-v1.pdf>



The Council feels strongly that weakening the SLR, TLAC, and long-term debt requirements is unwarranted and would undermine the safety and soundness of the US banking system.

II. Background

Prudential rules work to protect Americans and the economy from the worst outcomes in a financial crisis. Leverage limitations are a longstanding regulatory failsafe in the US dating back to the creation of the FDIC in 1933, when it required state-chartered banks to have loss-absorbing equity capital equal to at least 10% of deposits.⁶ Leverage is critical to understanding and measuring risk in the financial system. Not only is it a key metric of firm-level risk (i.e., a highly levered firm will fail faster), it is also a primary conduit for the transmission of risk throughout the financial system (i.e., a higher levered firm with more counterparties will spread failure further and faster).

The current SLR was implemented in 2014 as part of the Basel III standards in the wake of the Great Financial Crisis, in which nearly 10 million US families lost their homes and over \$10 trillion in household net worth was destroyed in a matter of months. It measures a bank's Tier 1 capital relative to its total leverage (i.e., the full extent of liabilities), including certain off-balance sheet transactions. At the holding company level, the eight US GSIBs are subject to the enhanced SLR, which is a 2% buffer on top of the 3% SLR that applies to all banks. Further, the insured depository institutions ("IDIs") that are subsidiaries of GSIBs are subject to a 6% enhanced SLR.⁷ These work alongside the risk-based capital ("RBC") rules and other capital requirements to form a key pillar of prudential regulation in the US.

The Agencies' proposal would replace the 2% additional buffer for GSIB holding companies with one equal to 50% of the GSIB surcharge calculated under Method 1. This method scores a GSIB based on the weighted sum of five systemic indicators: size, interconnectedness, complexity, cross-jurisdictional activity, and substitutability. Based on the analysis put forward in the proposal, the average holding company SLR would fall from 5% to 3.85%. In other words, the 2% enhanced buffer would be reduced, on average, to approximately 0.85%.⁸

The proposal would also replace the 6% enhanced SLR for IDI subsidiaries with a 3% SLR and a buffer equal to that of the holding company, i.e., 50% of the GSIB surcharge calculated under Method 1. This would effectively align the SLR at the IDI level with that of the holding company; however, the impact would be far greater, reducing the requirement from 6% to 3.84%.

⁶ Scott and Labonte, "Bank Capital Requirements: A Primer and Policy Issues" *Congressional Research Service* (March 9, 2023). Available at: <https://www.congress.gov/crs-product/R47447>.

⁷ Tapial, Leung and Hamandi, "Banks' Supplementary Leverage Ratio" *Office of Financial Research: The OFR Blog* (August 2, 2024). Available at: <https://www.financialresearch.gov/the-ofr-blog/2024/08/02/banks-supplementary-leverage-ratio/>

⁸ See Table 6 of the proposal showing an average 23% reduction from the current 5% SLR at the holding company level and an average 36% reduction from the current 6% SLR at the IDI level.



The Agencies also propose to reduce the TLAC buffer to match the SLR buffer at the holding company and the IDI, again, 50% of the GSIB surcharge calculated under Method 1. The current TLAC requirement applies to GSIB holding companies and comprises a 7.5% requirement plus a 2% buffer. The proposal would change the 2% buffer to approximately 0.85% and estimates an average 5% reduction in TLAC requirements overall.

Finally, the Agencies propose to reduce the long-term debt requirement for GSIB holding companies from 4.5% to 2.5%. The 4.5% level was set with reference to the “capital refill framework” based on the 5% SLR and the amount of long-term debt required to recapitalize the GSIB.

III. Risk-Based Capital Rules are Not Enough.

The RBCRs suffer from several well-documented shortcomings:

- (1) They are static and generally backward-looking assessments of risk.⁹
- (2) They introduce misperceptions of risk from regulators or firm management, which may be affected by moral hazard.
- (3) They create artificial incentives to hold lower-risk-weighted assets, which, in turn, may lead to “crowded trades” and correlated holdings among banks.

Specifically, the risk-based capital rules assign a 0% risk to UST holdings and repo transactions. While the relative risk of these products may be low, the scale of the transactions and of the market make the absolute risk highly significant at both the firm level and to the financial system as a whole. Furthermore, in times of stress both have shown volatility, indicating much greater risk.

The fact that the risk-based capital requirements exclude them entirely has two important consequences: (1) it obscures leverage that does, in fact, carry meaningful risk; and (2) it creates an incentive to direct capital to these transactions because they can generate returns without generating a capital charge.

The SLR mitigates these problems because it captures some off-balance sheet exposures and is agnostic to relative risk in a way that does not invite gaming or create “favored assets”. As the Fed recognized in its 2020 release, the SLR “protects against an underestimation of risk both by banking organizations and by the risk-based capital requirements.”¹⁰

⁹ See, the Systemic Risk Council letter to The Honorable Ben Bernanke, et. al., “Re: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions” (October 15, 2013). Available at: <https://systemicrisk.wpengine.com/wp-content/uploads/2013/10/Final-SRC-Comment-Letter-re-Leverage-Ratio-10-15-13.pdf>.

¹⁰ Board of Governors of the Federal Reserve System “Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio” *Federal Register* Vol. 85, No. 72 (April 14, 2020). Available at: <https://www.federalregister.gov/documents/2020/04/14/2020-07345/temporary-exclusion-of-us-treasury-securities-and-deposits-at-federal-reserve-banks-from-the>



The Agencies' proposal undermines the SLR's risk-agnosticism by introducing the risk-sensitive GSIB surcharge into the calculation. Three of four proposed alternatives lean into the "favored assets" problem of the RBCR by excluding UST from the calculation of the SLR, either in part or entirely.

Past financial crises demonstrate that risk-based capital rules alone are insufficient.

Risk-based rules helped fuel the Great Financial Crisis of 2008 by incentivizing exposure to mortgaged-backed securities ("MBS") and derivatives. Before 2008, the risk-based rules assigned highly rated MBS a 20% risk weighting. Many institutions identified MBS as having greater returns than other assets with the 20% risk weighting, incentivizing them to build greater exposure to MBS than they otherwise would have. The result was both artificially inflated demand and correlated losses across the financial system when the MBS failed. The risk-based rules introduced static and incomplete perceptions of risk, generating significant systemic risk that metastasized into a crisis. The SLR is, by design, agnostic to risk in order to mitigate and counteract these weaknesses in the risk-based rules.

Risk-based rules exacerbated the Eurozone sovereign debt crisis of the 2010s by treating government debt as risk-free, thereby incentivizing some banks subject to the rules to build their exposure. Here again, the risk-based capital rules incentivized exposure to a specific type of asset above and beyond what a firm's internal risk models might have supported. In this case, it created a negative feedback loop of failure between European governments and the financial sector exposed to their debt, which some referred to as the "doom loop" or a "deadly embrace" between banks and governments. Again, the SLR alleviates some of these risks and shortcomings by providing an overarching limit on leverage regardless of the assessment or perception of risk.

Silicon Valley Bank demonstrates the significance of interest rate risk to UST holdings on bank balance sheets. Silicon Valley Bank ("SVB") had built up a large exposure to long-dated treasuries, designated as "held to maturity" (i.e., they did not have to mark to market). When the FOMC raised the federal funds target rate by more than 4% over a single year in response to spiking inflation, the value of SVB's treasury holdings fell precipitously. News of these unrealized losses spread quickly among SVB's clients, leading to rapid withdrawals, forcing the bank to lock in those losses, further fueling the run on the bank and its ultimate failure.¹¹ Among other things, the SVB example illustrates the risk embedded in UST holdings.

¹¹ Neely and Neely, "Interest Rate Risk, Bank Runs and Silicon Valley Bank" *Federal Reserve Bank of St. Louis* (May 11, 2023). Available at: <https://www.stlouisfed.org/publications/regional-economist/2023/may/interest-rate-risk-bank-runs>



IV. The Agencies failed to discuss a plausible range of scenarios and almost certainly underestimate potential capital distributions under the proposed changes.

The proposal estimates that the SLR reduction would reduce the tier 1 capital requirements of the GSIBs by only \$13 billion and considers that amount potentially available for distribution. It expects that the \$213 billion reduction in capital requirements at the IDI level would remain within the banking organization.¹² This fails to consider, however, that the holding companies are likely to re-optimize their asset mix to maximize potential payouts.

As the proposal points out, banking organizations have reduced their risk-weighted asset densities over the past decade. In other words, they've shifted their overall asset mix towards low- or no-risk weighted assets. To illustrate, "[f]rom 2015 to 2024, the aggregate total consolidated assets of GSIBs grew by almost 50 percent, from \$10.5 trillion to \$15.5 trillion, while their average risk-weighted asset density declined from 58 percent to about 45 percent."¹³ That is to say, GSIBs substantially grew their total leverage while *at the same time* reducing the amount of capital they were required to maintain under the RBC rules.

Reducing the SLR would further incentivize this reduction in risk-weighted asset density because it would increase the ability to distribute capital. While the proposal recognizes that the GSIB could distribute equity capital and replace it with new debt while keeping their balance sheet size and tier 1 ratios the same,¹⁴ just a page later,¹⁵ the proposal fails to consider that the GSIBs could treat the capital released from the IDI in the same manner. Instead, it suggests that capital could be used for "financing activities at other subsidiaries [or] paying down external debt."¹⁶ However, there is precedent for expecting the GSIBs to distribute money to shareholders: nearly all GSIBs increased payouts after the most recent stress tests yielded capital requirement reductions.¹⁷

Any reasonable attempt at a cost-benefit analysis must include an upper and lower bound of potential shareholder payouts – in other words, capital leaving the US banking system – along with the increased risk and potential costs of failure within the US banking system.

¹² See the proposal at page 83. "[I]n the case that these depository institutions increase their leverage by distributing some of their equity capital and replacing it with new debt, most of this capital would be distributed to their parent companies and thus remain within GSIBs, which could not make large distributions to external shareholders because the proposal would reduce their tier 1 capital requirement only slightly."

¹³ See the proposal at page 82, Footnote 97.

¹⁴ See the proposal at page 82.

¹⁵ See the proposal at page 83.

¹⁶ See the proposal at page 83.

¹⁷ Franklin and Quinio, "US Banks Announce Big Shareholder Payouts as Fed Eases Stress Tests," Financial Times, July 1, 2025. Available at: <https://www.ft.com/content/081f8752-8022-4c02-9d85-cca6a133ac8f>.



V. The Agencies explicitly rely on other capital rules to mitigate the costs of this proposal while planning to weaken those same rules.

The Agencies fail to address their own contemplated changes to the RBC rules and the rest of the capital framework for large banks. In fact, throughout the economic analysis, the Agencies explicitly rely on the current regulatory framework to mitigate the risks and costs generated by this proposal. For example,

“All else equal, a reduction in required capital increases the size and likelihood of losses shifting from shareholders to creditors and the Deposit Insurance Fund in the event of failure. Such losses may lead to additional spillovers and costs. However, insured depository institution subsidiaries of GSIBs *would continue to be subject to heightened supervisory and regulatory standards, robust capital and leverage requirements, and resolution planning requirements*. The agencies believe that these requirements would appropriately mitigate such risks.”¹⁸

However, the Agencies are also contemplating changes to *each part* of the bank capital framework, including the risk-based capital requirements, leverage requirements, the surcharge, and stress testing. As Chair Powell pointed out at a recent conference,

it is of “great benefit ... to consider all elements of the capital framework in concert, rather than look at each in isolation. We need to ensure that all the different pieces of the capital framework work together effectively. Doing so will help maintain a safe, sound, and efficient banking system, for the benefit of the people we serve.”¹⁹

If the Agencies believe the US banking system is overcapitalized, that should be the explicit subject of the debate and analysis within the various proposals to change the capital framework. Further, those proposals should consider how such a reduction in capital might affect the likelihood of failure among US banks and bank holding companies, the magnitude of failure, the costs to the FDIC or other banks, the systemic impact given the interconnectedness of the GSIBs, and the impact on credit availability. A robust cost-benefit analysis must be conducted, considering all contemplated changes together, along with their likely impact on the safety and soundness of the US financial system. At a minimum, these changes should be proposed with a cost-benefit analysis that does not explicitly rely on rules and standards that are in the process of being changed.

¹⁸ See the proposal at page 84, emphasis added.

¹⁹ Chairman of the Federal Reserve Jerome Powell, Opening Remarks at Integrated Review of the Capital Framework for Large Banks Conference, “A great benefit of this conference is the chance to consider all elements of the capital framework in concert, rather than look at each in isolation. We need to ensure that all the different pieces of the capital framework work together effectively. Doing so will help maintain a safe, sound, and efficient banking system, for the benefit of the people we serve.” Available at: <https://www.federalreserve.gov/newsevents/speech/files/powell20250722a.pdf>



VI. The primary rationale that SLR should not be a binding constraint does not make sense.

The primary stated rationale for these proposed changes is that the SLR is calibrated “too high” and is too often a binding constraint when it was intended as only a backstop, and further, that when it is binding, it discourages low-risk activities. The problems with this rationale are numerous:

- 1) Recent reporting and market research suggest that the SLR is not, in fact, binding on GSIBs today.
- 2) The authors acknowledge that banks dramatically increased their UST exposure, which “increased [the] bindingness”²⁰ of the SLR. Yet, they fail to recognize how that pattern will likely repeat until the SLR is again binding ... and we are presented with the exact same issues.
- 3) The SLR was *not* intended to be only a backstop; it was explicitly intended to complement the risk-based rules.
- 4) Even if the SLR was intended as a backstop, the notion that it should be moved because it functions as intended is inconsistent with sensible regulation.

First, there are several indicators that the RBC rules are more often the binding tier 1 capital requirement for GSIBs. The proposal states that, from Q2 2021 to Q4 2024, the SLR “was the binding tier 1 capital requirement 60% of the time, on average, for seven out of the eight GSIBs.”²¹ However, the results of the most recent stress tests led to a 1.8% decline in required CET1,²² which drove a boost in dividend payouts and share buybacks.²³ This would suggest the SLR was not binding on those banks. Additionally, recent market research indicated that only one large-cap US bank in its universe was constrained by the SLR buffer and that banks were running 50-270 bps above their SLR minimums on average.²⁴ While not mutually exclusive, it is unclear how to reconcile these sources with the assertions in the proposal.

Second, the proposal acknowledges that the SLR is more frequently binding today in part because banks optimized their asset allocation under the rules and increased exposure to 0% risk-weight assets, i.e., UST. Yet, the proposal fails to take the next logical step and recognize that market actors will respond dynamically to these changes and will likely re-optimize their balance sheets, further increasing the allocation to 0% or low-risk-weighted assets until the SLR becomes binding

²⁰ See the proposal at page 57.

²¹ See the proposal at page 46.

²² Board of Governors of the Federal Reserve System. “Federal Reserve Board’s Annual Bank Stress Test Showed That Large Banks Are Well Positioned to Weather a Severe Recession, While Staying above Minimum Capital Requirements and Continuing to Lend to Households and Businesses.” Press release, June 27, 2025. Federal Reserve. Available at: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627b.htm>

²³ Franklin and Quinio. “US Banks Announce Big Shareholder Payouts as Fed Eases Stress Tests.” Financial Times, July 1, 2025. Available at: <https://www.ft.com/content/081f8752-8022-4c02-9d85-cea6a133ac8f>

²⁴ “US Banks: A New Era for Bank Regulation” *Morgan Stanley Research* (March 9, 2025).



again. Per the logic of this proposal, the answer in that future scenario would be to move the limit again. And again.

Third, despite repeated claims in the proposal that the SLR was only ever intended as a “backstop” to the RBC rules, the 2014 adopting release for the SLR revisions explicitly stated that the SLR and the RBC rules should be complementary.²⁵ The SLR was *not* intended solely as a backstop. The SLR must be allowed to function alongside the RBC rules because of the optimization described above. As discussed above, the SLR addresses critical weaknesses in the RBC rules, including their ability to get the risk-weights wrong (e.g., assigning a low-risk weight to mortgage-backed securities in 2007).

Finally, backstop or not, the notion that a regulatory limit must be moved because it is working (as a limit) renders the whole idea of regulatory limits meaningless.

The entire first rationale, then, rests on its assertion that the SLR is creating a negative bias against low-risk activities like US Treasury market intermediation. Yet this too fails. As the proposal points out, IDIs have more than doubled their exposure to UST relative to their total assets in the last decade – i.e., under the existing SLR.²⁶ Primary dealers also more than doubled their UST exposure in absolute terms (a 155% increase versus only a 29% increase in the total assets of the primary dealers).²⁷ Far from preventing low-risk activities like UST market intermediation, the SLR has accommodated significant growth in those segments of banks’ balance sheets. If the Agencies believe the US GIBs are over-allocating to high-risk activities, that should be the subject of this proposal.

VII. The Agencies fail to clearly state a problem with UST intermediation but appear focused on bolstering demand for UST.

This brings us to the second rationale: that reducing the bindingness of the SLR could improve the functioning of financial markets and of the UST market in particular. The proposal identifies two primary functions of banking organizations in the UST market: as intermediaries and as investors. The bank’s broker-dealer subsidiaries perform the lion’s share of intermediation and hold most of the UST held as trading assets. In contrast, the IDIs hold most of the UST as investment securities.

²⁵ Federal Reserve; Federal Deposit Insurance Corporation; Office of the Comptroller of the Currency. “Regulatory Capital Rules; Regulatory Capital Revisions to the Supplementary Leverage Ratio.” Federal Register 79, no. 186 (September 26, 2014): p57727, 57729. Available at: <https://www.federalregister.gov/d/2014-22083/p-22>.

“Regardless of which framework is binding, banking organizations could potentially increase their holdings of assets whose risks are not adequately addressed by the binding framework. In this regard, the agencies note the importance of the complementary nature of the two frameworks in counterbalancing such incentives. Moreover, the agencies observe that banking organizations choose their asset mix based on a variety of factors, including yields available relative to the overall cost of funds, the need to preserve financial flexibility and liquidity, revenue generation and the maintenance of market share and business relationships, and the likelihood that principal will be repaid, in addition to regulatory capital considerations.”

²⁶ See the proposal at page 61-62, Table 6.

²⁷ See the proposal at page 49, Table 2.



Reducing the SLR would *permit* both broker-dealers and IDIs to hold more UST, which is supposed to facilitate intermediation. Again, there are several problems with this rationale.

- 1) The proposal offers no basis for expecting that new balance sheet capacity will be directed towards UST market intermediation instead of higher-yielding activities with low-risk weights like lending through a prime brokerage.
- 2) Expanding IDI capacity for UST exposure appears geared at bolstering demand for UST without considering risks related to creating a “sovereign subsidy” or manipulating the reference rate for a broad range of financial products. Again, we would stress that the purpose of bank capital rules is to protect the US banking system rather than help finance budget deficits.
- 3) The analysis of broker-dealer balance sheet capacity ignores the impact of netting under new treasury clearing requirements, which may reduce or even obviate the need for additional capacity at broker dealers.
- 4) The discussion of the UST exclusion during the COVID crisis ignores the fact that by providing capital flexibility now, it will not be available in the event of another genuine emergency.

First, a central benefit of the proposal – that it will support UST market intermediation – depends on the unsupported assumption that GSIBs and their IDIs will allocate a substantial portion of their newfound balance-sheet capacity towards that activity. UST exposure might typically be expected to offer a ~4% rate of return while banks might be trying to meet an internal hurdle rate of closer to 12%.²⁸ The prime brokerages of the GSIBs, on the other hand, have been major growth drivers for the firms.²⁹ Hedge fund borrowing in particular has more than doubled over the last decade³⁰ and typically is not captured by the RBC rules.³¹ A far more reasonable assumption, then, would be to expect a large portion of the balance sheet capacity created by the proposal to be directed to lending to hedge funds through the GSIBs’ prime brokerages.

Insofar as *this* is the intermediation activity that the proposal does anticipate, it failed to fulfil its obligation to consider the attendant costs and benefits of such activity. The Agencies must analyze and consider the risks associated with the relationships between GSIBs’ prime brokerages and their clients. Recent research shows that prime brokerages have a range of vulnerabilities related to their hedge fund lending, including wrong-way risk, a lack of visibility into their counterparties, and poor risk management by their counterparties.³²

²⁸ We may infer a typical internal hurdle rate from the publicly disclosed return on equity targets and typical cost of equity.

²⁹ Rupak Ghose, “Hedge funds > private equity: Wall Street has a new captain” *Financial Times*, (May 2, 2025). Available at: <https://www.ft.com/content/9777f1b2-fc62-4f62-aad0-f0c3022a22f3>

³⁰ “Hedge Fund Monitor” *Office of Financial Research*. Available at: <https://www.financialresearch.gov/hedge-fund-monitor/categories/leverage/chart-23/>.

³¹ The RBC rules generally do not capture repo transactions that typically accounted for are off balance sheet.

³² Cohen, Kiarrelly Godoy de Araujo, Tracol, “The prime broker–hedge fund nexus: recent evolution and implications for bank risks” *Bank for International Settlements*, (March 4, 2024). Available at: https://www.bis.org/publ/qtrpdf/r_qt2403v.htm



Second, the largest implied benefit of adding approximately \$1.1 trillion in balance sheet capacity (or more in the case of the Alternatives) is bolstering demand for UST at a time of expected heightened issuance. Regulators assigning a low/zero risk to their own debt has led to considerable risk in the past³³ and may create a “sovereign subsidy”.³⁴ Additionally, USTs provide the reference rate for countless financial products including mortgage-backed securities, corporate debt and municipal bonds. UST rates are also treated as the “risk free rate” in most financial models. Manipulating demand and therefore rates on UST could have knock on effects for the broader economy far beyond what is contemplated in the proposal.

Furthermore, deploying the bank capital rules is at odds with the stated purpose of bank legislation and regulation which generally works to protect US citizens and the financial system from bank failure. We question whether it is prudent or legal to use the bank capital rules to support the market for US government debt. We note that the Federal Reserve has declined to lower interest rates due to concerns about inflation. Yet this proposal would appear to pursue the same end – lowering borrowing costs – through regulatory policy rather than monetary policy.

Third, the analysis of primary dealer capacity to hold UST appears to ignore other regulatory changes currently being implemented. According to the proposal, the changes would yield \$2.1 trillion of additional capacity for holding UST at GSIBs’ broker dealer subsidiaries. It is unclear if or how the analysis considers the impact of the treasury clearing requirements. Recent research estimates that the balance-sheet netting benefits of those requirements could provide up to \$700 billion of balance sheet capacity for primary dealers.³⁵ Furthermore, the proposal does not refer to the CBO estimates of \$49.6 trillion UST outstanding in 2034. If the broker dealer subsidiaries maintained their relative exposure of 2.5% of UST outstanding as they have over their past decade, they would only need to maintain a \$1 trillion UST exposure. This is only approximately \$400 billion of additional exposure. Thus the proposal provides GSIBs far more opportunity for leverage that would be necessary to maintain the intermediation functioning of their broker dealer subsidiaries.

Finally, insofar as the cited research on the impact of the Covid measures is accurate, the proposal fails to recognize that by deploying the capital cushion in a period of relative market strength it will be unavailable in the event of a crisis. As discussed above, market actors are likely to respond to these changes dynamically. There is no reason to expect that they will preserve this balance sheet capacity to use in case of a market emergency. That is precisely the role of prudential regulation.

³³ See discussion of the Eurozone sovereign debt crisis in Section II above.

³⁴ Steffen, Sascha. “A ‘Sovereign Subsidy’ – Zero Risk Weights and Sovereign Risk Spillovers.” VoxEU.org, September 7, 2014. Available at: <https://cepr.org/voxeu/columns/sovereign-subsidy-zero-risk-weights-and-sovereign-risk-spillovers>

³⁵ Liang, Nellie, and Haoxiang Zhu. “Clearing the Path for Treasury Market Resilience.” Brookings, July 29, 2025. Available at: <https://www.brookings.edu/articles/clearing-the-path-for-treasury-market-resilience/>.



Conclusion

In closing, the core rationales for this proposal do not hold water and the proposal fails to adequately consider, estimate or analyze significant costs and risks associated with the proposed changes.

We believe the most prudent course of action would be to withdraw the proposal. Failing that, we believe the agencies must repropose the changes contemplated here alongside a full consideration of other pending changes to the capital framework for US banks. Further, such reproposal should also include a consideration of the risks and data overlooked by the original proposal, including those highlighted in this letter.

The Council appreciates this opportunity to share its views on the proposal and would welcome any follow-up conversation that might be helpful.

Sincerely,

Simon Johnson

Erkki Liikanen

Co-Chair,

Co-Chair

Note: The views expressed herein represent the collective views of the SRC and not all members may agree with all aspects of this comment letter.

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Chairman BARR. Thank you, Mr. Johnson.

We are now going to turn to member questions. I now recognize myself for 5 minutes for questioning.

Mrs. Eversole, the word of the day in Washington is affordability and making life easier for the American people by lowering the cost of living. How can regulatory tailoring and enhancing U.S. bank competitiveness through right-sizing the capital framework lower the cost of capital and help lower the cost of living for Americans?

Mrs. EVERSOLE. Mr. Chairman, thank you very much. Affordability is a huge issue and I think, as it relates to bank capital, one size does not fit all. So we have a sophisticated system. In fact, the best, most highly liquid, vibrant capital markets in the world, and we have the ability to make sure that we get it right. I appreciate the fact that this hearing is happening today.

The Basel III Endgame, getting—making sure we get that right is a perfect example. If we can have—if we can get that done, the impacts go to small businesses, Main Street through lower cost of borrowing, and that helps drive the economy.

Chairman BARR. Yes. Getting this wrong and overregulation of the banking sector will drive up the cost of credit, period. That is a simple and absolutely true fact, and that is why we have got to get this right.

Mr. Flood, miscalibrated capital rules are extremely burdensome on small institutions that keep credit flowing to Main Street America community, and reasonable banks are often the only lenders serving rural towns, family farms, small manufacturers, and first-time home buyers.

What are the downstream effects of inflated risk weights under the Biden Administration's Basel III Endgame that would affect community and regional banks' ability to provide mortgages, agricultural loans, and small business credit?

Mr. FLOOD. Thank you for the question. Mr. Barr, when we surveyed those 300 corporate treasurers, we found that most small businesses use banks for their financing. They use an average of four banks. As I think you can see from our analysis, the number of banks in the country is decreasing.

So the simple answer is, A, your constituency will either see increased costs or lack of availability of credit at banks. Second, we also—or, third, we also know that increased compliance costs affect every bank, and we have seen how that has led to consolidation at the lowest levels.

Finally, community banks like to replenish their capital. How do they do that? They sell loans or products to bigger banks. If those bigger banks have increased costs or increased risk weights for those same products, they are going to charge more to your smaller bank. It is a downstream effect.

Chairman BARR. Yes. This is trickle-down regulation. It is not just about the big banks. It is about community banks and making sure that the capital framework does not inadvertently shrink access to credit in underserved markets.

Mrs. Tahyar, in 2023 when the Vice Chair Barr—the other Barr—proposed the Basel III Endgame, it received bipartisan and nearly universal criticism from lawmakers and the public. In fact, more than 97 percent of the comments on the proposal were nega-

tive, with more than 80 percent of those comments submitted by interested parties outside of the banking sector.

The message was clear that we needed a repropose endgame but even under the repropose endgame, the expectation is that U.S. banks will face materially higher risk-weighted assets from revised credit market and operational risk frameworks, yet the leverage ratio remains unchanged, which creates a potential for double counting of capital requirements.

How should regulators appropriately account for reforms to Basel III Endgame to ensure that bank leverage ratios do not bind institutions during low-risk, high-liquidity environments?

Mrs. TAHYAR. Double counting is a real issue, Chairman Barr, and I am glad you asked the question.

I think what happened in 2023 is that the banking regulators did not do a bottoms-up data-driven analysis, and currently it is a bottom-up data-driven analysis that is being promised by the banking regulators. The leverage ratio became the binding constraint as Treasury markets expanded given the fiscal situation.

My own view is that there should be a real rethink of the leverage ratio which affects, as you know, not just the biggest banks, but all of the banks.

Chairman BARR. Thank you.

Mr. Olmem, final question. As you know, Fed Vice Chair of Supervision Michelle Bowman has said that the regulatory thresholds should not be static, and FDIC Acting Chair Travis Hill recently finalized a rule that seeks to index regulatory thresholds on a biennial basis.

I have introduced legislation, the Tailoring and Indexing Enhanced Regulations (TIER) Act, to ensure that our regulatory system is not static and that it is designed with growth in mind, which—while maintaining safety and soundness.

Can you please speak to the importance of indexing regulatory thresholds and how this will help ensure banks are holding appropriate capital that accurately corresponds with their size, risk, and scope of activities?

Mr. OLMEM. Thank you for that question, Mr. Chairman Barr.

Put simply, if we do not index the thresholds, eventually we will not have tailoring because over time, inflation will move institutions into higher and higher categories.

Already since 2019, when the categories were adopted, we have seen inflation run at about 25 percent, nominal gross domestic product (GDP) is up 30 percent that are already threatening to put institutions into higher categories simply because of nominal changes in the economy.

Chairman BARR. Thank you.

My time has expired, but I will just note for the record that when Dr. Foster and I traveled to Basel, Switzerland, it was interesting to hear the Basel Committee themselves say that Vice Chair—former Vice Chair Barr's proposal had gold-plated American capital requirements over and above what they recommended.

With that, I will now recognize the ranking member of the subcommittee, Dr. Foster, for 5 minutes for questions.

Mr. FOSTER. Well, thank you and thank you for referring to our bipartisan trip to visit all the banking centers.

It was interesting because there was a lot of anxiety in the European banking sector that, despite their lower capital requirements, they were being outcompeted by the big banks of the United States, so that the argument—I think one of the witnesses here referred to it as a trope, that the regulators should look at the fact that we are actually increasing market share in our—with our giant banks compared to our offshore competitors as something that maybe the regulators should not look at.

I think if we are losing market share, the regulators should look at it and the fact that we are increasing market share, the regulators should consider in whether our capital requirements are too stringent.

My biggest worry about this is that we are arguing about the last few basis points of capital requirements when the big elephant in the room is artificial intelligence, agentic AI, and everything that is going to disrupt financial services and the businesses that many banks have loaned money to.

This is something—I was very disappointed that we had—it was a—I guess it was, I think, Mrs. Eversole's testimony when she made reference to the commentators on this. You cannot open any financial journal or anything without seeing people comment on the bursting of the AI bubble and are we really robust against that. There is probably no commentator that has not opined on that.

Yet when we recently wrote a letter to FSOC to say, hey, could you please have a look at this? We are unable, frankly, to get any of my Republican colleagues to cosign this, and all of the Democrats, essentially, signed on to it and so I think this is why we created FSOC, to keep—to look around the corner.

Mr. Johnson, you actually mentioned this in your testimony. Could you say a little bit more about what AI could do to the stability of our financial system?

Mr. JOHNSON. Yes. I think, Dr. Foster, you are totally right, this is the big issue of the day and the days to come. We do not know, nobody knows exactly what will be the impact of AI on the American economy or on the financial system, but it does seem very likely that it will increase volatility, there will be relatively few foundation models, there will be relatively few big tech players producing those models. Everyone will be using some versions, some application of those models. So there will be a lot of crowding in terms of spotting opportunity and crowding in. So we may well get more run-ups in asset prices but also crowding on the way out.

So you referred to the run from Silicon Valley Bank which, of course, we know was speeded up by social media. No AI was involved. AI can make decisions much faster than humans can. So once they spot a weakness or a perceived potential insolvency because of capital deficiency, it will be seconds, not minutes, before the deposits run out the door.

Mr. FOSTER. Yes. Well, in fact, they can respond to rumors. Many of the AI—personal AI agents will be under standing orders that if you read a rumor out on Reddit that your bank is in trouble, get my money the heck out and it will be—things like customer loyalty will be a thing of the past.

This is not only going to affect banks. It will affect every business that depends on customer loyalty, because the personal agents

are not going to be loyal; they are going to be instructed to get the best price, and this is going to squeeze the profit margin out of every consumer-facing business in the country. There are going to be a lot of loans that will go bad because business models will blow up that way. So this is not the time to lower capital requirements.

This is—in my bipartisan way, I am also wearing a red pin here. This is the red pin of the 110th Congress where, under a Republican President and under Republican regulators, this pin, I had the pleasure of voting for the Troubled Asset Relief Program (TARP) and there are situations where the Republicans who voted for the lower capital requirements and deregulation refused to provide the votes to rescue our economy, and rescuing our economy had to be done with Democratic votes.

So this is a foundational memory, and many of us on this side of the aisle who lived through that. We do not repeat history, but it echoes. We are in a situation when we have a historically unpopular President once again and regulators who are—have this mantra of deregulate, deregulate, deregulate, modernize all of the—all of the words—you can read in 2007, the exact same mantra.

So there are things that make sense. So we have to—punishing bank capital because they are holding Treasuries. I never thought made sense, and that is the sort of thing we could be looking at. The idea of just lowering capital requirements in general right now until we understand the effect I think is premature.

So I would like to thank you all for your testimony. It is nice to see that the arguments have not changed in 15 years, but the future is coming at us fast, and we should look forward, not backward.

Thank you.

Chairman BARR. The gentleman from Michigan, Mr. Huizenga, is now recognized.

Mr. HUIZENGA. Thank you, Chairman Barr and good to see our panel again, or most of you, and welcome, Mrs. Eversole.

Mr. Flood, I am going to start with you. A lot of discussion this morning has been centering around how higher capital requirements for financial institutions will be harmful. Obviously, not everybody agrees with that on the panel, but I happen to agree with that sentiment that it is or can be harmful.

What is often overlooked, though, from my perspective, is Main Street America, and that is really what I am concerned about those small businesses that are the backbone of local communities that we all represent.

I am a small business owner myself. Family is in construction. I have lived through the ups and the downs, and the downs are tough. We have had to rely on lines of credit. I recently actually ended my own line of credit because it was costing me while I was not actually accessing it. My business partner, my cousin and I, looked at each other and were like, well, this makes zero sense.

So we have got a lot of issues, as you can see it, as it pertains to small businesses but just give us your thoughts on how this affects maybe Main Street in a small entrepreneurial or, in my case, a third-generation family business.

Mr. FLOOD. Sure. I imagine your business is a private business?

Mr. HUIZENGA. Yes. Huizenga Gravel is not a publicly traded company, thank goodness, and I have no intention of subjecting ourselves to the Securities and Exchange Commission (SEC).

Mr. FLOOD. Well, that puts you at 99 percent of U.S. companies.

Mr. HUIZENGA. Yes.

Mr. FLOOD. I will give you three concrete examples. The first one was the line of credit, and you have clearly experienced that. What surprised me is the risk weighting for both the funded and unfunded increase. There is no reason why and it goes above gold-plated levels.

So you have just said what happens. One, your line of credit either gets more expensive or they shrink it. So if you need more money, you will have to go get another one, and I am sure they would see that as riskier.

Mr. HUIZENGA. Not to mention, by the way, when the regulators come in and say, oh, by the way, even though we are—we have been banking with the same bank for three generations, we are not sure of their credit risk.

Mr. FLOOD. Correct. Simply because—two, simply because you are a private company, as an example of excessive capital, Basel III Endgame treats you differently. Let us assume that a public company has an interest rate of 7 percent and let us presume a 12 percent return on capital. That same private company is going to have a 10.5 percent interest rate. That is how different it is.

Then there is the third part, which is—I want to bring up something called risk mitigation. It is exactly what it sounds like, and we mix that up with derivatives a lot. So now let us think about a farmer who wants to mitigate their crops because they have seen climate issues. So they go to the bank, and they say, hey, I want to buy a hedge from you, and the bank should say, that is great, that makes you less risky to me and me less risky to you, but somehow, oddly, we have priced that higher.

So the hardest thing for our businesses to understand is—

Mr. HUIZENGA. So lowering risk is actually going to cost me more than if I had just maintained the status quo?

Mr. FLOOD. Those are some of the confounding things in the regs that we have.

Mr. HUIZENGA. Okay. Mrs. Eversole, I want to touch base on you. You represent the largest of the banks. Does the current framework disadvantage U.S.-based institutions compared to their international peers?

Mrs. EVERSOLE. Thank you very much, Congressman, for the question.

Indeed, it does. The fact of the matter is, even if you look at something like the G-SIB surcharge, we are twice that of our international competitors and I think that we are in—

Mr. HUIZENGA. We just heard that is necessary and maybe we do not have enough capital.

Mrs. EVERSOLE. Respectfully, I would—I would disagree with that premise. I think it is a perfectly appropriate conversation to ask the question, is more always better?

To your earlier question, it does not—it is not free. It comes at a cost, and the cost is borne by consumers, the very people that need these—

Mr. HUIZENGA. It is not the banks?

Mrs. EVERSOLE. I think from a consumer perspective. You can see the cost of credit is increased by higher capital.

Mr. HUIZENGA. Mrs. Tahyar, let me switch slightly on this. What are the macro effects on the economy of this one-size-fits-all approach?

Mrs. TAHYAR. Well, I think what it is doing is it is leaning us toward the dreaded barbell. I think the statement was made that our biggest banks are more competitive than the EU banks. That is clearly right. They are outcompeting. If we look at the mid-size range banks, say from 10 up to about 250 or more, they are—they and the community banks are the engines of growth for small and medium-sized enterprises, for religious entities, for non-governmental organizations (NGOs) in smaller towns, and the macro impact on them—and then we are now at a place where we want to have a lot of more credit in the heartland of the country—Michigan, where you and I are both from—and that is going to be hard to get if we insist on gold-plating of capital standards.

Mr. HUIZENGA. Mr. Chairman, I am just afraid that we are losing the other end of that barbell with the smaller community banks and those regional banks.

So with that, I yield back.

Chairman BARR. The gentleman yields.

The gentlewoman from California, Ms. Waters, is now recognized.

Ms. WATERS. Thank you very much.

Professor Johnson, while Republicans may want to roll back capital requirements, I think there is a much more important and bipartisan policy that Congress should consider.

In 2023, after Silicon Valley Bank had the fastest bank run in the United States history, many businesses got nervous about their payroll accounts being held by smaller banks and moved their funds to the mega banks thinking they were too big to fail. A year later, a much smaller bank in Oklahoma failed as well but their failure was too small for regulators to use emergency tools to protect depositors. The failure resulted in small businesses, churches, and other customers with more than \$250,000 to losing some of their money. It was the 37th time uninsured depositors lost money in a bank failure since 2007.

To sum up, small businesses that banked at Silicon Valley Bank were protected, while those that banked at this Oklahoma bank lost money. How is that fair?

My bill, H.R. 4551, the Employee Paycheck and Small Business Protection Act, would address this problem with a data-driven approach to expand deposit insurance in a deliberate way, considering the benefits and costs to ensure a higher threshold is set so community banks and credit unions can compete with small business deposits in their communities, and those businesses and their workers are better protected.

My bill would also provide for emergency transaction account guarantee, or TAG, authority allowing the FDIC to temporarily insure deposits for up to 9 months without needing congressional approval first.

I appreciate that Chairman Hill held the hearing to consider my bill, and we had a good discussion.

Are these reasonable reforms that this committee should act on for the benefit of community banks, credit unions, and the communities they serve, Mr. Johnson?

Mr. JOHNSON. Yes, Congresswoman. Those are very reasonable, highly well-informed proposals, and I do think further study—the data-driven approach that you are recommending is exactly the right way to go about it.

Ms. WATERS. Well, thank you very much. We have been in considerable discussion, and much of the discussion is around how much more should be protected. I hope we get to some resolution on it because I think it is very important.

Let me move on and talk a little bit about bank capital. Professor Johnson, over the course of our Nation's history, we have routinely seen banks fail due to capital inadequacy, whether it was the savings and loan crisis of the 1980s and 1990s or the 2008 global financial crisis that cost our economy trillions of dollars and cost millions of families their jobs, homes, and life savings. Moreover, research shows that better capitalized banks lend more, including in times of stress, compared to weak banks that lend less.

Would you briefly discuss why strong capital requirements are so important and who suffers when capital levels are reduced too much?

Mr. JOHNSON. Capital levels are important, Congresswoman, because that is the buffer against losses. When an individual bank is in trouble and faces potential insolvency, that is what causes a potential bank run. If those fears are spread across the broader economy, then you have a financial crisis just like the one we experienced in 2008 and that is devastating to small businesses, that is devastating to communities everywhere. The costs of that for economic growth are absolutely, absolutely enormous.

So bank capital is a way that we attempt to reduce those risks. You cannot reduce them to zero, but we attempt to reduce the risk of devastating economic collapse.

Ms. WATERS. Well, I want you to know that they tell us that if you require too much capital, we will not have the money to lend to all of the small businesses that need money. Yet we do not see any real loans going to small businesses.

What do you know about that?

Mr. JOHNSON. Well, I think providing credit to small businesses is tremendously important, and that is why we have the Federal Reserve, and that is why the Federal Reserve sets interest rates and otherwise determines monetary policy, because they are affecting credit conditions. That is their responsibility.

I think what we need from the banks is to retain strong community banks, strong credit unions, exactly with a deposit guarantee extension that you are proposing and the TAG. I think that combination will strengthen lending to those communities.

If you are just going—providing support in crisis to too-big-to-fail banks—which is why they have a low cost of debt—that is not helping communities across America.

Ms. WATERS. Well, thank you very much.

We had a markup on the floor yesterday, Incentivizing New Ventures and Economic Strength Through Capital Formation (INVEST) Act, and we were talking about capital formation. At some point in time, we need to talk about the responsibility of the banks instead of looking all over the world for more capital for small banks.

I yield back.

Chairman BARR. The gentlelady's time has expired.

The gentleman from Texas, Mr. Williams, is now recognized.

Mr. WILLIAMS of Texas. Thank you, Mr. Chair, and thank all of you for being here today. Good to see my friends.

I am a small business owner in the great State of Texas. I am a car dealer, and the previous Basel III Endgame proposal would have pushed capital standards well beyond what a strong, stable banking system requires. As chairman of the Small Business Committee here in Congress, I am concerned that the proposal would limit credit access for small businesses, especially giving differing risk weights for loans to public versus nonpublic firms.

So, Mrs. Eversole, what changes to the Basel III proposal would ensure equal credit access for small businesses like mine, or of all sizes, and why is this so important to get it right?

Mrs. EVERSOLE. Congressman, thank you very much for your question.

Look, you have outlined it correctly. We need to update and change the risk weighting because there should not be a thumb on the scale for public companies versus private companies. There is an impact on more capital on the end users. What we need to do is ensure that we continue to have a strong economy, and you know full well that starts with small businesses.

So we need to—we look forward to seeing that proposal. We appreciate the leadership of the vice chairman of supervision at the Fed, and we look forward to getting that right.

Mr. WILLIAMS of Texas. Ninety-nine percent of the businesses are small right now in America.

Mr. Flood, when regulators raise capital requirements, banks are forced to redirect more of their balance sheet toward meeting these requirements instead of supporting new lending—we have been talking about that—and that shift reduces the pool of credit available to small businesses that rely on steady access for financing day-to-day operations and growth, needing to mention payrolls. Even modest increases in required capital can drastically change a bank's lending capacity, tightening credit exactly where it is needed most.

So for a small business trying to renew a line of credit or finance equipment, how directly would these higher capital changes translate into fewer dollars available to lend to the main thing we are talking about, Main Street America?

Mr. FLOOD. Great question. Just to give you an idea, for the drawn part—just using, again, Basel III Endgame as example of excessive capital—for the drawn part of your line of capital, the risk weighting increases by 10 percent, again, above and beyond global standards. Oddly, for the undrawn part, it goes from 20 to 50 percent.

So even for the money you are not using, it increases by 30 percent. So likely your line shrinks or you pay more.

Mr. WILLIAMS of Texas. Mrs. Tahyar, when government rules and regulations become overly complex, banks must dedicate significant time and effort to compliance rather than serving borrowers and strengthening their businesses, sometimes keeps you from making the loan. This can be especially challenging for institutions competing in global markets where other banks may face simpler or more modernized frameworks, and these burdens can affect everything from product development to long-term strategic planning.

So my question to you, Mrs. Tahyar, does increasing the complexity of the Federal framework force U.S. banks to divert resources away from innovation, technology, and customer service, and does, at the end of the day, this reduce their ability to compete internationally?

Mrs. TAHYAR. Yes, sir, it does. In fact, if we look back, there are many wonderful changes that came out of the financial crisis, but the intense internal investment at banks in compliance personnel, risk personnel, technology to support them—and the same thing happening at the regulators—has massively increased complexity in the system.

Makes it harder for Congress to engage in appropriate oversight, and AI may well change these things, but AI is something that we are going to have to look at carefully, and it needs to be controlled.

It is just so hard to get the full weight of the internal bureaucracies that have been created at the banks, which just take away from the main mission.

If I may, one minor, just quick comment. Capital absorbs losses, but it is not liquidity. A deposit run, which I agree, AI is going to make riskier, that is not going to be capital absorbing that loss. That is liquidity regulation or deposit insurance. Capital does not solve liquidity.

Mr. WILLIAMS of Texas. Main Street America, keep it simple. Let it grow, employ people, pay taxes.

I yield my time back. Thank you.

Chairman BARR. The gentlewoman from New York, Ms. Velázquez, is now recognized.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Johnson, I heard discussion this morning about affordability. I am glad to hear this because I never thought that it was a hoax.

Can you talk about affordability for working class families in times of economic stress if the banks fail?

Mr. JOHNSON. Absolutely, Congresswoman. So I think it is one of the great tragedies actually of our generation, the current America, that we went through this massive financial crisis in 2008, that was absolutely devastating to communities.

It destroyed businesses. It completely disrupted the housing market. Many of the problems that we are struggling with today in terms of providing goods through competition and at reasonable prices with reasonable supplies, are because of that financial crisis.

We did not build 4 million housing units after the crisis, and we have never built them, Congresswoman. We have never caught up.

So for ordinary Main Street America, the financial crisis of 2008 was absolutely devastating and when we say there is a bailout, a bailout was provided—let us be very clear—it was a bailout to the creditors, particularly of large banks.

The shareholders got a pretty good deal too, but the workers across the economy, the people who run nonfinancial businesses, the people outside of the financial sector were crushed. They were crushed because our banks took on too much risk. They did not have enough capital. We did not have the kind of protection that Chairwoman Waters was talking about in terms of the deposit insurance, not sufficiently.

That combination is absolutely toxic to ordinary Americans, and we see it now reflected exactly in today's affordability crisis.

Ms. VELÁZQUEZ. We should not forget the lessons of COVID-19. Banks were sitting in capital, trillions of dollars in capital reserve, and yet, small businesses were not getting loans.

It was Ranking Member Maxine Waters, myself, and Speaker Pelosi who called the Secretary of the Treasury, and we put a set-aside of \$60 billion to be lent to underserved communities.

Professor Johnson, you testified before this subcommittee last February. As part of your testimony, you stated, "Over the business credit cycle, well-capitalized banks are better able to sustain lending than banks with relatively little capital, that fund themselves with more debt relative to equity."

Can you explain this statement, and what does the research tell us?

Mr. JOHNSON. Well, the research and the practical experience, and what we have seen from around the world over a hundred years, is that when investors are concerned that a bank is deficient in capital, when they think there is a probability of insolvency—that is what happened with Silicon Bank, there was concern about insolvency; then you get a run that is again what happened in Silicon Valley Bank; and then the run spreads across other supposedly similar institutions.

At the moment, humans make those decisions, but as Dr. Foster said, very soon it is going to be agentic AI making that kind of decision. So then we have concerns about insolvency becoming a systemwide run.

If we do not have adequate tools, the authorities do not have adequate tools to respond to that, then you have a major financial crisis as we saw in 2008.

So the best way, Congresswoman, to withstand that, the best way to ensure the kind of national security that the White House is talking about, is precisely to have a well-capitalized, resilient banking system to prevent this from happening.

Ms. VELÁZQUEZ. Is it not true that even after the first part of the Basel III capital regime was implemented in 2016, U.S. banks continued to lend and make record profits while the economy continued to grow?

Mr. JOHNSON. Absolutely, Congresswoman. I am looking here at the data provided, or compiled, by the Kansas City Fed, and we can see that—exactly when you are discussing, in the mid-2010s—there was a lot less leverage in the big banks than there is today.

By the way, the smaller community banks have maintained less leverage throughout this period than the big banks. That is their choice. That is not what is forced on by regulation. That is sensible, big—big practice.

It is the big banks that have a large implicit guarantee from the U.S. taxpayer. That is what “too big to fail” means. Their debt is subsidized implicitly by the American taxpayer. That is “too big to fail.”

They, of course, want as much leverage as they can get, because their debt is super cheap because of the subsidy that they get from the U.S. Government.

Ms. VELÁZQUEZ. Thank you. I yield back.

Chairman BARR. The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. I thank you, Chairman Barr and Ranking Member Foster, for holding this important hearing, and thank you to all of our witnesses for taking time to be with us today and lend your expertise.

Mr. Olmem, the 2023 Basel III Endgame proposal would have raised capital requirements by 16 percent on average, with some banks seeing increases over 20 percent. The proposal received overwhelming criticism and was ultimately withdrawn.

As regulators prepare a revised proposal, what are the most important principles they should follow to ensure the final rule appropriately balances risk weighting with the statutory mandate from Congress to tailor requirements based on bank size and risk profile?

Mr. OLMEM. Thank you for that question. Well, first of all, making sure that the risk weights are based on the best available data. Capital should correspond to risk. That is the first one.

Two is simplicity. Capital requirements have become simply too complex and hard to really understand. I think it makes it, as Margaret was referring to, hard for the public to understand even what capital requirements are. It makes it very difficult for Congress to evaluate and also banks to comply with. So making them simpler is better.

Certainly many banks are complex institutions, and there is a limit on how much simplicity we can get out of the system, but certainly any efforts in that direction are beneficial.

I would also note too that it is really important to take a view of the totality of all the regulations that are going on. I think that is one of the things that I think Mr. Johnson misses, is that this is not 2008, and I think back in a way, I would have shared some of his concerns about capitalization levels but that is not where we are today.

We have, in addition to all the reforms that have happened over the last 15 years—and we need to make sure they all work together—we have stress testing now, we have additional leverage ratios, we have the Volcker Rule, risk retention rules, right? We have a 2,000-page Dodd-Frank Act of rules on banks that have substantially changed their risk profiles.

What the regulators are really doing right now is trying to make it all work together in a more efficient way so that the banking system is certainly safe and sound, but that it is—the distortions in

credit allocation that are occurring because of the lack of coordination amongst this system, are diminished.

Mr. ROSE. Thank you.

Mr. Flood, increased capital requirements have already driven banks out of certain business lines. Residential mortgages dropped from 81 percent bank origination in 2007, to just 39 percent by 2022.

In your testimony, you discuss how the original Basel III Endgame would have particularly affected lines of credit and warehouse lending. Can you explain what happens to credit availability and pricing when capital requirements increase for these specific products?

Mr. FLOOD. Absolutely. Couple things to think about. Again, when we Basel III Endgame which, in many cases, goes above and beyond global standards, with a line of credit—I think I had explained before—the funded part goes from 100 to 110 percent, and the unfunded goes—risk weighting moves from 20 to 50 percent.

So two things will happen. You either will pay more for your line of credit, or you will have a smaller line of credit so that when you need more, you will have to get another and pay more.

Two—and, again, I will keep repeating this—a private company, 99 percent will pay more than a public company. My example again is, if you take a loan to the public company at 7 percent and you assume a 12 percent return on equity, the private company is going to pay a 10 percent loan. It is a significant difference.

Finally, the last one I would say is, there is a 10 percent capital charge on all retail. So put credit cards on the list, put autos on the list, and put mortgages on the list, and they all increase.

Mr. ROSE. Wow. Thank you.

Mr. Olmem, you make the point in your testimony that capital is critically important, but it is not the only option in the regulatory tool kit. You note in your testimony that the banking regulators are undertaking important reforms to the supervisory process.

Why is getting supervision right just as important as getting capital requirements right, and how do these work together to promote both safety and soundness and economic growth?

Mr. OLMEM. Thank you for that important question. Supervision can spot those risks that are not on the balance sheet, right? It is the way supervisors can exercise judgment and understand how a bank, its management, is addressing risks.

The only way you can see that is knowing who the bank managers are, understanding their strategies, and working with them to understand how they are managing those risks.

I think if you look at any major bank fail, supervision is usually at the core of the problems. Supervision also is an effective and efficient way to make sure that banks are properly regulated without excessive regulation.

Mr. ROSE. Thank you. My time is expired. I yield back.

Chairman BARR. The gentleman's time is expired.

The gentleman from Georgia, Mr. Scott, is now recognized.

Mr. SCOTT. Thank you, Mr. Chairman.

Ladies and gentlemen, this is a very important hearing but especially to our farmers—sectors like agriculture, that rely heavily on

access to credit, risk management tools, and functioning derivative markets.

Mrs. Eversole, let me come to you first. Our farmers operate in a world of volatility—from supply chain disruptions, fluctuating global demands, and extreme weather.

There is no other sector of our economy that is as serious in terms of reseeing these obstacles. So let me just ask you this: Large banks play a key role in providing risk management for agriculture producers through futures options and swaps. Now, if Basel III makes it less attractive for our banks to provide these hedging services, what will be the direct effect on our farmers?

Mrs. EVERSOLE. Congressman, thank you very much for the question. I am also from the great State of Georgia, so I deeply appreciate the concern about farmers here.

I mean, the reality is, it is going to make it more expensive and—I mean, you know very well how hard it is to manage risk. Is there enough rain, how is the—and that all has an impact on the crops.

The ability to manage risk and understand where you are coming out of this, the Basel III Endgame has an impact on that, and it is not just about the farmers. It is about where those products go. They end up on store shelves.

It also impacts the price of fuel, when you think about biofuels and ethanol and so, we need to get this right, Congressman.

Mr. SCOTT. We have a good audience listening.

Do you anticipate certain particular products would become less available to our farmers, particularly customized or longer-term derivatives?

Mrs. EVERSOLE. If we do not do this right, they will impact not only the cost but also the availability, and so we look forward to making sure that we get this proposal right and provide the certainty to America's farmers, especially in the great State of Georgia.

Mr. SCOTT. Absolutely and go, Dogs.

Mrs. EVERSOLE. Go, Dogs. Thank you so much, sir.

Mr. SCOTT. Excuse me. Cold.

Let me turn to you, Mr. Johnson. Do you believe that farmers, businesses, face any disadvantages if foreign competitors, operating under slightly different capital rules, have lower hedging costs?

Mr. JOHNSON. I think, Congressman, it is very important to study this question, and to examine exactly what kinds of market facilities and also subsidies are available to farmers and other competitors in other parts of the world.

Sure, if there are unfair forms of competition, those should be looked at, and there are various, as you know, legal and regulatory remedies available under those circumstances.

However, Congressman, I do think that having a strong, resilient banking system of our own, including community banks, including credit unions, including those which are just focused on farmers, is incredibly important.

When I look at how much capital those institutions choose to have—they choose to have it; this is not what they are required to have—they have substantially less leverage than the “too big to fail” banks.

So I think that we have some fantastic and very important financial institutions serving those communities, Congressman, and I think we should aim to strengthen them. They are, themselves, choosing not to over-leverage, which I really commend them.

Mr. SCOTT. Finally, will U.S. farmers and businesses face any disadvantages from these foreign countries?

Mr. JOHNSON. Unfair foreign competition is a problem, Congressman, and it needs to be addressed in a careful, well-regulated way, and we have a long tradition of doing that in the United States.

I do think, though, that what we have currently, as a result of the reforms after 2008, with regard to strengthening the financial system and lowering the leverage—at least we lowered it until 2016, 2018—I think that was helpful to farmers. Allowing the big banks to become over-leveraged is not helpful to farmers.

Mr. SCOTT. Thank you very much.

Chairman BARR. The gentleman from Georgia's time is expired. I will just have to say, as the husband of a Georgia Bulldog, even though I am a Kentucky Wildcat, to you and Mrs. Eversole, go, Dogs.

Mr. SCOTT. Way to go.

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

Mrs. KIM. Thank you, Chairman and Ranking Member, for hosting today's hearing, and I want to thank our witnesses for being here. Thank you.

As you may know, I have been keenly focused on modernizing the community bank leverage ratio to uplift our community banks. According to prudential regulators, around 85 percent of our community banks qualify for community bank leverage ratio (CBLR), yet only 45 percent of them actually use it.

That is why I introduced Community Bank Leverage Improvement and Flexibility for Transparency (LIFT) Act that will modernize CBLR, to ensure that more community banks in California are focused on consumers, rather than regulatory red tape.

Mrs. Tahyar, when you look at tailoring, do you agree that there is still more fine-tuning to be done regarding the community bank leverage ratio?

Mrs. TAHYAR. Yes, I think there is. The vice chair and the board have come out with a proposal, as you know, which would take it to 8 percent and also importantly, would give a longer, four-credit, grace period.

It is not entirely clear to me exactly why only 40 percent of the community banks could benefit from it, but I think the cliff effect of a two-quarter grace period, which for a community bank is way, way, way, too swift, is part of the concern there.

I also think in terms of tailoring, picking up on something that Andrew said, with growth in the economy and inflation, in a tailored system, that growth and that inflation will simply have banks grow into the next asset threshold when they really should not be there.

Mrs. KIM. Thank you.

Today we heard a lot about the leverage of large banks today. So Mrs. Tahyar, can you explain how low-risk activities like Treasury

market intermediation are impacted by binding leverage requirements?

Mrs. TAHYAR. So—and this was obviously worse before the recent change in the enhanced supplementary leverage ratio (eSLR), but it is still part of the leverage ratio.

The market for Treasuries has simply exploded with the increase in the deficit. That means that you have an impact on the market for Treasuries because those entities that would have been trading in Treasuries, if the leverage ratio becomes binding on them, they are going to stay out of the Treasury market.

Now we are more dependent on non-banks or on foreign actors in the market for Treasuries. Maybe stablecoins will eventually make a difference. I know that is part of the hope, but what we have experienced in some of the kerfuffles in the Treasury market is certainly bound up with the fact that the classic players just have not been playing the way that they used to.

Mrs. KIM. Thank you.

As we continue to evaluate tailoring and capital requirements, the impact on small businesses must be kept top of mind. Many small businesses rely on affordable and reliable credit from regulated banks to grow and manage day-to-day operations.

However, increased capital requirements, such as those proposed under Basel III and through the G-SIB surcharge, can raise the cost of lending and reduce credit availability.

I want to ask you, Mrs. Eversole—yes, Eversole—how are these capital rules impacting small businesses' ability to access credit today, and what adjustments should regulators consider to ensuring that credit remains affordable for Main Street without compromising safety and soundness?

Mrs. EVERSOLE. Congresswoman, thank you very much for the question. I would note that my member companies have more than \$100 billion in outstanding loans to small businesses today, and that is really important because we know that small businesses are the economic engine for growth in this country.

The Basel III Endgame, as proposed in 2023, would have had inappropriate risk weighting that would have impacted small businesses negatively through the form of higher capital.

I think, as I have mentioned today, higher capital is not always better, and it comes at a cost. I think the question about getting this right, making sure that in the proposal we look forward to from the Federal Reserve, hopefully as soon as possible, getting it right really matters.

We want to make sure that America's small businesses are protected, but also can borrow money at a fair cost, so they can get to the business of growing their businesses.

Mrs. KIM. I could not agree with you more. Thank you.

Let us shift gears now. In today's era of banking, it appears that the success of your bank will not be dictated by innovation or competitive product offerings but rather by how you can handle the compliance costs as your financial institution continues to grow.

We are almost forced to either defend Dodd-Frank as banks fail around us, or we find ways to tailor regulations to serve the dynamic economic rules that these financial institutions play.

I am running out of time, but hopefully you will have time to answer this, Mr. Olmem.

Has Dodd-Frank created the accurate, precise regulation that was expected, or has it created more regulation with little or to no benefit?

Chairman BARR. Mr. Olmem, you are going to have to submit that answer in writing. The gentlewoman's time is expired.

Mrs. KIM. Thank you.

Chairman BARR. The gentleman from California, Mr. Sherman, is now recognized.

Mr. SHERMAN. Thank you, Mr. Chairman. I think we all agree, if capital standards are too low, we face the risk of needing bail-outs. If they are too high, our economy is smaller than it otherwise would be, but we should also agree that if you discriminate against certain borrowers and help other borrowers, you pick winners and losers.

What is worse is if you pick the wrong winners and the wrong losers. Banking is too important to just focus on the bank. It allocates capital in a society dedicated to capitalism.

Now, there is real risk in loaning money to Jack's Pizzeria in Tarzana, and we should state that fairly and have adequate reserves but we should not understate that risk just because the pizza is delicious. We should not understate that risk just because we love small business.

When we look at Basel III's current configuration, we see a system designed to oppress, to discriminate against small business, new home buyers, and all home buyers, and U.S. taxpayers, for absolutely irrational reasons except for the fact that the people in Basel all just feel really comfortable with giant corporations and their long-term bonds.

The first is to home buyers. First, there is a proposal here to increase the risk weight beyond the Basel levels for all home mortgages. Then, as I have commented before in this room, they ignore private mortgage insurance.

So you have a system that discriminates against all home buyers, and then doubly discriminates against the first-time home buyers with the low downpayment that needs the private mortgage insurance.

I have heard no defense of this. It is just people who jump up and down and say Basel, Basel, wonderful town, let us just do what is in the document, do not read it too carefully.

Then we have intentional discrimination against small businesses in two ways: As Mr. Flood points out, if it is a public company, we discriminate in favor of them and against the private company.

Second, small businesses do not pose an interest rate risk because they tend to have floating rates or short-term loans.

The 30-year fixed-rate bond, is discriminated in favor of because we do not mark-to-market. Had we done that, we would have realized that Silicon Valley Bank had \$17 trillion in unrealized losses.

Even after that, we have got a system that discriminates against the small business and in favor of the competing 30-year corporate bond that is not mark-to-market.

Then Mrs. Tahyar says we should also discriminate in favor of the crypto billionaire bubble creators. I just say, you do not have to be a genius to recognize that crypto assets are very volatile and then in the area of long-term bonds, we discriminate in favor of the corporate bond and against the Treasury bond by treating them both the same, even though the Treasury bond does not have the risk and the corporate bond does.

So we have a system here, designed to unfairly discriminate against home buyers, particularly first-time home buyers, small business as opposed to publicly traded, big business, and the U.S. Government, its taxpayers. Gee, what could go—what is the matter with that?

Mrs. Eversole, the Basel III Endgame proposal for 2023 included higher risk weights for mortgages than recommended by the Basel Committee. As I pointed out, it discriminates in favor of publicly traded companies.

How do your banks take capital requirements into consideration when making a small business loan or a home loan, and would the consequences of this be fewer loans for home buyers and small businesses?

Mrs. EVERSOLE. Congressman, you said it very well. The impact is straightforward. It would reduce the amount of loans made, and it would make the ones that are made more expensive.

It was a bad, flawed proposal, and we need to see—we look forward to seeing the re-proposal that we expect as soon as possible.

Mr. SHERMAN. Mr. Olmem, we have got a system that pretty much ignores private mortgage insurance (PMI). It does not follow the Federal Housing Finance Agency (FHFA) Enterprise Regulatory Capital Framework that Fannie and Freddie use.

What should the Basel—what should this regulation do with regard to mortgages?

Mr. OLMEM. I think the risk weights that were originally put in the original proposal were too high and need to be revised.

Mr. SHERMAN. Thank you.

Chairman BARR. The gentleman's time is expired.

We are going to just go out of order just for a minute for a parliamentary request from the gentleman from Texas.

Mr. GREEN. Thank you, Mr. Chairman. Mr. Chairman, because I have three hearings taking place today, I ask unanimous consent that I be allowed to place questions in the record for the witnesses, and I beg that I be excused to take care of the many things that I have to do.

Chairman BARR. Without objection—

Mr. GREEN. Thank you very much.

Chairman BARR [continuing]. so ordered.

The gentleman from Georgia, Mr. Loudermilk—a lot of Georgia Bulldogs here today—the gentleman from Georgia, Mr. Loudermilk, is now recognized for 5 minutes.

Mr. LOUDERMILK. Well, thank you, Mr. Chairman, and I appreciate everybody being here today.

While all of America is likely not glued to their television watching this hearing, as they may be some other high-profile hearings. Nonetheless, the subject matter that we are discussing here is ex-

tremely important to all Americans and their livelihood and their financial stability going forward, so.

For too long, financial regulators have taken one-size-fits-all approach to regulation, applying the same regulatory standards to small- and mid-sized institutions as they would to large and well-resourced institutions.

While the biggest banks often have the resources to comply with the regulations, small firms and even some mid-size firms might struggle to meet these same regulatory requirements.

So I am glad to see us focusing on this topic, and I am proud of the work that this committee and the Trump Administration are doing to right-size regulations on financial institutions of all sizes.

Mrs. Tahyar, I have a bill entitled the Taking Account of Institutions with Low Operation Risk (TAILOR) Act, which would require that all future regulations be tailored to the risk profile of the regulated institution.

Are there other proposals out there that you believe would provide the right balance between safety and soundness and minimizing harm to community banks?

Mrs. TAHYAR. Yes, I think so. There are a number of challenges that community and smaller banks face, among which is succession planning, because many of them are family owned—they are private companies—and making kind of M&A applications easier and more certain, I think would be helpful for community banks.

We do not want the barbell, but we have got 4,000 banks and 4,000 credit unions. So some degree of consolidation seems to me to be fruitful.

Other elements on tailoring are indexing the tailoring, and then I think the shift that the vice chair has put in place, away from process-oriented supervision, which just takes so much—a community bank may have 15 people at the bank. A regional bank is not going to have the hundreds of thousands that a large bank has.

So moving away from process checklists just to show things just to show things, minutes of meetings that—so that someone can look at them and check whether they did things. I think we will focus banks back on what they need to do and will focus the supervisors on material, financial, and operational risks.

Mr. LOUDERMILK. I have had community bankers tell us that what they face is a death of a thousand cuts—

Mrs. TAHYAR. Yes.

Mr. LOUDERMILK [continuing]. because of the requirements.

With that in mind, are community banks at a structural disadvantage compared to large banks, who can have teams of compliance specialists when implementing these complex capital frameworks?

Mrs. TAHYAR. They are, and I think that is what the community bank leverage ratio is about, which has not been taken up as much as it could be. It is very much a structural disadvantage for smaller banks.

To make a mortgage the paperwork looks like this.

Mr. LOUDERMILK. Right, right.

Mrs. TAHYAR. That was not the way it was before, but mortgages were what community banks did in the small communities. They knew the people. They could make the mortgages.

Now, it has been much, much harder, since Dodd-Frank, for community banks to make mortgages, and we have seen this flow out of mortgages from the banking sector to the non-banking sector.

Mr. LOUDERMILK. That is interesting you bring up mortgages. One of the first bills that I passed after coming on this committee was to exempt institutions that have zero-interest mortgages, such as the nonprofits, Habitat for Humanity, to exempt them from this massive regulatory framework just to issue a zero-interest mortgage anyhow.

In your testimony, you write that any capital framework will need updating and renewal from time to time as markets and technology change.

Do you have any thoughts as to how the framework like that should be structured and how often those reviews should occur?

Mrs. TAHYAR. Well, under the regulations, they are supposed to be reviewed every 10 years, and that is very much not honored and that is for all of the banking regulations.

I do not want to front-run whatever we are going to see a Basel III proposal from the banking regulators—quite soon, I hope—and so I do not want to make suggestions about what should happen in the onward, onward.

What I did want to open folks' minds to is, we call it endgame—

Mr. LOUDERMILK. Right.

Mrs. TAHYAR [continuing]. but it is not the end of the game. There have been mentions of agentic AI and various other changes. I just want us to keep in mind that there is no endgame. There is no end to keeping up with what is happening in technology in the market.

Mr. LOUDERMILK. Right.

Thank you, Mr. Chairman. I yield back.

Chairman BARR. The gentleman yields back.

The gentleman from Massachusetts, Mr. Lynch, is now recognized for 5 minutes.

Mr. LYNCH. Thank you very much, Mr. Chairman. I want to thank the witnesses for your help this morning.

Mr. Johnson, earlier Mr. Olmem said, correctly, "We are not in 2008." However, I was here in 2008 on this committee, and so we had—the reason we are not in 2008 is because of Dodd-Frank.

We put in enhanced capital requirements. We put in greater prudential standards. We stopped the banks from engaging in some very risky activity.

Now, if you listen to Michelle Bowman, the vice chair of the Fed for supervision, we are seeing a market change. We are moving away from those—the more demanding stress tests that we put in place. We are relaxing—well, there is a recommendation to relax the supplemental leverage ratio. We are not doing—like I said, we are not doing the stress testing, and again, those prudential standards are dropping.

With all of that—let me also add, Vice Chair Bowman also gave a speech in Madrid last month where she said that banks should be able to compete with non-banks in cryptocurrencies and digital assets, which introduces a whole pile of risk into the banking industry.

I think we are all in agreement that, as others have stated, capital requirements should reflect the risk that is being engaged in. So with all that, are we not heading back toward 2008?

Mr. JOHNSON. Well, we are heading back towards a financial crisis of the magnitude or bigger than 2008, absolutely, Congressman. So you are right that Dodd-Frank helped a great deal, and that is what reduced leverage in the bank system, all of those measures combined.

We can see, from the data provided through the Kansas City Fed, that leverage was at its lowest point in the mid-2010s, and since then, there has been an erosion, as you say, on multiple fronts. Vice Chair Bowman seems to be determined, along with the other regulators—the FDIC and the Office of the Comptroller of the Currency (OCC)—to allow more leverage.

At the same time, the world around our financial system has become a lot more dangerous—financial panics repeatedly—including Silicon Valley Bank—the pandemic, the rise of China—absolutely transformative—the arrival of AI.

Of course, you are right to emphasize crypto. Whatever we think about the future of crypto, whether it is bright or not, it is certainly highly volatile. If the regulators are allowing the banks to become more intertwined, either directly with the cryptocurrency or with an entity as itself speculating on cryptocurrencies, then that is a lot more risk.

The only way to handle risk, from a financial system stability point of view, is to have more capital. The banks do not want to do it, Congressman, because they have these massive subsidies, the “too big to fail” subsidies.

They love the leverage. Bank executives for the big banks get paid on the basis of return on equity unadjusted for risk. So they want to load up on risk. They do not want to care about capital. They want to shove the costs onto the taxpayer. They get the upside. The taxpayer and regular Americans get the downside. So that is 2008 again.

Mr. LYNCH. Yes. Let me ask you about, there is much faith being put on AI, but from this committee’s perspective, we are seeing a small handful of AI firms that are really going to dominate, and so, their products will be used by hundreds, maybe thousands of banks. So they are all going to be operating off the same—the same recommendations, the same algorithms.

Does that not create a concentration risk if multiple banks, perhaps hundreds of banks, are actually making decisions based on the same recommendations?

Mr. JOHNSON. Yes. We will see concentration risk exactly there where banks make decisions, but also what Dr. Foster was talking about, which was agentic AI on the part of investors.

So investors will be coming into assets and leaving assets really very fast. They will be interacting with other AI. They will be gaming the system. This is all volatility, Congressman, and the only way to ensure the system against volatility is with more capital, not less.

Mr. LYNCH. Right. So with all these added elements, especially with the crypto piece of this, and the President—certainly the White House—is inducing banks to get more involved with crypto,

would not it make sense to increase the capital requirements for those firms that are engaging in crypto activities?

Mr. JOHNSON. Yes, absolutely. Crypto is dangerous and I would point out that the leverage is going down in community banks and regional banks. It is the “too big to fail” banks that are leveraging up, and they are the ones who want to pile into crypto. It makes no sense. It is super dangerous.

Mr. LYNCH. Thank you, Mr. Chairman. I yield back.

Chairman BARR. The gentleman yields back.

The gentleman from Nebraska, the other Mr. Flood, is recognized for 5 minutes.

Mr. FLOOD of Nebraska. Thank you, Mr. Chairman, and to our stenographer, the record should reflect that I do represent the people of Nebraska. The other Mike Flood, though, is welcome to do all my town halls next year in Lincoln.

I will afford you that opportunity.

With that, Mrs. Eversole and Mr. Flood, as chairman of the Subcommittee on Housing and Insurance, I am concerned that over-calibrated capital requirements are limiting consumers’ access to affordable and reliable mortgages.

What reforms should we consider to ensuring that consumers continue to access safe, reliable products and services such as mortgages?

Mrs. EVERSOLE. Thanks very much for the question. I think it is important to note, as we have reflected on changes since 2008. In 2008, only 20 percent of mortgages were made outside of the banking system, and today, more than 60 percent are made outside of the banking system.

When we think about risk, we know that America has a highly regulated, safe, sound, banking system, and when we are pushing things outside of the banking system, we should ask the question: Is this because of regulatory arbitrage, or is this because of a good, sound, competitive marketplace? I think that is point one.

Point two is, it is time to see a Basel III Endgame proposal that gets this right because the cost to first-time home buyers, to small businesses, we should not be placing inappropriate risk weighting on that.

We look forward to the new proposal.

Mr. FLOOD of Nebraska. Mr. Flood.

Mr. FLOOD. I would just add a couple comments. I clearly agree with Mrs. Eversole about making sure that the risk matches the product.

One thing that I would point out as you consider affordability. When we look at Basel, a lot of times, it will treat, especially on the commercial side, a privately done, affordable deal with no backing, differently than one that is supported by the GSEs.

I get the concept, but if we are going—as you well know, if we need all hands in the boat on affordability, that is definitely an area that should be looked at, and clearly the risk weights for residential mortgages as well.

Mr. FLOOD of Nebraska. To Mrs. Eversole’s point, like, we have this fantastic banking system. It is diverse. It is better than anything Europe has. We have Federal banks, State banks, community banks, regionals, G-SIBs but what kind of connection will they

have to Main Street if, like you say, 60 percent of this is done—and we are going to be talking about GSE reform sometime in this Congress—is it a capital requirements issue?

Like, Mrs. Tahyar, like, is it a capital requirements issue? Can we make changes so that banks are more incentivized to get into the mortgage business because I think they are going to lose their link to Main Street if they do not have that relationship with the consumer?

Mrs. TAHYAR. I strongly agree with that, and I think it is more than a capital requirement. I mean, what small banks have to do, to do a mortgage loan to somebody in their community who they have known for 30 years, since Dodd-Frank, has become enormously complex.

Obviously, there were problems in the financial crisis with the liars' loans and not checking income. What we have done basically is, we have made it too hard for community banks to do what was done for my aunt 30 years ago, which is—she was in the State Department. She was stationed in a foreign country. She needed to have a home equity loan.

The guy from the community bank, from the mortgage she had already paid off, walked down to the house, walked around the house, came back and told her what he could give her.

I do not think that would happen today.

Mr. FLOOD of Nebraska. Right.

Mr. FLOOD. Mr. Flood, if I may, I think there are three concrete things that should be looked at in the Basel rules: One, mortgage servicing rights, servicing—

Mrs. TAHYAR. Exactly.

Mr. FLOOD [continuing]. while the chamber has absolutely no bias towards who wins in competition between banks and non-banks, a level playing field is important.

I think we have seen the migration of servicing out of banks, into non-banks, and I think the reason is entirely for capital reasons. So we should think about whether we are biasing one form toward another.

Another would be warehouse lines. You should look at that. Finally, of course, the risk weights around mortgages themselves.

Mr. FLOOD of Nebraska. Very good. I will finish up here quickly, but Mr. Olmem and Mrs. Tahyar, do you think that the complexity of bank capital requirements can drive further bank consolidation?

I mean, I have banks in my district, in the largest city, that are afraid to grow because they are bumping up against a new assessment that is going to be painful.

You do not want that. When that happens, they will be more likely to say, "Oh, we will sell to a big regional."

What do you think?

Mrs. TAHYAR. It is the cliff effect of thresholds which have created that adverse incentive, and it is certainly something that the current supervisors are looking at.

Mr. OLMEM. Yes, I fully agree. I think this is one of the key issues at stake with these reforms, is whether or not we are going to be able to have regional banks in the United States going forward.

Mr. FLOOD of Nebraska. We need them and want them, and with that, I will yield back.

Chairman BARR. The gentleman yields.

The gentleman from North Carolina, Mr. Moore, is now recognized.

Mr. MOORE. Thank you, Mr. Chairman.

During the last administration, banking regulators drifted away from their core statutory mission of protecting safety and soundness toward subjective judgments and political priorities.

That shift has created uncertainty and imposed disproportionate burdens on the community and mid-sized institutions that drive credit formation.

Now we finally have an opportunity to restore some regulatory discipline and return to a framework where requirements are truly risk-based and proportional.

We are working to revive this principle of regulatory tailoring because the requirements should match an institution's actual risk profile, as several of the witnesses have already testified to.

Mrs. Tahyar, we have emphasized the need to strengthen tailoring, especially across categories 2, 3, and 4 banks. What specific changes to capital and liquidity requirements should be made to ensure mid-size and regional banks are not subjected to requirements that simply do not match their actual risk?

Mrs. TAHYAR. So I think you have got, in the tailoring statute, you have got \$100 billion, but there are other numbers that are not in the statute, and I think they should all be revisited.

There is a proposed TLAC proposal that is out there that would calibrate a long-term debt requirement for mid-size banks really as high as what the G-SIBs have, and I think there should be data-driven thinking to bring that calibration of TLAC down.

Then I think there should be, in the same way as the community bank leverage ratio a bank that hits \$100 billion has to start its large bank program when it is at \$75-, \$80 billion and then there is this enormous kind of process, checklist kind of thing, and I think that more efficient supervision and more transition periods as thresholds are met, as well as the indexing of thresholds, would all be wise.

Mr. MOORE. Thank you.

Charlotte that is in my district, is home to some of the most strategically important banks in our country. These institutions do not just compete domestically, but also with major foreign institutions subject to very different regulatory schemes.

Mrs. Eversole, how do U.S. capital proposals compare internationally, and what risk do you see if the United States ends up materially higher, with these requirements, than our global peers.

Mrs. EVERSOLE. Thank you very much for the question, Congressman.

Just for the eight largest banks, one of which is headquartered in Charlotte we pay twice—we owe twice the capital as a consequence of the G-SIB surcharge in using method two, versus our international counterparts applying method one.

It really does not have to be that way. That does not drive additional safety and soundness to the system and so it is in all of our interests to ensure that we have the safest, most liquid, most vi-

brant capital markets and we serve our customers in the very best possible way, but gold-plating simply does not make sense, and we should revisit that.

Mr. MOORE. Thank you. We need to get back to a capital framework that supports growth and competition, both at home and abroad. So I will go to Mr. Olmem.

Currently only about 40 percent of eligible community banks opt in to the community bank leverage ratio. How should the CBLR be reformed so that it truly reduces burden, and can be used by qualifying banks?

Mr. OLMEM. Thank you for that question. The current proposal that has been out to revise the community bank leverage ratio, I think is a good step in the right direction.

It will lower the overall leverage ratio to 8 percent, but also it will allow—it will exempt institutions from having to still calculate the risk-based as well, which is pretty expensive. Oftentimes institutions, if they have to calculate it, they will just go ahead and comply because a lot of the compliance costs are there. Removing that requirement also should help take-up. So I am hopeful that the existing proposal should approve the take-up rate.

Mr. MOORE. When the Biden Administration released the original Basel III Endgame proposal, they received an overwhelming number of critical comments.

One analysis found that 97 percent of commenters opposed the proposal, and more than 85 percent came from outside the banking industry, including farmers, small businesses, housing advocates, and manufacturers, all citing concerns about higher costs for goods, services, and lending, that, of course, we have seen impact on the economy.

So, Mrs. Eversole, what are the impacts of increased bank capital requirements beyond just the balance sheets?

Mrs. EVERSOLE. Right. At the end of the day, there are consequences to more capital. It does not come—it does not come for free.

The consequences, as you articulate them from the prior proposal on the Basel III Endgame, would have had a disproportionate impact on privately held companies, like small businesses across America, America's farmers, America's savers, America's retirees.

We need to get the proposal right, and we look forward to the proposal that is coming out.

Mr. MOORE. So regulators had determined that capital levels were about right in 2020. What changed?

Chairman BARR. I am going to have to ask you to respond for the record because—

Mr. MOORE. I believe we are out of time. Thank you, Mr. Chairman. Appreciate it and appreciate the witnesses.

Chairman BARR. Thank you, Mr. Chairman, and I want to thank all of our witnesses for their testimony today, and I request unanimous consent to enter into the record an op-ed that I authored in support of H.R. 1761, legislation noticed for this hearing, that I am leading with Representative Wilson of South Carolina, celebrating the 250th anniversary of our Republic, cited as the Donald J. Trump \$250 Bill Act that directs the Secretary of Treasury to print

Federal Reserve notes in the denomination of \$250, featuring a portrait of Donald J. Trump.

[The information referred to was not submitted prior to printing.]

Without objection, all members will have 5 legislative days to submit additional written questions for the witnesses to the chair. The questions will be forwarded to the witnesses for their response.

Witnesses, please respond no later than January 15, 2026.

[The information referred to can be found in the appendix.]

This hearing is adjourned.

[Whereupon, at 11:58 a.m., the subcommittee was adjourned.]

APPENDIX

MATERIALS SUBMITTED FOR THE RECORD



**Statement for the Record
House Financial Services Committee
Subcommittee on Financial Institutions**

**Hearing Entitled: *"Right-Sizing the U.S. Bank
Capital Framework: A Return to Tailoring,
Economic Growth, and Competitiveness"***

Thursday, December 11, 2025

The Mortgage Bankers Association (MBA)¹ appreciates the opportunity to comment for the record on the issues raised by the Subcommittee on Financial Institutions' December 11, 2025, hearing entitled, *"Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness."*

In recent years, as risk-based capital rules have been evaluated and adjusted, depository institutions have often been put at a disadvantage in certain business lines due to excessive capital requirements on certain mortgage-related assets that are misaligned with the underlying risk of the assets. As the MBA noted in our [May 20, 2025, letter to the banking agencies](#) and in our [January 2024 comments](#) on the previous, misguided Basel 3 Endgame proposal, key reforms are needed to the risk-based capital rules to support more robust participation in real estate financing by U.S. banks.

¹ The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 275,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

Statement for the Record
Mortgage Bankers Association
House Financial Services Committee
Subcommittee on Financial Institutions
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The following statement outlines a series of tangible steps policymakers should undertake to reduce regulatory impediments and benefit all market participants in the real estate industry.

Background

In 2023, the FDIC, Federal Reserve Board, and OCC (“Banking Agencies”) requested comment on the Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity.² This proposal is also commonly referred to as the Basel III “Endgame.” On September 10, 2024, then Vice Chair for Supervision Michael Barr announced his recommendation that the Basel III Endgame rules be re-proposed.³ As of today, the banking industry is currently awaiting a Basel III Endgame re-proposal from the Banking Agencies.

MBA Recommendations

1. Reduce the Punitive Capital Charges on Mortgage Servicing Assets (MSAs)

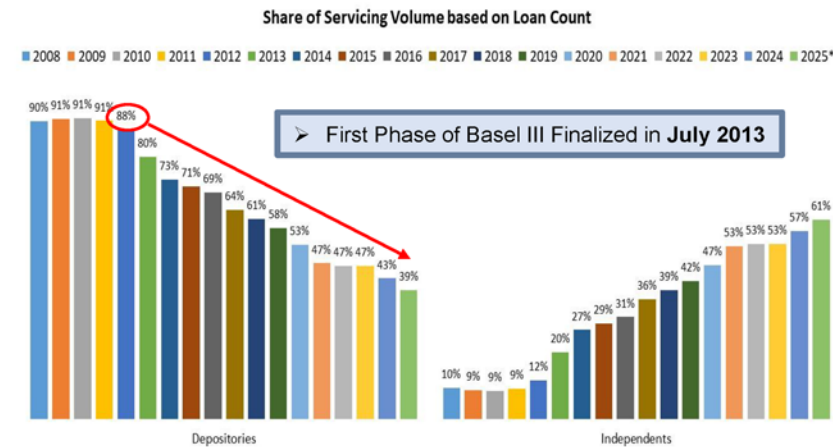
The current punitive 250% risk weight on MSAs has been cited by many analysts – including the Financial Stability Oversight Council – as a primary contributor to banks’ exodus from the mortgage servicing market.⁴ In 2012, the year before the current bank regulatory rules were put in place, banks held 88% of all servicing assets; by 2025 they hold just 39%. The decline has been consistent since the 250% risk weight was put in place and began to plateau only after the agencies raised the Tier 1 cap on MSAs to 25%. However, the decline has resumed in the past two years, likely in anticipation of a rollback in the cap to 10% as proposed in the initial release of the Basel III Endgame rule.

² 88 FR 64028

³ <https://www.federalreserve.gov/newsevents/speech/barr20240910a.htm>

⁴ [FSOC 20230421 Minutes.pdf \(treasury.gov\)](#); page 7.

Bank Share of Mortgage Servicing Assets: 2008-2025



MBA has long advocated for a reduction in the punitive risk weight assigned to MSAs under Basel III, and we continue to urge the Agencies to address the market implications of such punitive treatment⁵ that has led to the significant reduction in banks' direct participation in the mortgage origination and servicing market. At many banks, residential mortgage lending is no longer treated as a core strategic focus but rather, reduced to a secondary product line.

MSAs play a key role in enabling all lenders – both banks and independent mortgage bankers (IMBs) alike – to provide mortgage credit to their community. The servicing business is not just about collecting and advancing payments but also establishing and deepening relationships with borrowers and managing forbearance and loss mitigation. These relationships help banking institutions strengthen their ties with the communities in which they are located and enable them to be a better resource to the local economy. By making the capital treatment for servicing assets unattractive, the current rules continue to

⁵ For many years now, MBA has been urging the Agencies to amend Basel III rules for all banks and increase the cap to 50%, eliminate the 15% aggregate cap for threshold items, and reduce the risk weighting of MSA.

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reduce banks' appetite for mortgage origination and servicing, resulting in declines in MSA values and higher interest rates for borrowers.

For the past decade, even after the adverse impact of the 2013 Basel rule on bank mortgage lending became evident, the Agencies continued to take the erroneous and outdated position that MSAs are extremely risky and difficult to value. More than 15 years after the Great Financial Crisis, the mortgage servicing market has changed significantly. Today, the servicing asset is well-managed and well-controlled, with holders of MSAs engaging in various activities – including hedging and regular marking-to-market – to better manage volatility risk. MBA urges the FDIC, OCC, and Fed to finally recognize these beneficial changes and reduce the punitive treatment of MSAs by:

Reducing 250% risk weight for MSAs: The current 250% risk weight assigned to MSAs has played a key role in compelling banks to exit the servicing market, reducing competition for consumers and removing a bank bid for MSAs that reduces liquidity and raises mortgage rates. To ensure that the U.S. capital framework does not continue to drive banks out of the mortgage servicing industry we strongly recommend that this punitive and unjustified risk weight be reduced to no more than 100%.

Raising the CET1 cap on MSAs: The current capital framework also prescribes an unjustified 25% cap on MSAs that can be included in Common Equity Tier 1 (CET1) capital. The dollar-for-dollar capital charge for any MSAs held above the 25% cap forces banks that want to maintain large mortgage operations to incur extraordinarily punitive capital charges or sell off MSAs, thereby eliminating valuable customer relationships.. MBA recommends that the cap be increased to 50%.⁶ A 50% cap would ensure that banks that view the mortgage market as a core strategy, and not just a product, can continue to hold MSAs and maintain the vital customer relationships that play a significant role in strengthening ties with the communities they serve. A stronger bank bid for MSAs also helps ensure a more orderly and liquid MSA market for all participants – both banks and nonbanks -- and contributes to overall financial stability in the single-family mortgage market.

2. Reduce the 100% Risk Weight on Warehouse Lines of Credit

Banks serve the real estate finance market through direct lending to borrowers and also — and just as critically — by providing short-term revolving funding to IMBs to facilitate origination activity through warehouse lines of credit. Today, the warehouse lending supplied by U.S. banks supports more than 60% of all single-family mortgage origination — a share of the market that has grown substantially over the past decade.⁷

Under a warehouse facility, a bank advances funds (typically at a 95-98% advance rate) to an IMB that originates the loan to the borrower. Those funds are collateralized by the closed loan, and the warehouse bank is repaid when the IMB sells the loan to the investor (e.g.,

⁶ The agencies should also consider eliminating the cap for community banks operating under the CBLR.

⁷ See MBA's [Warehouse Lending Fact Sheet](#) for more detail.

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the GSEs or into a Ginnie Mae security). These are short-term advances, fully collateralized, and the warehouse banker controls all aspects of the collateral during the transaction.

The current capital framework assigns a 100% risk weight to warehouse lines – a change that occurred in 2014 from previous interpretations that assigned a 50 percent risk weight to warehouse lines structured as repurchase facilities. The 2014 capital guidance was led by the OCC pursuant to an accounting policy change that we believe ignores the economic substance of the transaction. Instead, the OCC guidance focuses on the form over substance to arrive at the higher risk weight because the bank does not “own” for GAAP accounting purposes the collateral backing the line. As a result, the OCC concluded that the warehouse line cannot be assigned the same 50% risk weight as the collateral, even though the warehouse bank has direct control over the collateral.

Although the warehouse bank does not “own” the collateral for accounting purposes, for all other purposes the bank controls and is in possession of the collateral. If the IMB borrower fails, the bank is able to claim the collateral and turn it into cash by delivering it to the committed investors to avoid losses on the warehouse line. Alternatively, the bank can retain the mortgages on balance sheet – at the lower 50% risk weight. Therefore, while the bank does not own the collateral for accounting purposes, the bank *controls* the collateral for the most important purpose – to mitigate any loss on the warehouse line.

With the capital requirements misaligned with the underlying risk, warehouse lenders are unable to supply the necessary liquidity to meet spikes in demand, thereby increasing the cost of lending to all borrower segments. Similarly, if the market is contracting, the excessive capital charge relative to risk incents banks to exit the warehouse market to boost bank returns. As a result, the current capital treatment for bank warehouse lines is procyclical, exacerbating the volatility of mortgage market liquidity.

Given the short duration of warehouse credit exposures and the banks' ability to take possession of the underlying collateral if needed, the capital treatment of residential mortgage loans held in the warehouse facility should be no worse than the treatment of residential mortgage loans held on the balance sheet.

Consequently, MBA recommends that the risk weight on warehouse lines of credit be reduced and aligned with the risk weight assigned to the mortgages collateralizing the warehouse line.

3. Community Bank Leverage Ratio (CBLR)

In 2017, the CBLR framework was established as an important tool for providing meaningful regulatory relief for qualifying community banks by removing the requirement for calculating and reporting risk-based capital ratios for banks that opt in. To be eligible to opt in, a community bank must be at or above the established capital ratio (determined by calculating the ratio of tangible equity capital to average total consolidated assets). Congress directed the Agencies to develop a capital ratio of not less than 8% and not more than 10% for qualifying community banks to correspond to the well-capitalized category under the capital framework. The Agencies at that time established a ratio of 9%, despite industry recommendation of 8%.

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On November 25, 2025, the Banking Agencies announced a proposal to lower the CBLR to 8%.⁸ MBA supports this proposal, as this would allow more community banks qualify for the CBLR framework – without impacting the safety and soundness of the banking system.

4. Recalibrate CRE risk-weights to better align the capital charges with the loan-specific risks

Better aligning risk weights of CRE loans with a loan's specific characteristics promotes appropriate and much-needed lending while ensuring adequate capital reserves. A positive element of the 2023 proposal was to use LTV ratios to determine the risk weights of loans backed by income-producing properties – with weights for CRE exposures dependent on cash flow ranging from 70% for loans with LTVs less than or equal to 60% to 110% for loans with LTVs greater than 80%. Other areas of potential recalibration include current risk weights related to construction exposures, so-called "high volatility CRE" exposures, and statutory multifamily housing exposures.

5. Avoid Introducing Burdensome Definitions

Since the Great Financial Crisis, the Agencies have spent considerable time and paid careful attention to commercial real estate lending⁹. Given this, we urge the Agencies to refrain from amending or expanding definitions that will impose burdensome new requirements on the commercial real estate finance industry. For example, a previous proposal expanded the definition of "defaulted real estate exposures" and would have required a bank to automatically default all loans made to a borrower when any loan (to any creditor) goes into default. While the intent is understandable, the proposal does not fit the commercial real estate business model, would be unduly burdensome, and would be essentially unworkable. We would be happy to work with the Agencies to explore other options that could address the intent.

Conclusion

Chairman Barr, Ranking Member Foster, and all members of this Subcommittee, thank you in advance for your consideration of the views expressed within this statement for the record.

As always, MBA stands ready to collaborate with the Agencies and Congress on bank capital proposals designed to ensure a robust real estate market that is accessible, affordable, and sustainable – and works to the benefit of all stakeholders.

⁸ <https://www.occ.gov/news-issuances/bulletins/2025/bulletin-2025-40.html>

⁹ 12 CFR Part 217; 12 CFR 217.101; OCC Comptroller's Handbook Commercial Real Estate Lending Version 2.0; [Managing Commercial Real Estate Concentrations](#)

Questions for the Record: Written response of Simon Johnson, Ronald A. Kurtz (1954) Professor of Entrepreneurship, MIT Sloan School of Management, [Co-Chair of the CFA Institute Systemic Risk Council](#), Co-Director of MIT's Stone Center, and winner of the 2024 Nobel Prize in Economics.

House Financial Services Committee, Subcommittee on Financial Institutions
 “Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness”
 December 11, 2025

From Rep. Green:

1. *Professor Johnson: you and other experts have warned that deregulation can lead to significant costs for American families and our economy. If Congress follows the Trump Administration's lead in advancing the kind of deregulation that Trump achieved in his first term, what problems could that pose for banks and/or the economy?*

The prudential requirements put in place through the Basel process and since the Great Financial Crisis were established for a reason: so that US families would never again pay the price for risk-taking at the world's largest financial firms. Working people didn't just pay through their tax dollars; 10 million US families lost their homes, unemployment peaked at 10% and over \$10 trillion in household net worth was destroyed in a matter of months.

The rules that followed the crisis were deeply studied and considered when they were implemented. Today, those rules are being undone with far less consideration or analysis. The rule recently passed weakening the enhanced supplementary leverage ratio (eSLR) will allow the banks to fund themselves with more debt and less equity.

When we talk about “equity funding” for a bank, we are talking about the money owed to shareholders (as opposed to depositors or other sources of capital). Shareholder value provides the cushion that can absorb the bank's gains and losses. If shareholder value goes to zero, however, then the bank is insolvent and the government must step in.

The deregulatory agenda we are facing today, among other things, invites banks to fund themselves with thinner and thinner equity cushions protecting them from insolvency. In addition to the eSLR rule, changes to the stress test regime and other contemplated changes to the capital framework discussed at the hearing also appear geared towards reducing required capital at large banks.

We have already seen the consequences of a systemic crisis for banks, the economy and the public at large - no one should want to experience a repeat of 2008-09.

2. *Professor Johnson: at a time when Trump's financial regulators are looking to roll back bank capital requirements in the name of supporting the Treasury market, research from the Fed showed that the temporary supplementary leverage ratio (SLR) exemptions made during the pandemic had a minimal impact on supporting market making in the Treasury market. Do you believe that regulators made a mistake by rolling back SLR in the name of supporting the Treasury market? Are there better ways to support the Treasury market?*

One of the core rationales provided for the change to the eSLR was to support treasury market intermediation. Mostly, that rationale builds on the idea that by reducing capital requirements, banks would have more balance sheet capacity to buy, hold and trade in US Treasuries (UST). There are several problems with this reasoning.

- 1) The proposal offers no basis for expecting that newly provided capacity to hold UST will, in fact, be directed towards UST market intermediation. It is possible, if not likely, that banks would instead pursue higher-yielding activities with low-risk weights like lending through a prime brokerage to hedge funds.
- 2) Expanding depository-banks' capacity for UST exposure appears geared at bolstering demand for UST without considering risks related to creating a "sovereign subsidy" or related to manipulating the reference rate for a broad range of financial products. Additionally, the purpose of bank capital rules is to protect the US banking system, *not* help finance budget deficits.
- 3) The proposal's analysis of broker-dealer balance sheet capacity ignores the impact of netting under new treasury clearing requirements, which may reduce or even obviate the need for additional capacity at broker dealers.

- 4) The discussion of the UST exclusion during the COVID crisis ignores the fact that by providing capital flexibility now, it will most likely not be available in the event of another genuine emergency.

Central clearing can provide significant benefits to the treasury market by reducing counterparty risk, allowing netting of margin requirements, and mitigating systemic vulnerabilities. The Securities and Exchange Commission passed rules to establish clearing of treasuries, but earlier this year (2025) extended key implementation dates to December 2026 and June 2027. Ensuring these rules come into effect is one thing that would support the smooth and safe functioning of the UST market.

119TH CONGRESS
1ST SESSION

H. R. 5616

To amend title 31, United States Code, to require the Secretary of the Treasury to mint and issue \$2.50 numismatic coins and \$2.50 circulating coins, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 30, 2025

Mr. ADERHOLT (for himself, Mrs. WATSON COLEMAN, Ms. SALAZAR, and Mr. EVANS of Pennsylvania) introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To amend title 31, United States Code, to require the Secretary of the Treasury to mint and issue \$2.50 numismatic coins and \$2.50 circulating coins, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “\$2.50 for America’s
5 250th Act”.

6 **SEC. 2. FINDINGS.**

7 Congress finds the following:

1 (1) The 250th anniversary of the signing of the
2 Declaration of Independence was a turning point in
3 the history of the United States and the world that
4 warrants national recognition.

5 (2) The 68th Congress celebrated this fact by
6 authorizing the United States Mint to commemorate
7 the 150th anniversary of American independence by
8 issuing 2 coins: a half dollar and a \$2.50 gold piece.

9 (3) The issuance of a \$2.50 anniversary coin
10 for the 250th anniversary serves as a historically
11 grounded continuation of this numismatic tradition
12 and connects Americans today with a legacy of na-
13 tional celebration through coinage.

14 (4) The design and distribution of this coin
15 offer a unique and accessible opportunity for the
16 American people to engage with and take personal
17 ownership of their national heritage through a tan-
18 gible and lasting tribute.

19 (5) Every citizen deserves the opportunity to
20 acquire such a coin as a means to connect to the
21 founding principles of liberty, democracy, and self-
22 governance.

23 (6) In addition to the congressionally author-
24 ized activities already planned by the mint, this new
25 anniversary coin will serve not only as a lasting trib-

1 ute to the founding generation and the ideals we
2 share with them to this day, but also as a unifying
3 and educational gesture on the occasion of the
4 semiquincentennial.

5 **SEC. 3. CIRCULATING \$2.50 COINS.**

6 (a) IN GENERAL.—Section 5112 of title 31, United
7 States Code, is amended by adding at the end the fol-
8 lowing:

9 “(bb) CIRCULATING \$2.50 COIN.—

10 “(1) IN GENERAL.—The Secretary shall mint
11 and issue a \$2.50 circulating coin upon determining
12 that minting such coin is technically feasible, eco-
13 nomically feasible, and not cost prohibitive.

14 “(2) REQUIREMENTS.—Each coin minted and
15 issued under this subsection shall—

16 “(A) have features that make the denomi-
17 nation of the coin readily discernible from other
18 coins; and

19 “(B) be made of an alloy prescribed by the
20 Secretary.

21 “(3) DESIGN.—

22 “(A) OBVERSE.—The obverse of each coin
23 minted and issued under this subsection shall,
24 during the 5-year period beginning on the date
25 the Secretary issues any coin under this sub-

1 section, bear the image of allegorical liberty
2 wielding the Declaration of Independence fea-
3 tured on the gold \$2.50 Sesquicentennial Coin
4 issued in 1926.

5 “(B) REVERSE.—The reverse of each coin
6 minted and issued under this subsection shall,
7 during the 5-year period beginning on the date
8 the Secretary issues any coin under this sub-
9 section, bear the image Independence Hall fea-
10 tured on the gold \$2.50 Sesquicentennial Coin
11 issued in 1926.

12 “(C) ADDITIONAL INSCRIPTIONS.—During
13 the 5-year period beginning on the date the
14 Secretary issues any coin under this subsection,
15 each coin minted and issued under this sub-
16 section shall bear the inscriptions
17 ‘Semiquincentennial of the United States’ and
18 ‘1776–2026’.

19 “(D) SUBSEQUENT DESIGNS.—Beginning
20 on the date that is 5 years after the Secretary
21 issues a coin under this subsection, and every
22 5 years thereafter, the Secretary may select a
23 new design that celebrates the founding of the
24 United States for the \$2.50 coin.”.

1 (b) SENSE OF CONGRESS.—It is the sense of the
2 Congress that the circulating coin described in section
3 5112(b)(b) of title 31, United States Code, should be
4 minted and issued not later than July 4, 2026, or as soon
5 as it is technically and economically feasible.

6 **SEC. 4. NUMISMATIC \$2.50 COINS.**

7 (a) IN GENERAL.—Section 5112 of title 31, United
8 States Code, is further amended by adding at the end the
9 following:

10 “(c) NUMISMATIC \$2.50 COIN.—

11 “(1) IN GENERAL.—The Secretary may mint
12 and issue \$2.50 numismatic coins in silver, clad, and
13 such other alloys, including gold, as the Secretary
14 determines in accordance with such program proce-
15 dures and coin specifications, varieties, quantities,
16 and inscriptions as the Secretary, in the Secretary’s
17 discretion, may prescribe from time to time.

18 “(2) DESIGN.—

19 “(A) OBVERSE.—The obverse design of
20 any coin minted and issued under this sub-
21 section shall, during the 2-year period begin-
22 ning on the date the Secretary issues any coin
23 under this subsection, bear the image of allegor-
24 ical liberty wielding the Declaration of Inde-

1 pendence featured on the gold \$2.50 Sesqui-
2 centennial Coin issued in 1926.

3 “(B) REVERSE.—The reverse design of
4 any coin minted and issued under this sub-
5 section shall, during the 2-year period begin-
6 ning on the date the Secretary issues any coin
7 under this subsection, bear the image of Inde-
8 pendence Hall featured on the gold \$2.50 Ses-
9 quicentennial Coin issued in 1926.

10 “(C) ADDITIONAL INSCRIPTIONS.—During
11 the 2-year period beginning on the date the
12 Secretary issues any coin under this subsection,
13 each coin minted and issued under this sub-
14 section shall bear the inscriptions
15 ‘Semiquincentennial of the United States’ and
16 ‘1776–2026’.

17 “(D) SUBSEQUENT DESIGNS.—Beginning
18 on the date that is 2 years after the date on
19 which the Secretary issues any coin under this
20 subsection, and every 2 years thereafter, the
21 Secretary may select a new design that cele-
22 brates the founding of the United States for the
23 \$2.50 coin.”.

24 (b) SENSE OF CONGRESS.—It is the sense of the
25 Congress that the numismatic coins described in section

1 5112(c)(c) of title 31, United States Code, should be mint-
2 ed and issued not later than July 4, 2026, or as soon as
3 it is technically and economically feasible.

○

119TH CONGRESS
1ST SESSION

H. R. 1761

To amend the Federal Reserve Act to require the Secretary of the Treasury to print \$250 Federal reserve notes featuring a portrait of Donald J. Trump, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 27, 2025

Mr. WILSON of South Carolina (for himself, Mrs. HARSHBARGER, Mr. NORMAN, and Mr. ISSA) introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To amend the Federal Reserve Act to require the Secretary of the Treasury to print \$250 Federal reserve notes featuring a portrait of Donald J. Trump, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Donald J. Trump \$250
5 Bill Act”.

1 **SEC. 2. SENSE OF CONGRESS.**

2 It is the sense of the Congress that \$250 bills with
3 the portrait of Donald J. Trump be printed to commemo-
4 rate the semiquincentennial of the United States.

5 **SEC. 3. PRINTING OF \$250 FEDERAL RESERVE NOTES.**

6 The 8th undesignated paragraph of section 16 of the
7 Federal Reserve Act (12 U.S.C. 418) is amended by add-
8 ing at the end the following: “Not later than 1 year after
9 the date of the enactment of this sentence, the Secretary
10 of the Treasury shall print Federal reserve notes in the
11 denomination of \$250 and such notes shall feature a por-
12 trait of Donald J. Trump.”

13 **SEC. 4. ALLOWING THE PORTRAIT OF LIVING PRESIDENTS**
14 **ON UNITED STATES CURRENCY AND SECURI-**
15 **TIES.**

16 Section 5114(b) of title 31, United States Code, is
17 amended by striking “securities.” and inserting “securi-
18 ties, except if the individual is or has been the President
19 of the United States.”

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