A FAILURE OF SUPERVISION: BANK FAILURES AND THE SAN FRANCISCO FEDERAL RESERVE

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OF THE

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Witnesses

Written opening statements and statements for the witnesses are available on the U.S. House of Representatives Document Repository at: docs.house.gov.

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A FAILURE OF SUPERVISION: BANK FAILURES AND THE SAN FRANCISCO FEDERAL RESERVE

Wednesday, May 24, 2023

HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND ACCOUNTABILITY
SUBCOMMITTEE ON HEALTH CARE AND FINANCIAL SERVICES
Washington, D.C.

The Subcommittee met, pursuant to notice, at 2:02 p.m., in room 2154, Rayburn House Office Building, Hon. Lisa C. McClain [Chairwoman of the Subcommittee] presiding.

Present: Representatives McClain, Gosar, Foxx, Grothman, Fry, Burlison, Porter, Balint, Lee of Pennsylvania, and Crockett.

Mrs. MCCLAIN. The Subcommittee on Healthcare and Financial Services will come to order. Welcome, everyone, on this nice, bright, sunshiny day. Without objection, the Chair may declare a recess at any time. I recognize myself for the purpose of making an opening statement.

Banks fail. That is a fact. But on March 10, Silicon Valley Bank failed nearly overnight. The speed that it failed raised immediate concerns, not only of poor management at the bank, but of a failure of oversight as well.

Evidence that has surfaced since then has shown exactly that. Absolutely, there was incompetence at the top of the bank. Management, the board, they all failed. But the people we have entrusted and empowered to protect the taxpayer and our financial system had as much to do with Silicon Valley Bank's failure as the bankers themselves. Even the Federal Reserve has publicly taken some blame.

In my first few years in Washington, one thing has been clear, government agencies are not good at taking accountability for their failures. And I always say this, we cannot fix a problem that we first cannot admit that there is a problem. When crises and failures happen, there is always more to the story, and everyone's got one.

Silicon Valley Bank was the second largest bank failure in U.S. history. I want to just make note. Second largest bank failure in U.S. history. So, you might expect the causes were complicated. But in fact, it was one of the least complicated bank failures in history. The bank was invested in some of the safest securities available: U.S. Treasuries and agencies securities. The credit risk, minimal. The only real risk to these securities was high inflation risk. Then came the rampant inflation brought on by President Biden's unnecessary spending, injecting trillions upon trillions into an economy already flush with cash.

In response, the Fed spent months tightening to try and extinguish the rampant inflation. Instead of mitigating the risk of rising inflation by hedging with other financial tools, Silicon Valley Bank did nothing, did nothing, despite knowing these risks. Now, we are forced to be hedged by the regulators. Despite knowing that most of Silicon Valley's bank deposits were in excess of $250,000 of the insured deposit limit, anyone could see that the ingredients for a run on the bank were in place. Regulators should have seen it coming from a mile away. At the end of the day, that is their job to regulate.

The combination of an unstable deposit base and a plummeting bond portfolio contributed to the evaporation of the $212 billion bank nearly overnight. All of these raised serious questions. Who was overseeing the bank? And I want an emphasis on "who" was overseeing this bank? What were they focused on instead of risk management? So, what were they taking a look at? Their job was the management of risk at that bank. Clearly, they were not doing that. What else were they focused on? And why didn't they intervene.

Did regulators get complacent and buy into the political narrative that Dodd-Frank solved all the problems? If so, I would argue that if they bought into that narrative, why do we need regulation upon regulation and regulator and agency upon agency?

Were the regulators communicating clearly with the bank managers on matters that needed addressing? Or did regulators flood management with process questions instead of focusing on the fundamental issues that mattered.

Today, we are going to try and get some answers on where and why regulatory supervision failed. But we are not stopping there. We are going to take a deeper look into the steps regulators took in recent years asking questions. Did the Fed use all the tools available to prevent this failure?

Did the Federal Deposit Insurance Corporation, or FDIC have the proper early warning signs system in place? Has the FDIC been transparent about the process around the seizure of the Silicon Valley Bank? Or is there more to the story? Did the Feds post-moratorium evaluation to pursue a political objective, or was it truly a self-reflective exercise to uncover the truth? This Committee is named Oversight and Accountability, and that is exactly what we are pursuing. If government officials are to blame and have not been forthcoming, we will hold them accountable.

I am pleased to introduce our witness who are here to discuss the Federal Reserve's oversight of bank risk management amid recent bank failures. Mr. Michael Clements is a director of the Financial Markets and Community Investment, at Government Accountability Office——

STAFF. Recognize the Ranking Member first.

Mrs. MCCLAIN. Oh, my heavenly days. My bad. My story got away from me, Ms. Porter. See. My bad. I now recognize my dear friend, Ranking Member Porter, for her opening statement.

Ms. PORTER. Thank you very much, Chairwoman McClain. Anyone who knows my style knows that I love hearings. Hearings let

Congress hold powerful people accountable. They let us secure commitments from important officials, and most importantly, they let us get to the heart of problems so that we can write good legislation. As much as I love hearings, I do not love Congress holding hearings on the same things, year after year, because we keep making the same mistakes.

I wish that I could say this is Congress' first hearing to dig into the causes of bank failure. It is not. That is because when it comes to regulating our banks, Congress has a short-term memory on what works and what does not. The lessons from events like the 2008 financial crisis should not be hard to remember. Bank stability happens when we have strong clear rules in place, and bank failures increase when we take these rules away.

Unfortunately, Congress just is not learning. Let me tell you how things work around here instead. Every so often our country has a bank failure. If just enough legislators decide to grow a spine, or find some other part of their anatomy, Congress passes legislation to more effectively regulate our banks, it starts to work, and we all start to get comfortable. Then the bank lobbyists come around Capitol Hill, and they ask Members of both parties to deregulate. Democrats and Republicans get convinced that a little bit of deregulation is an easy way to appear pro-business. Why not ease a few regulations?

What these Members of Congress seem to forget is that there is nothing pro-business about a bank failure. But if history is any lesson, the bank failure is coming when we take away the rules that keep the banks in check. And just as predictably when that bank failure comes, the government will swoop in to save the financial system, and Members of Congress will yell about how terrible the failure is.

You would think that would spark reregulation. Not necessarily. The problem is that the Members of Congress who are loudest about the failure are often the ones most terrified of legislating to address it.

After the failure of Silicon Valley Bank, I introduced two bills. One reverses the most damaging regulatory rollbacks from the last time Congress listened to lobbyists. The other bipartisan bill claws back unjust compensation from bank executives when their bank fails.

To be sure, I have had great partners on both sides of the aisle. But what I have noticed is the voices here in Congress that spoke the loudest about how terrible bank failures all of a sudden, then urge caution about considering legislation. They say, we need time to look at all the facts before we act.

What is there to look at? The problem is that we repeatedly regulate, then deregulate, and then take too much time deciding whether to reregulate. Along the way, it is the Members who get taken in by lobbyists or are too afraid to act that get us trapped in this vicious cycle. There is a better way. Let us keep rules in place that help us have a stable and growing economy. Every fellow capitalist in this room should want that. We should all want to address the issues outlined in the Federal Reserve's report on the failure of Silicon Valley Bank. If you have not read this report yourself, I encourage you to.

Unsurprisingly, this report calls out S2155, the big 2018 bank deregulatory bill as one of the key causes of the Silicon Valley Bank failures. They say it reduced supervisory standards.

I bet you will not hear a time of Republicans or Democrats who supported 2155 admitting that today. But at the same time, Republicans will make a very important point today. Bank failures do not only come down to the rules we put in place; they also come down to the watchdogs who we have to enforce those rules. And the Federal Reserve's report also called out failures of Silicon Valley Bank's management and the bank supervisors who oversaw them.

It is not anyone's job to defend the Fed today. And I sure as heck will not be doing it. We have to take their failures just as seriously as we take deregulation. All in all, we need to let this year's bank failures be our last hard lesson. From the regulations to the regulators, we cannot let anyone off the hook for the vicious cycle in our banking system. I yield back.

Mrs. MCCLAIN. Thank you, Ms. Porter. I'm now pleased to introduce the witnesses who are here to discuss the Federal Reserve's oversight of bank risk management amid the recent bank failures.

Mr. Michael Clements is a director in the Financial Markets and Community Investment team at the Government of Accountability Office, GAO. In this position, he has led the GAO'S work overseeing in regulation of financial institutions and markets. Welcome.

Mr. Jeremy Newell is a senior fellow at the Bank Policy Institute and the founder and principal of Newell Law Office. He is a recognized expert in banking law and financial services regulatory policy matters. Welcome.

And Ms. Kathryn Judge is a Harvey J. Goldschmid professor of law and Vice-Dean for Intellectual Life at Columbia Law School. She is an expert on banking, financial innovation, financial crisis, and regulatory architecture. Welcome.

Pursuant to Committee Rule 9, the witnesses will please stand and raise their right hand.

Do you solemnly swear or affirm that the testimony that you are about to give is the truth, the whole truth, and nothing but the truth, so help you God?

Let the record show that the witnesses all have answered in the affirmative. Thank you.

We appreciate all of you being here today and look forward to your testimony. Let me remind the witnesses that we have read your written statements, and they will appear in full in the hearing record. Please limit your oral statements to five minutes.

As a reminder, please press the button on the microphone in front of you so that it is on, and the Members can hear you. When you begin to speak, the light in front of you will turn green. After four minutes, the light will turn yellow. When the red light comes up, your five minutes have expired, and we would ask you to please wrap it up.

I will now recognize the first witness, Mr. Clements, for five minutes for your opening statement.

STATEMENT OF MICHAEL E. CLEMENTS, DIRECTOR FINANCIAL MARKETS AND COMMUNITY INVESTMENT U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. CLEMENTS. Chairwoman McClain, Ranking Member Porter, and Members of the Subcommittee, I am pleased to be here today to discuss GAO's preliminary work on the March 2023 bank failures, as reflected in our April 28 report.

At the time of their failure, Silicon Valley Bank, or SVB, and Signature Bank were the 16th and 29th largest banks respectively in the country. Their failures could impose a $22 billion cost on the Deposit Insurance Fund. While not part of our work, First Republic's recent bank failures could impose another $13 billion cost on the fund.

For today's hearing, I will focus on one, bank-specific failure that contributed to the failures, and, two, supervisory actions regulators took leading up to the failures with a focus on SVB and the Federal Reserve's supervision.

First, the bank's failures. We found that risky business strategies and weak liquidity and risk management contributed to the failures of SVB and Signature Bank. SVB and Signature both experienced rapid growth, far exceeding a group of 19 peer banks. For example, SVB's assets more than tripled in the three years prior to its failure. SVB and Signature also relied heavily on uninsured deposits, which are prone to run risk. SVB funded 80 percent of its assets with uninsured deposits. SVB and Signature also exhibited weak liquidity in risk management. When confronted with external pressures in the case of SVB, rising interest rates, the risky business strategies, combined with weak liquidity and risk management controls contributed to the bank's failure.

Second, the regulators' supervisory actions. We found that the regulators identified problems at both SVB and Signature Bank, but the regulators did not escalate their supervisory actions in time to mitigate the risk. The Federal Reserve staff who supervised SVB identified problems at the bank. Between 2018 and 2022, the Fed issued ten matters requiring attention to SVB for liquidity and risk management problems. For example, the Fed found that despite liquidity appearing strong, funding sources were concentrated and potentially volatile on short notice. However, we found the Fed did not adequately escalate its supervisory actions. The Federal Reserve was generally positive of SVB from 2018 through June 2022, rating SVB's overall condition as satisfactory.

Despite the MRAs, the Fed assigned the highest ratings to SVB's liquidity and second highest ratings to its management. Staff also accepted SVB's planned actions to address the problems.

When SVB moved to the Federal Reserve's regional banking organization from its large and foreign banking organization, examiners did begin downgrades. Yet, despite the consistent and serious liquidity and management problems, the Fed did not issue an enforcement action before the bank failed.

While the Fed began a memorandum of understanding in August 2022, it kept the MOU open; it did not complete the MOU before SVB failed. GAO has reported similar findings in the past. In 2015, we have reported that, although regulators often identified risky practices, the regulatory process was not always effective or timely in correcting the underlying problems before banks failed.

In 2011, following the financial crisis, we recommended that regulators consider noncapital triggers to their prompt corrective action framework to help give more advanced warning of deteriorating conditions.

And in 1991, following the savings and loan crisis, we found that regulators did not always use the most forceful action available to them to correct unsafe and unsound practices.

We continue to believe that taking early actions would give regulators and banks time to address deteriorating conditions. Chairwoman McClain, Ranking Member Porter, Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions you may have. Thank you.

Mrs. MCCLAIN. Thank you, Mr. Clements. The Chair now recognizes Mr. Newell for his opening statement.

STATEMENT OF JEREMY NEWELL
SENIOR FELLOW, BANK POLICY INSTITUTE &
FOUNDER AND PRINCIPAL
NEWELL LAW OFFICE, PLLC

Mr. NEWELL. Thank you. Chairwoman McClain, Ranking Member Porter, and Members of the Subcommittee, thanks for the opportunity to be here today. This hearing presents a rare opportunity to examine an activity that is important and consequential, but almost always occurs in secret: Bank supervision. Because banks play such a crucial role in supporting businesses and consumers, and enjoy the privilege of Federal deposit insurance, they are subject to an arrangement that is quite unique within our Federal administrative state.

They are subject not only to statutes, rules, and law enforcement, but also to a standing work force of Federal employees whose principal job it is to examine whether they operate in a manner that is safe, sound, and compliant with law. These examiners play an important role.

While ultimately it is up to bankers to properly manager their own banks, and it is not the job of supervisors to prevent every bank from failing, good supervision enables the banking agencies to identify and seek correction of unsafe and unsound practices before they lead to a bank's failure. Reflecting that goal, the best bank supervision is supervision that is grounded in clear rules, focused on material risks that might lead to a bank's failure, and informed by an independent view of risk among examiners. When supervision is effective, it generally succeeds quietly. When it is not, its failures are public, often spectacularly so. Today, you consider such a latter case.

While responsibility for Silicon Valley Bank's failure rests first and foremost with its management, understanding where the Fed supervision of SVB may have gone wrong is a rare and important chance to publicly assess the Fed supervisory practices and identify future potential improvements. We are aided in this regard by the initial reports prepared by both the GAO and the Fed concerning how SVB was supervised, and by the Fed's release of some, most certainly not all the relevant supervisory materials.

While these are helpful first steps, much more is needed if we are going to gain a definitive view of whether SVB was supervised appropriately and to understand how best to improve supervision in the future. Simply put, we do not have a full picture, because what the Fed has provided to date is both selective and incomplete.

Further analysis is especially important because what information the Fed has made public suggest several serious problems in supervision worth greater scrutiny. The Fed report concludes that examiners did not fully appreciate SVB's weaknesses and did not take sufficient steps to demand that they be fixed, but cast blame for those failures on decisions made by former Fed leaders that it alleges reduce standards, increase complexity, promoted a less assertive supervisory approach.

The underlying evidence suggests strongly that that is the wrong diagnosis. Rather that evidence paints a different picture; one in which supervisors were principally focused on the wrong issues, occupied with processes rather than material risks, and were plenty assertive, just not about the risks that prove to be SVB's downfall.

I would offer three particular observations here: First, supervision of SVB was heavily focused on compliance processes and governance and not on material risk to SVB's financial integrity.

There was no shortage of intense supervisory activity around SVB, but much of it, nearly all of it, in fact, reflected concerns over processes and policies that may have distracted examiners from focusing on the serious risks building on SVB's balance sheet over time. Second, examiners largely relied on a system of issuing examiner directives, so-called matters requiring attention or MRAs, that themselves were not appropriately directed at SVB's growing financial risks.

Perhaps the best example of this is to consider the 31 supervisory directives that were outstanding at SVB when it failed. Of those 31, only a small portion related to the liquidity and interest rate risk problems that led to SVB's failure, and even that small portion was largely directed at risk processes and not actual risk exposures.

Third, supervisors failed to enforce important enhanced prudential standards in the areas of liquidity and risk management that were applicable to SVB, even though they understood SVB was not meeting them. This fact, I think, is especially important because it demonstrates that SVB is a case of failed supervision, not failed regulation.

While some, including the Fed, have suggested that changes to the rules applicable to SVB in 2018 and 2019 were responsible for its failure, I believe the evidence points the other way. Those changes, in fact, left in place liquidity stress testing and risk management requirement, that went to the core of SVB's problems, in which SVB did not comply with, yet on which examiners did not act. This suggests that the rules were fit for purpose; its supervision that was not.

Taken together, the picture that we have today strongly suggest that the Fed supervision of SVB may reflect a larger culture of bank supervision that has increasingly lost its way and become distracted from its core mission of scrutinizing bank safety and soundness.

It also suggests that the reforms that are needed do not simply involve tougher supervision or more rules, but instead broader structural reform to the supervisory approach that allow examiners to better direct their attention and considerable supervisory tools to the kinds of core safety and soundness risks that led to SVB's demise. Thank you, and I look forward to your questions.

Mrs. MCCLAIN. Thank you, Mr. Newell. Now, the Chair now recognizes Ms. Judge for five minutes.

(MINORITY WITNESS)
STATEMENT OF KATHRYN JUDGE
HARVEY J. GOLDSCHMID PROFESSOR OF LAW
COLUMBIA LAW SCHOOL

Ms. JUDGE. Chairwoman McClain, Ranking Member Porter, and Members of the Subcommittee, thank you for the opportunity to be here today.

On April 13, 2012, JPMorgan CEO, Jamie Dimon, was asked about reports that the bank's chief investment office may be facing significant losses because of bets it made using credit derivatives. Dimon downplayed the concerns described in the bank as conservative, and the situation as a complete tempest in teapot. That supposedly teapot-sized tempest ultimately caused JPMorgan more than $6 billion and inspired the Senate Permanent Subcommittee on Investigations, under the leadership of Chairman Senator Levin and Ranking Member Senator McCain to examine just what had gone on wrong inside the bank and why the OCC, the bank's primary supervisor, had not done more to prevent the losses.

The bipartisan report expressed significant deficiencies internal to JPMorgan Chase. It revealed that internal risk amendments had been breached more than 300 times, and that the bank had changed how it calculated certain risk amendments, rather than addressing the underlying problem.

The report showed that Chase had mischaracterized the portfolio producing the losses as a risk mitigating hedge when it was on. And it further showed that Chase had dodged regulatory oversight by omitting data in its reports to the OCC and failing to respond appropriately to information requests.

The report also found meaningful shortcomings at the OCC's supervision of the bank. A real pattern of inconsistent and insufficiently robust follow-up when problems are flagged, and it would further reveal that supervisors were often too hesitant to challenge the bank. Yet, the report recognizes the primary responsibility for the losses lie with JPMorgan.

This is just one of many examples of Congress usefully using its oversight authority to hold banks, bank executives, and bank supervisors accountable. Following the 2008 financial crisis, the Permanent Investigation Subcommittee also undertook a deep, bipartisan dive into the causes of the crisis.

The final report showed how high-risk lending by banks, inflated credit ratings, investment bank abuses, and a troubling tendency by the Office of Thrift Supervision to treat banks as its clients had contributed to the crisis that caused so many to suffer.

After the Stock Market Crash of 1929, the Senate Banking and Currency Committee launched an investigation into the securities industry with Ferdinand Pecora as lead counsel. And the hearings and report provided valuable insights into troubling Wall Street practices—from undisclosed loans, to senior officers, to conflict of interests between commercial banks and their affiliated securities dealers.

Following the 1907 financial panic, the House Committee on Banking and Currency under Congressman Pujo undertook an extensive investigation on the ways financial and economic power had grown more concentrated in the hands of JPMorgan and a small network of other Wall Street firms.

In revealing troubling practices by large financial firms and showing how often other people suffer, these reports helped to spur legislative and regulatory change. The Pujo hearings contributed to the adoption of the Clayton Antitrust Act of 1914, and the creation of the FTC. The McCord hearings helped to motivate and inform the Securities Act of 1933, the Exchange Act of 1934, ushering in a new era of investor protection.

The Levin McCain report and the Levin Covern report helped motivate robust implementation of the reforms mandated by Dodd-Frank and served as a powerful reminder of the need for ongoing diligence in the regulation and oversight of the financial industry.

In short, Congress has an illustrious history of using its oversight authority to expose troubling behavior and bringing about needed reforms. This has been enabled in part by asking the right questions and learning the right lessons. Shortcomings in bank supervision at four different supervisor bodies, played a meaningful role contributing to the recent bank failures.

As the GAO and other reports made plain, many of these shortcomings are not new. Recent events should spur close examination of how to encourage bank supervisors to ask hard questions, spot troubles in a timely way, and follow through with diligence, and rigor.

In my written remarks, I explore how to use escalation frameworks and other tools to enhance both bank supervision and oversight of bank supervisors. Yet the success of supervision depends not only on how well supervisors do their job, but also in the magnitude of the tasks set before them.

Strengthening the regulations governing large regional banks is the most important step Congress and regulators can take to make the supervisory task manageable. Limiting the ability of bank executives to walk away while compensated for running their banks into the ground is also important.

Bank supervision is a critical component of bank oversight. And it is most likely to go well when supervisors are set up for success. I look forward to your questions.

Mrs. MCCLAIN. Thank you, Ms. Judge. I now recognize myself for five minutes.

What I think is important here is there is already been a lot of reporting about what brought down Silicon Valley Bank. But really what I want to focus on is how the regulators were complacent in helping this to happen.

See, we have a certain set of rules out there for private business, right? Heads roll, people get fired, stock prices go down, and that ugly word "profit" goes down as well. There is a consequence to one's actions, as there should be.

However, I am amazed in my short two and a half years here in Congress to see we have government agency on top of government agency with regulator upon regulator, with more regulation than we know what to do with, whose head is going to roll? Whoever gets fired.

What is the consequence to the action? And I think that is what we need to focus on. We do not need to have more law, then rescind, then have more law, then rescind it. We need to first start with—we have laws on the book. We have regulators who are supposed to enforce those laws. They need to do their job and enforce the laws that are on the books, before we even consider giving them more power, more money, period.

So, with that said, Mr. Newell, I would like to start with you. Is there more the Fed could have done to prevent this failure from happening.

Mr. NEWELL. Certainly, and I, unfortunately maybe caveat my remarks with—I can only give you a tentative answer to that question because you have to answer it based on the public record which is to say the information that the Fed has released so far—and although, certainly, there is a lot of useful information in that preliminary Federal Reserve report, and some useful supervisory materials that they had provided, you certainly do not get a complete picture. I'm happy to talk a little bit more about how you might close some of those gaps.

With that said, to the extent that we do have public information. One of the things that I think that you see kind of consistently throughout the process, as I noted in my opening remarks, again, is a focus on process and risk controls rather than actual risks that were——

Mrs. MCCLAIN. Can you give us a specific example.

Mr. NEWELL. Certainly, so, again, I think if you step back—for example, the perfect picture is painted by the 31 supervisory directives that were outstanding when Silicon Valley Bank failed. If you look at those 31, six had to do with liquidity, which was a major problem in SVB's failure. One had to do with interest rate risk, which is probably the single most important cause. And the rest were other areas. For example, 13 of them dealt with information technology.

If you dig in further, for example, look at the six liquidity MRAs that existed at that time. Again, most of them deal with processes—calling for project plans, various controls. You know, none of them go to the sort of the core key question of do you have enough liquidity? So, again, I think that is a useful example.

Another, also on the question of liquidity. The Fed report, you know, reveals that after the Fed issued those supervisory directives on liquidity, I believe, late 2021, it was pretty quickly revealed in 2022 that SVB was running internal liquidity's stress test, which was required under the Federal Reserve's rules, which showed that they did not have the buffer of liquid assets that they needed to survive a 30-day period of stress.

That is not something that the Fed had followed up on, issued MRA or MRI aids. Instead, the Fed report admits they did not do that because they were focused on remediation of the sort of the more procedural MRAs that were issued on liquidity earlier the prior year.

Mrs. MCCLAIN. Thank you. Mr. Clements, were there actions regulators could have taken prior to these failures? And what would you change to keep this from happening again?

Mr. CLEMENTS. Yes, I would say our work has shown, both for these 2023 failures as well as earlier ones, that there needs to be more timely and forceful actions when problems arise. Having policies and processes are good. Those are internal controls to prevent risk from arising. But once the risk has arisen, we need forcible action.

We have recommended, on multiple occasions, that there be some type of trigger mechanism, that if the bank passed some trigger, that action would be taken, rather than simply allowing the problem to persist.

Mrs. MCCLAIN. And you said earlier in your opening statement that they did not escalate the concerns. Why do you think that was the case?

Mr. CLEMENTS. There has been a variety of instances that we have reported on, that regulators favor an informal, collaborative approach, which we do not necessarily disagree with. But at some point, you need to take action. Sometimes it is challenging when a bank is profitable and has adequate——

Mrs. MCCLAIN. That is their job, correct?

Mr. CLEMENTS. It is their job, but it is challenging when the bank profitable.

Mrs. MCCLAIN. I do not want to take up too much of my time. Thank you, sir. The Chair now recognizes Ranking Member Porter for five minutes.

Ms. PORTER. There's no question that Congress bowed to political pressure and pursued a deregulatory agenda when it passed Dodd Frank rollbacks in 2018. Congress put profits over people.

What we hear a lot less about is how the Federal Reserve also helped push us off the cliff by deregulating. In fact, in my, maybe third, hearing in Congress, in the early spring of 2019, I asked Chairman Jerome Powell about the weakening of the capital liquidity risk requirements, and he claimed that there, in fact, was no weakening of those requirements.

Which I found interesting given that the Federal Reserve's report about Silicon Valley Bank takes ownership at the Federal Reserve for, in fact, having weakened those very regulatory requirements. But, unfortunately, Chairman Powell isn't here today for me to ask him about his testimony.

So, I want to talk about how the Federal Reserve did, in fact, deregulate, despite what Mr. Powell told this Congress and what the consequences of that are.

So, let us look at what motivates the Federal Reserve's regulatory decisions. The Federal Reserve is an independent body. Ms. Judge, who does the Federal Reserve work for; the bank it regulates or the American people.

Ms. JUDGE. The American people.

Ms. PORTER. So, the Federal Reserve has a duty to the American people. Let us look at what that duty is. Is that duty to provide a stable financial system, or is that duty to maximize bank profits?

Ms. JUDGE. To provide a stable financial system.

Ms. PORTER. Great. We agree. So, let us see what the Federal Reserve has been up to in meeting its duty to the American people to provide a stable financial system.

Under Chairman Powell, as acknowledged, not by him, but by the Federal Reserve's report about Silicon Valley Bank's failures, the Federal Reserve relaxed banks capital and liquidity standards.

For example, removing the liquidity coverage ratio that would have applied. Ms. Judge, how did this change make the banking system more stable.

Ms. JUDGE. It did not.

Ms. PORTER. And, Ms. Judge, how would that have changed, this deregulation have changed bank's profits?

Ms. JUDGE. It would have allowed them to be more profitable and also enable them to grow quite quickly without being subject to the enhanced financial standards that would have been appropriate in light of that growth.

Ms. PORTER. Hmm, it does not sound like this change was aimed at creating a more stable financial system. It sounds like it was maybe more geared at maximizing bank profits.

Let us try something else. In 2019, the Federal Reserve made it easier for banks to pass stress tests that assess their resiliency. For example, moving from monthly stress tests to annual ones. Ms. Judge, how did this change make the banking system more stable?

Ms. JUDGE. It did not.

Ms. PORTER. How did that change affect bank profits?

Ms. JUDGE. It would probably reduce their costs and increase their profits.

Ms. PORTER. Yikes. Bank profits win again. But we agreed the Fed's obligation is to the American people, not to banks. But here we are—banks, two, American people, zero—with regard to the Fed's behavior.

Let us try one more. The Federal Reserve signed off on mergers by large, super regional banks. Ms. Judge, how did this change make the banking system more stable.

Ms. JUDGE. It did not.

Ms. PORTER. And how did that change affect the acquiring banks' profits?

Ms. JUDGE. It boosted those profits.

Ms. PORTER. Three in a row. Or should I say three strikes and you are out? Whether it is intentional or not, the Federal Reserve has a pattern here of prioritizing banks' profits. If the Federal Reserve consistently prioritizes banks' profits over the stability of the banking system—if that is, in fact, what they do, who does it seem like they are working for? The banks or the American people?

Ms. JUDGE. It does not make it appear that they are working for the American people.

Ms. PORTER. It sounds like Congress is not the only entity bowing to pressure from big banks. Until the Federal Reserve and Congress truly work for the American people, the stability of the banking system won't be the priority. I yield back.

Mrs. MCCLAIN. Thank you, Ranking Member Porter. The Chair now recognizes Ms. Foxx for five minutes.

Ms. FOXX. Thank you, Madam Chair. And I want to associate myself with the remarks the Chairwoman made at the beginning about the need to hold people responsible for regulations.

And, Mr. Newell, you said the regulators were focused on process. Well, I'm not in favor of adding new regulations, because I think that is a waste of time and money, but is there anything that can be done to get the regulators to stop focusing on process and start looked at deficiencies, noncompliance, and other risks in a bank's operations, so we stop the failures that are occurring?

Mr. NEWELL. Certainly, Congresswoman. I think again, first and foremost, what would be useful here is a general and a more structural change to the way that the banking agencies, including the Federal Reserve, approach supervision. Again, I think small changes are probably not ultimately going to suffice—it is going to require some deep thinking and a much broader change in terms of the culture of supervision and the overall program of supervision.

Again, that ultimately results in very clear direction to examiners; that, although, certainly processes and procedures can be important, especially in the area of risk management because what ultimately gives rise to the risk that matter most.

Ms. FOXX. OK. Well, let me interrupt you there. So, it is not our job to put out those instructions to them. Should we say to this Federal Reserve, write the instructions, and hold your bank examiners accountable, and give us a report on whether they are being held accountable?

Mr. NEWELL. Yes. I think that certainly that would be a constructive step. Again, I think there is relatively limited articulation at the regulators in terms of what their overall supervisory objectives are and what their directives to the examiners are.

So certainly, that can be a step. Again, I would just sort of return to what I think is, again, the single most important point, which is making those kinds of reforms, again, to get examiners focused on real core safety and soundness, really the core questions of what are the material risk to the financial integrity of firms so that they do not necessarily get distracted by——

Ms. FOXX. So, you are saying we have to tell the Federal Reserve how to do its job? I mean, is that what you are saying?

Mr. NEWELL. Well, it certainly could be the case. I would like to defer to the Committee in terms of exactly how they would want to go about that. But I do think—I would say that this, I think the need is clear for our, again, real structural reform to the way that the Fed and the other banking agencies do supervision.

Ms. FOXX. So, let me move it along just quickly. The matters requiring attention or matters requiring immediate attention were the methods which the San Francisco Fed preferred in communicating with the SVB. Do either MRAs or MIRAs include teeth to enforce compliance, or are they usually more subjective?

Mr. NEWELL. Well, I think it can vary depending on the precise MRA or MRIA. They tend to be somewhat formal, but they are not, for example, an enforcement action. They are typically included in exam reports or supervisory letters. And they are typically a predicate step where if, over time, the bank does not actually respond to those MRAs or MIRAs, then more serious actions could occur.

Ms. FOXX. Thank you. Mr. Clements, in the report released by GAO regarding the March 2023 bank failures, was any evidence found that could attribute any of these failures solely to past efforts to relax Dodd-Frank regulations on midsize and smaller banks?

Mr. CLEMENTS. Financial Services asked us to address that. We have not gotten to the question of enhanced prudential standards in our report.

Ms. FOXX. OK. Well, what discretionary authorities did those efforts permit Fed regulators to take regarding banks with 100 billion in annual assets like SVB?

Mr. CLEMENTS. In the case of SVB, it would still have been subject to a variety of prudential standards at category 4 institution. Again, it moved up in level of supervision to the large and foreign bank organization, which increased the number of examiners, also increased some of the requirements for the bank.

Ms. FOXX. Well, we know that SVB did not have a person to occupy the role of Chief Risk Officer for nearly eight months. Should SVB's lack of a CRO raise red flags for regulators at the Feds? Should they have said, put somebody in that job and keep them there?

Mr. CLEMENTS. We are certainly aware that there was not a Chief Risk Officer for a period of time.

Ms. FOXX. And that did not raise a red flag with anybody?

Mr. CLEMENTS. I'm not aware that there was an MRA related to that, but we can check.

Ms. FOXX. Thank you, Madam Chair, I yield back.

Mrs. MCCLAIN. Thank you, Ms. Foxx. The Chair now recognizes the gentlelady from Vermont, Ms. Balint.

Ms. BALINT. Thank you, Madam Chair. Good afternoon, all. Thank you so much for being here with us. When I listen to my constituents reflect on Silicon Valley Bank and its collapse, they really remember feeling worried not just about SVB, but really about their local banks, their community banks, or whether this contagion would affect them at the local level in Vermont. And I'm grateful that regulators took decisive action following the collapse of SVB.

But I want Vermonters who have their money at local and community banks to understand the specific choices that were made by SVB executives that put their customers' money at risk. It will help them feel better about the situation that they are in back home. So, I'm wondering, Ms. Judge, can you help us understand, in layman's terms, the risk that SVB was taking that led to its collapse?

Ms. JUDGE. Yes, and I think it is incredibly important to distinguish the health and stability right now of the small banking organization, which was held up remarkably well and appropriately so during this period. And a bank like SVB, which more than doubled in size and incredibly rapid and short period of time, did not institute the risk management that you need to, to handle that growth, and instead sought to search for yield by loading up on instruments that had very little credit risk, but lots of interest rate risks.

And we saw, as the Fed signaled, that we were facing more inflation as it was happening globally at the time. They needed to tighten for purposes of promoting financial stability. They signaled this. And yet we didn't see SVB unloading those instruments or hedging appropriately.

So, what we saw was some very aggressive risk-taking, poor risk management practices, incredibly rapid growth, and reliant on flighty deposits, as opposed to being focused on providing real services to real people.

Ms. BALINT. Thank you. I appreciate that. Is it fair to say that they were gambling with their investors' money?

Ms. JUDGE. That is accurate.

Ms. BALINT. Thank you, Ms. Judge.

Mr. Clements, your report was critical of SVB's risk-taking. I want to know if you have anything additional to add to what Ms. Judge said about the risk that they were taking?

Mr. CLEMENTS. I think our findings were consistent with what she had mentioned. Again long-dated securities funded through uninsured deposits.

Ms. BALINT. Thank you, Mr. Clements.

Ms. Judge, in your view, is it preferable to prevent this type of behavior, or it is better to clean it up after the fact?

Ms. JUDGE. Much, much better to prevent it.

Ms. BALINT. I appreciate that. Ms. Judge, what actions should the San Francisco Fed have taken to address the many flags that arose at SVB in the lead-up to its collapse?

Ms. JUDGE. The Fed did a decent job identifying some of the issues, but they failed to appreciate the magnitude of the issues. They were not creative in appreciating the fragility that existed. And what you really wanted to see is an escalation framework in place in advance, so that when issues were not addressed, they already had a plan in place for how they were going to escalate.

And then follow through on escalation as the new team came in. And the new team saw weaknesses that the previous supervisory team had not fully appreciated to respond quickly, forcefully, and appropriately in light of the weaknesses they identified.

Ms. BALINT. So, the escalation framework or formula was not adequate?

Ms. JUDGE. I do not believe there was a structured escalation framework placed. There was a general idea that once there were a few problems that you would escalate, but they had not committed to an escalation framework. That really might have helped.

Ms. BALINT. OK. So, one of the most important things that we can do within Committee is, obviously, to figure out what went wrong and make sure we put whatever things in place so we can to prevent it going forward.

So, what do you think are the key takeaways that we, you know, should take from this hearing and from the lessons from SVB, so that we can do our jobs and make sure this does not happen again.

Ms. JUDGE. The biggest one is appropriate regulation. If there is not appropriate regulation, banks are going to game the system that they have. You want to think about executive compensation, really trying to make sure that they cannot walk away incredibly well compensated when a bank fails. And then you really want to make sure that supervisors are empowered and pushed to ask hard questions and to follow through with vigor.

So, you want a bigger supervisory teams, you want to make sure they've adequate resources, and then you really want to make sure they are asking the hard questions and are encouraged to ask the hard questions, and to follow through with backbone and in a structured way when they see weaknesses.

Ms. BALINT. Just to follow up on something you said. So, tell me about executive compensation in light of what happened. Give me some idea of what went down and how it should have gone down.

Ms. JUDGE. Yes, I mean, I think one of the keys is just introducing some things. We already have some structures in place for claw backs for banking organizations, but they should be more robust, and they should be able to be used in a far broader set of circumstances.

Particularly in situations where banks fail. In situations like this where banks fail and have a huge hit to the Deposit Insurance Fund, it is incredibly important both for purposes of incentives and fairness that the executive not walk away very well compensated while others bear such significant losses.

Ms. BALINT. I really appreciate that. I yield back.

Mrs. MCCLAIN. The Chair now recognizes Mr. Gosar for five minutes.

Mr. GOSAR. Thank you, Madam Chair. Excessive spending has consequences. Both Republican and Democratic administrations are guilty. However, the devastating effects of inflation caused by Uncle Sam not spending within his means has only now caught up with American people in the last few years. The reason: Trillions of dollars given to the public through stimulus checks, enhanced benefits, and forgiveness business loans during the COVID response created an excess of dollars in the market in a way that the previous zero interest rate era, where printed money just sat in the banks, does not resemble. But inflation is not the only evil that the fiat money system engenders.

The downside of being the world's reserve currency, and therefore the strongest currency, is that foreigners cannot afford goods priced in the strongest currency. And the reverse is true.

Foreign goods priced and cheap currencies are easily affordable to Americans who wield the mighty dollar. That is why manufacturing close to countries with weaker currencies like China, India, and Mexico, goods are cheaper if they are sold to weak currencies.

And who pays for this? Not the big banks. Like Silicon Valley Bank who are close to the money printing spigots, but the middle-class working Americans whose jobs have been literally transplanted by China.

That is why I'm a strong supporter of the Gold Standard Registration Act introduced by Alex Mooney who had solved the double problem with inflation and job off-shoring. Going back to the gold standard would be the single biggest thing Congress could do to help the middle class in America.

That question is for both Mr. Clements and Mr. Newell. Has the Fed's decision to raise its policy rate by 450 basis points between January 2022 and March 2023 created a national banking crisis?

Mr. CLEMENTS. We had not done the work to be able to justify that. Clearly, the increase in interest rates caused a decline in the value of the portfolio at Silicon Valley Bank.

Mr. GOSAR. That was to Mr. Newell.

Mr. NEWELL. Yes, sir, I would say, I'm a bank regulatory expert, not an expert in monetary policy, or a financial analyst. I guess I would say, I think if you look across the banking system, I think the vast mortgage of banks have done an admirable job of managing interest rate risk. Obviously, Silicon Valley Bank did not. But I'm afraid that is the most insight I can offer you.

Mr. GOSAR. So now, why would anyone keep their money in a bank if they can make a return of 5.6 percent on one month's Treasuries? Mr. Clements, can you answer that?

Mr. CLEMENTS. You know, I would probably go to Mr. Newell. I'm not an expert on——

Mr. GOSAR. I mean, 5.6 percent is a pretty good yield, isn't it?

Mr. CLEMENTS. It is better than what you can get in a typical bank account.

Mr. GOSAR. Mr. Newell, do you have any answers?

Mr. NEWELL. Apologies, I did not come prepared to provide a full assessment of the merits of Treasuries relative to bank deposits. I would say that bank deposits have a variety of other advantages, including transactional capabilities and so on. But I'm afraid other than that, I cannot offer any real insights for you.

Mr. GOSAR. So, would you say that the Fed acted recklessly by this action? Yes or no, Mr. Clements.

Mr. CLEMENTS. I'm just not qualified to discuss that.

Mr. GOSAR. I guess, Mr. Newell, you are not qualified either. How about you, Ms. Judge?

Ms. JUDGE. I think the Fed was pursuing price stability which is an important mandate. And I think banks have the obligation and should be able to, as most banks have, to be able to handle changes in the interest rate environment as a result of inflation that is global at the moment.

Mr. GOSAR. Now, granted, the Committee has uncovered concerning practices by Silicon Valley Bank, but I'm afraid that the problem is deeper than the simple mismanagement of just one or a couple of particular banks. It is the Federal Reserve's unprecedented tightening in response to unprecedented COVID–19 response spending that has caused a stock bond and overall banking crisis. Would you agree with that, Mr. Clements? Yes or no?

Mr. CLEMENTS. I cannot. I'm not qualified to.

Mr. GOSAR. Above your paid grade. Yes or no, Mr. Newell?

Mr. NEWELL. Again, I do not think I have the expertise.

Mr. GOSAR. Above your pay grade? Ms. Judge, you seem to have the pay grade.

Ms. JUDGE. Qualified or not, I mean the Fed has a number of different mandates. The core of those is managing to control inflation. I think they are prioritizing that. That does put a pressure on bank regulators and financial regulation for stability.

Mr. GOSAR. I hear you. I have got one other thing. In a recent Senate hearing, Janet Yellen said the quiet part out loud. Systemically important banks aka big ones with political conditions will always be bailed out by the government, but not smaller community banks. Yes, investors will lose their money in most cases, like those who invested in Silicon Valley Bank, but the depositors will always be safe. Is having bailout for the big guys but not the small guys a fair policy? No, it should not be. But we have already set the precedent now.

Does it make banks less likely or more likely to engage in risky behavior, knowing that the depositors will never lose any money? Hell, yes. Is this why community banks are disappearing? People know big brother will swoop in to only save the big guys, but leave the little guys all alone. There is something more to this story, and the American public needs to be protected. I yield back.

Mrs. MCCLAIN. Thank you, Gosar. The Chair now recognizes Ms. Lee for five minutes.

Ms. Lee of Pennsylvania. Thank you, Madam Chair. You know, sitting through this hearing, I cannot help but wonder where is the leadership of Silicon Valley Bank? Are we really going to let another corrupt and greedy financial executive sneak away unscathed like in the aftermath of the 2008 financial crisis? Our Republican colleagues seem to be blaming the government for this bank collapse, but you cannot take away the teeth from the regulatory agency and then cry foul when it does not function properly.

We do remember that President Trump, along with the Republican-controlled Congress gutted Dodd-Frank's financial stability protection rules. No? Quick recap. In 2018, the Trump Administration signed into law the Economic Growth Regulatory Relief and Consumer Protection Act, rolling back key Dodd-Frank reforms designed to protect Americans from a financial crisis like in 2008.

In 2019, President Trump's regulators issued rules that further undercut Dodd-Frank's protected standards. These same Trump era reforms relax requirements for banks under a certain size, allowing risks to run rampant at midsized banks like Silicon Valley Bank.

Ms. Judge, how did the Trump era rollbacks of these critical Dodd-Frank provisions create an opportunity for excessive risk-tanking at SVB?

Ms. JUDGE. One of the greatest ways they did that was by facilitating growth. Prior to that, you paid significant costs in terms of heightened regulatory standards as you grew. We saw that they managed to grow incredibly rapidly. They were subject to modestly enhanced standards, but that was at an incredibly slow rate. So, it enabled rapid growth and inadequate attention to both the credit risk and the liquidity risk associated with that growth.

Ms. Lee of Pennsylvania. Thank you. The Trump Administration gutted the oversight of midsized banks, encouraging the rapid, reckless business practices. Under Dodd-Frank, banks with more than 50 million in assets were subject to enhanced standards to ensure financial stability. Under Trump, the threshold skyrocketed to 250 billion in assets, leaving midsized banks room to play fast and loose with people's money and prioritize their own profits.

In 2015, Greg Becker, CEO of SVB, testified to the Senate Banking Committee to urge increasing the threshold. Beaker or Becker, I apologize for the mispronunciation of the name, emphasized that midsized banks like Silicon Valley Bank do not present systemic risk. He then reaped the rewards of those relaxed regulations. He took risks with people's funds and prioritized his personal bottom line while leading his bank toward collapse, threatening our entire financial system in the process.

Ms. Judge, what are the most important safeguards to ensure that the interest of banks and bankers are aligned with the interest of the public?

Ms. JUDGE. I think we know a lot of the toolset—and a lot of it was the toolset that was previously in place. We need to have the full set of prudential requirements, enhance prudential requirements applicable to all large regional banks. We need to be honest by the fact that any bank with more than a $1 billion in assets is a very large bank, and that we now know, unanimous, both Republican and Democratic members of the FDIC board and the Federal Reserve Board of Governors, recognize that they pose a potential threat to stability.

I also think we need to go forward and figure out how to strengthen trust in us and otherwise make sure that there is ongoing diligence to the regulatory standards and the supervision of these institutions.

Ms. Lee of Pennsylvania. Could you describe how the collapse of midsized banks such as Silicon Valley Bank can destabilize the entire sector?

Ms. JUDGE. One of the things that I think was actually unexpected for most of us was the destabilization risk, and yet it was nonetheless broadly recognized. And I think largely it is through both contagion. The possibility of failure of one bank creating fears at other banks, particularly, because these were, as was previously noted, the 16th largest and 29th largest banks at the time they failed. So, you are talking about incredibly, incredibly large banks. They also both had incredible numbers of uninsured depositors. And once you have depositors potentially losing money, you create fear. The banking system is dependent on trust.

Ms. Lee of Pennsylvania. Thank you. Really quickly. When Mr. Clements submitted testimony for today's hearing, he stated, and I quote: From December 2018 to December 2022, SVB's total assets more than tripled from 56 billion to 209 billion.

Mr. Clements, is it correct that despite this rapid growth, the bank still did not meet the new higher threshold for heightened oversight?

Mr. CLEMENTS. The prudential standards had been reduced. So, the standards that would apply to a category 4 firm would certainly have been less than for higher level firms.

Ms. Lee of Pennsylvania. So as a result, Silicon Valley Bank avoided much of the rigorous stress testing that would have been required under Dodd-Frank rules.

Ms. Judge, is it likely that earlier stress testing would have flagged some of the warning signs that the bank was headed toward collapse? Really quickly, since I'm running out of time.

Ms. JUDGE. It's hard to know, but more rigorous stress testing would have potentially revealed the weaknesses in their ability to foresee how they would fair under adverse circumstances.

Ms. Lee of Pennsylvania. Thank you.

SVB aggressively and successfully lobbied for loosening of Dodd-Frank. The bank then took advantage of the new lax environment to engage in excessive risk-taking, which did nothing but pad the pockets of greedy execs.

If we are going to conduct meaningful oversight over what happened at SVB, we need to bring the bank's leadership in for questioning as other Committees have.

Thank you to the panel. And I yield back.

Mrs. MCCLAIN. Thank you.

The Chair now recognizes Mr. Grothman for five minutes.

Mr. GROTHMAN. Thank you.

I'm old enough to remember, like, the 2006 housing bubble, and I think it is always important for those of us who have control, or not direct regulatory authority over America's business to remember that it is their property, not our property, and we should not be abusing our position to self-righteously have fun in other people's expenses.

I thought of that because housing bubble was caused by the leadership class or the government class, weighing in on businesses and encouraging banks, other financial institutions to make loans that they never would have made normally. And a lot of people lost a lot of money, lost their jobs because people felt it was their business to, like I said, self-righteously tell financial institutions to make loans they would not have normally made that resulted in that crisis.

We have some of the same type of feeling going out now in which the government is kind of weighing in to say that it should make it easier for people to get loans who maybe will have a hard time paying them off.

But we will start with Mr. Newell today. In your opinion, when I see Mary Daly, the head of the San Francisco Fed, and Greg Becker, the head of Silicon Bank, they both seem the type of people who maybe are bored with banking and bored with making money and like to take other people's money and play around with equity or play around with climate initiatives.

In your opinion, has leadership of the San Francisco Fed focused too much of its resources on these issues, maybe too much of their time on ESG or equity and inclusion initiatives? And, if so, does this focus distract the exam team and bank management from what should be their primary goal, safety and soundness?

Mr. NEWELL. Thank you, Congressman.

I think I would start by noting, as I did in my testimony, it does seem the case that one of the core problems in the supervision of SVB that is the supervisors were not properly focused on the real material risks to the safety and soundness of SVB. And so, I think understanding exactly why that was the case is very, very important.

As to your specific question, I think it is hard to say at this point exactly what they were distracted by. We do not have from the Fed report a clear picture of what all the supervisory priorities were at the Federal Reserve Board, at the San Francisco Fed, at the exam team itself. And so, I actually think, you know, one of the important things here is gathering a much more complete picture so that we can fill in those blanks.

And we know that their attention was not on identifying all the right issues, but I do not think we have a full picture in terms of why that was the case and all the things that were necessarily distracting.

Mr. GROTHMAN. I think it must be a psychological thing, and I think I can guess. You know, socially it is more fun to say at the cocktail party, I'm dealing—at my job with a bank, I'm dealing with global warming. I'm dealing with racial equity. It's more fun than saying, you know, I'm just doing what bankers should do and maintaining a sound bank here.

But in any event, San Francisco Fed chief, Mary Daly, openly touted her efforts to spearhead left-wing initiatives and ESG policies through her work. Do you think—and she was certainly a champion of this sort of thing among the Fed chiefs.

Do you think these initiatives may have distracted the San Francisco's—the Fed, itself, from what should be its overarching mission?

Mr. NEWELL. Again, Congressman, I think, unfortunately, it is hard to just give a definitive answer to that question just because we do not have a complete picture, again, of where the supervisors were focused and what may have been distracting them. Again, I do think it is clear that they were not appropriately focused on the core material risk to SVB's financial integrity, but I do not think we have a full picture of what the drivers of that were necessarily.

Mr. GROTHMAN. What is—I know this Greg Becker here guy. He was focused on combating racial inequities. What does he do? What does that do? I mean, he took pride in it. How does he run your bank differently if you want to focus on racial inequities?

Mr. NEWELL. My apologies, Congressman. I'm not sure I can speak to that question of what he may or may not have had in mind.

Mr. GROTHMAN. Why don't you—do the other two of you know what you would be doing differently if that was one of your focuses?

Mr. CLEMENTS. We focused on the liquidity and the risk management, not the other aspects of the Fed supervision. So, I cannot really comment on that.

Mr. GROTHMAN. OK. He must have been doing something different.

OK. Next thing, as far as climate change, do you know what you would be doing if you were heading a bank and focusing on climate change, which he seemed to think was important as well? Do you have any idea?

I will ask another question because, obviously, we have got to focus on this Mr. Becker character. How much money was he making a year, do you know?

No idea. OK.

Any idea what any of the management team over there was making?

Ms. JUDGE. We know it went up over 30 percent in just the last couple of years, and it was in excess, I believe, of at least $1 million, I think potentially more. It is in my written testimony. But they were quite well-compensated, and their compensation grew as the bank grew.

Mr. GROTHMAN. Like what? Can you guess wildly?

I think it is something that is interesting for society.

But, in any event, thanks for giving me another half minute.

Mrs. MCCLAIN. Thank you.

The Chair now recognizes Ms. Crockett from Texas for five minutes.

Ms. CROCKETT. Thank you, Madam Chair.

The irony of today's hearing is not lost on me. A key talking point of my Republican colleagues has always been heavy deregulation and significantly less oversight of banks without proper safeguards in place. It seems, however, that my Republican colleagues have now seen the light, and I'm excited about this. Nevertheless, today's hearing lets us have an important and necessary conversation on oversight and the role of regional and small banks in our communities.

Arguably, the most important responsibility of the Fed is the ensuring of the financial stability of our banks and upholding consumer confidence in the system. When SVB crashed, it left customers at our banks worried about their money. Herein lies the problem. Failing to oversee the actions of one bank led to an avalanche of people wanting to pull their money out of other banks.

What is the result? A catastrophic effect on small and regional banks. Many people do not think about small regional banks like Comerica and Amegy in my district and the vital role they play in our communities. These banks provide locally informed investments that enable small businesses and startups to thrive in a challenging economy. Amegy, for example, has 2,764 small business customers in the Dallas area alone. They provide loans and services to groups that have been historically overlooked. For instance, Comerica provided a $1 million investment in the Dallas Small Business Diversity Fund that supports women-and minority-owned businesses in Dallas County.

Blaming SVB's collapse on environmental social governance investing or diversity equity and inclusion initiatives is nonsense. To quote experts from Harvard Business School, not exactly a liberal bastion, blaming ESG of DEI or SVB's failure reflects either, quote, "a complete lack of understanding of how banks work or the intentional misattribution of the cause of the bank's failure."

My Republican colleagues' continued focus on wokeness in banking also suggests that they see improving economic opportunities for people of color and investing in minority-owned businesses as a bad thing, and that is truly a shame.

I ask unanimous consent to introduce a *New York Times* article titled "No, 'Wokeness' Did Not Cause Silicon Valley Bank's Collapse."

Mrs. MCCLAIN. Without objection.

Ms. CROCKETT. Thank you so much.

Now I would like to ask—well, small businesses and everyday folk need to trust that their local bank is making smart investment choices that are in their business interests. So, when something like SVB happens, even if it is a different bank entity, and even if it is in a different state, that has enormous ripple effects.

And, to be honest, the first thing that I did the next day—or the next business day after the collapse, was check to see what the numbers looked like for the banks in my area because I have a large banking industry. In fact, the regional Fed is located in my district in Dallas County. And guess what? I saw a 25 percent drop in the stock of Comerica alone that first Monday when they opened, even though they had nothing to do with SVB.

So, with that, Ms. Judge, how can the Fed work to restore and buildup consumer confidence in regional and small banks, given the reputational damage they have received from SVB?

Ms. JUDGE. I think it is one of the most important things that they should be focused on. One of the things that have actually been really comforting is that community banks, those with less than $10 billion in assets, have come through remarkably well. New research from the New York Fed shows that they really have not lost any deposits, despite the interest rate and despite the recent fears.

For regional banks, I think it has to mean appropriate regulation. I think we did not just have one regional bank fail, we had four regional banks fail. Three of them failed in ways that resulted in significant losses to the Deposit Insurance Fund, two required the systemic risk exception.

So, I think knowing that they are appropriately regulated is the key first step to rebuilding that trust.

Ms. CROCKETT. Thank you so much.

Now, the final part of this is where I'm going to get a little spicy here. I cannot help but to sit here and be frustrated, because we are saying that we are concerned about SVB and what banks are doing and what they are not doing. But the big elephant in the room is the fact that we have this debt ceiling issue that is looming over our heads right now. And somehow, Democrats—I was not here, but what I hear happened when Trump was President is that Democrats agreed to raise the debt ceiling three times under his leadership, three times. In my mind, I feel like that may be a record number of times.

I am curious to know how is it—if it will affect banking if we fail to pass a clean debt ceiling limit? Are we concerned that banks may end up suffering failing if we fail to do our jobs in Congress? Anybody?

Nobody? Nobody wants to—I'm just going to tell you all the answer. The answer is yes. And so, we need to focus on our work here in Congress. Right now, we need to pass a clean debt ceiling if we really care about the stability of banking in this country and Americans.

Thank you so much for being here.

Mrs. MCCLAIN. Thank you, Ms. Crockett.

The Chair now recognizes Mr. Fry for five minutes.

Mr. FRY. Thank you, Madam Chair.

And just as a sort aside, I think it is important to note that the American people spoke very clearly in the last election about cutting spending in Washington. According to a CNN poll recently, 60 percent of Americans want a debt ceiling increased paired with cutting spending, to my colleague.

Thank you to our witness for being here today. I believe that the collapse of SVB and others can in part be attributed to a lack of confidence in our financial system. These three banks all exhibited serious faults in oversight, senior management, and risk management. Certainly, these banks were outliers in a broader banking landscape as they catered primarily to wealthy clients and startups and had unusually high percentages of uninsured deposits, 94 percent to be exact.

But in the backdrop of all of the cast and characters of these failures, rising inflation rates and exuberant spending have an obvious role to play as well from the government side. Just like every other bank, SVB and others were caught in the whirlwind of an ever-increasing government spending and the Fed's battle with interest rates and rising inflation.

The sheer amount of money that was pumped into the U.S. economy since 2020, allowed for many banks to bolster their investments and focus them on loans, technology, new branches, and other assets. SVB, for an example, included in its strategy, the massive acquisition of government bonds with longer times of maturity. You talked about this in your testimony. Normally, a bank keeps enough cash on hand for the everyday ebbs and flows of incoming and outgoing deposits. But it is important to highlight that any bank would have tremendous difficulty withstanding a run on deposits the way that these banks experienced.

With that, I want to start out with just kind of a premise question. You talked about this. What forces within the bank, with management, contributed to SVB's failures?

Mr. Clements, I'll start with you.

Mr. CLEMENTS. The challenges we saw were with liquidity and risk management. Again, from the documents, from the San Francisco Fed's documents, there were weak liquidity, weak risk management. There were attempts by the bank to resolve the challenges, but they were not successful.

Mr. FRY. Mr. Newell, anything to add to that, sir?

Mr. NEWELL. Yes. I think maybe what I would just underscore, again, I think when you try to diagnose what went wrong at SVB, first and foremost, you know, it is a function of the interest rate risk that they took. They had a large portfolio of government securities that, as folks have noted, are very low credit risk but had very high interest rate risk and, therefore, were exposed to serious losses once interest rates increased rapidly, and then, once those losses did occur, undermined public confidence in the bank and then very quickly led to a run of the bank, which was difficult to stem, given the overwhelming reliance on uninsured deposits at the bank.

So, I think it is really the combination of those two factors, first and foremost, that was the case here.

Mr. FRY. All right. And what forces outside the bank's control, right, so macro forces, regulatory forces contributed to their demise?

Mr. Clements?

Mr. CLEMENTS. As Mr. Newell noted, the rising interest rates had a negative implication for the portfolio. SVB did not hedge that. You know, interest rates have gone up for all banks. Most banks have not failed. SVB did not adequately hedge those risks that it was facing.

Mr. FRY. Right. In looking at this, we have heard a lot from the other side that there was no regulations, that people could not oversee what was going on. But the Fed did have the ability to look under the hood, so to speak, of SVB, did they not?

Mr. CLEMENTS. The supervisory team, once SVB moved to the large and foreign banking organization, was approximately 20 individuals. We certainly saw matters requiring attention. Regulators were aware of the problem. You know, our point is that they did not escalate, perhaps, to either in a formal or informal enforcement action in time to address the problems.

Mr. FRY. Would you offer the same answer, sir?

Mr. NEWELL. Yes. I mean, I think the thing I would particularly underscore, again, in terms of what the regulators' tools were, because there has been a lot of debate in terms of what the rules were, were any of them changed. Most importantly, we have had, in our U.S. banking law, since 1966, I believe, a core prohibition on engaging in unsafe and unsound practices, along with a corresponding authority of the regulators to order banks to cease and desist from unsafe and unsound practices.

I think if you just look at the simple facts and the interest rate risks that accrued at SVB's balance sheet, I think in retrospect, it certainly looks to everyone like an unsafe and unsound practice. So, I think it is unquestionably true that they had that long-standing authority and could have acted, but it just is not in the record.

Mr. FRY. Mr. Clements, just real quickly, obviously, there were MRAs and others that were kind of flagged toward the bank. They were given to the bank. At what pace do regulators receive financial monitoring information from banks?

Mr. CLEMENTS. It will vary by the size of the institution.

Mr. FRY. And beyond that, is there anything that can be done——

Madam Chair, with that I look like I'm out of time, but I would yield back.

Mrs. MCCLAIN. Thank you, Mr. Fry.

The Chair now recognizes Mr. Burlison for five minutes.

Mr. BURLISON. Thank you, Madam Chair.

We all kind of now know, you know, after the fact, what the reasons for the banks' failures are. It is pretty easy to do Monday morning quarterbacking, right?

But my question to you, Mr. Clements, is are there similarities between the failures of Silicon Valley, and what happened at Signature Bank, and at First Republic Bank?

Mr. CLEMENTS. We looked at detail at both SVB and Signature Bank. I think the problems were similar. In both instances, the regulators identified challenges, had MRIAs, MRAs, MRBAs in the case of FDIC at Signature Bank. The concern was just the escalation, when problems were not being resolved, once a serious risk was identified and not taking enforcement action on a timely and forceful-enough manner.

Mr. BURLISON. Outside of those banks mentioned, what other—how often do banks fail in the United States?

Mr. CLEMENTS. It is quite infrequent.

Mr. BURLISON. Quite infrequent, but it does happen?

Mr. CLEMENTS. Within prior post-financial crisis, it happens occasionally.

Mr. BURLISON. And in those times, were the individual bank holders, were they paid above the $250,000 limit? Were they insured beyond that? Did the Fed ensure them beyond?

Mr. CLEMENTS. We have not done work to look at all of those bank failures. In many instances, the FDIC will resolve an institution to a purchase and assumption, and in that instance the deposits will simply move to the new institution.

Mr. BURLISON. OK. So, this is—I do not know if you can answer this question. What message do you think this sends, what the actions of the Fed, sends to the small banks across America who pay these fees so that their clients are insured? What message does—the events that happened, what does that send?

Mr. CLEMENTS. I believe in the instance of SVB and Signature failure, there was a systemic risk exception. So, the FDIC needs to collect those funds through a special assessment. We have not looked at the methodology that the Fed—or I'm sorry—that the FDIC is using to gather that special assessment. It does have the ability to target it to the institutions that would benefit from the systemic risk exception.

Mr. BURLISON. Thank you.

Mr. Newell, during the Fed's postmortem report, it considered all of the relevant factors. They tried to include everything. Was there anything that they did not consider that they should have been including?

Mr. NEWELL. I think if you look across the Fed report, again, consistent with my comments to start, I do not think they really appropriately consider the extent to which examiners focus on processes and governance and issues that did not really go to the sort of core material risk to SVB's financial integrity that were the problem here. I do not think there is a real assessment to the extent to which they were focused in the wrong place.

Again, I think if you look across the Fed report, at least the information that we have at this point, and the exam materials, it pretty consistently points out, to me at least, that, generally speaking, they were not identifying the real problems. They were principally focused on other things. And so, I think that is certainly an area that——

Mr. BURLISON. And what were those other things they were primarily focused on?

Mr. NEWELL. Well, again, I think if you look at the 31 MRAs that existed when SVB failed, that is a good example. Again, only seven of those had anything to do with the liquidity or interest rate risks that really—that led to SVB's failure. They were otherwise focused on information technology. I think there's some BSAML, vendor risk management, trust management. Again, we are not saying that these are areas that are unimportant, but certainly relative to what we now know were very clear interest rate liquidity risks, certainly second-order questions.

So, again, I think one of the gaps in the Fed Report is the failure to really consider the extent to which that distraction from core safety and soundness in terms of the supervisory activities was part of the problem.

Mr. BURLISON. OK. Thank you.

I yield back.

Mrs. MCCLAIN. Thank you.

I now recognize myself for five minutes.

There seems to be a lot of blame and back and forth, the blame game going about what prevented the Fed from doing their job. The Federal Reserve's autopsy lays a lot of blame at Congress' feet because of changes that were enacted to Dodd-Frank in 2018.

Mr. Newell, can you help me understand what tools the 2018 law took actually away from the Fed?

Mr. NEWELL. Sure, I would be happy to do that, particularly as I think there has been a lot of talk about, you know, these enhanced prudential standards that were adjusted in the 2018 law, sort of a monolithic animal, when, in fact, it is a toolkit. And the best way to talk about that, maybe, is to talk about what changed in the aftermath of the 2018 law and what did not.

Mrs. MCCLAIN. But were there any specific tools that said: If you are under $250, you cannot do X?

Mr. NEWELL. No, absolutely not.

Mrs. MCCLAIN. OK. I just——

Mr. NEWELL. The 2155 was extraordinarily clear in terms of granting the Fed with wide discretion.

Mrs. MCCLAIN. In fact, am I to understand it correctly, that it moved it from $250, but at $250 it was mandated that you do X. But if you were from $100 to $250, you still had all of the tools in your tool belt, and it was up to you, the regulator, depending on what the report—which from the report I saw was, like, a lot, could have still used those same tools. The regulators just chose not to do it.

So, we, technically, did not take away any tools. Am I understanding that correctly?

Mr. NEWELL. Yes, that is exactly right. The——

Mrs. MCCLAIN. OK. Thank you.

Let me just go on.

Mr. NEWELL. Of course.

Mrs. MCCLAIN. Are there other tools available to the examiners that would have allowed them to see this train wreck coming? So, were there other tools that they could have used?

Mr. NEWELL. Certainly, I would maybe just start by pointing to two. So, first, one of the enhanced prudential standards that was left in place after the 2018 and 2019 changes was a requirement that banks like SVB conduct internal liquidity stress tests, and then the basis of the results of those tests hold a sufficient buffer of liquid assets to survive a 30-day period of stress.

As it turns out—and the Fed Report is quite clear—in 2022, SVB was running those tests, and they were failing those tests. And sort of one of the——

Mrs. MCCLAIN. And what did the regulators do?

Mr. NEWELL. The regulators—again, none of the 31 MRAs or MRIAs cite SVB for a violation of, again, that actual hard-coded requirement under Regulation YY. And, in fact, the Fed explains the reason that they didn't do that is because they were more focused on the MRAs they had issued the prior year that were focused on, sort of, processes and procedures and policies.

Mrs. MCCLAIN. So, on top of, right? Because I'm in agreement with you on SVB Bank has a lot of ownership, right?

And I think, Ms. Judge, you even said, we need to hold executives accountable. They need to not be able to walk away.

I'm actually the weird one that thinks we should actually hold the regulators and the government agencies to the same standards that we hold the businesses to. Yet, my god, we cannot talk about that. And that, I think, lies the frustration.

The regulators had the same tools. They just chose not to use them and hide behind the Dodd-Frank rule, right? How about we just do the job that you are getting paid to do.

So let me—I have one more question. A simple reading of the Barr report implies Federal examiners felt the former head of supervision wanted them to go lightly on the banks they were charged to oversee.

We do not have access to the evidence that supposedly supports this assertion. So, Mr. Newell, is it your opinion that the Fed examiners are hindered from the former Vice Chair's alleged lax regulatory oversight culture?

Mr. NEWELL. Yes. You point to a very interesting and curious part of the Fed Report. It certainly makes that assertion. It does not really support any evidence for that assertion other than, I think, interview notes with some of the staff involved. I think it is one of the things that absolutely merits looking into further. It is sort of one of the places where there are gaps in the Fed Report that could be filled.

But, again, I personally think it is very unlikely that some unwritten sort of supervisory vibe for a more lax environment was ultimately the downfall. I think there certainly are unexplained delays and inactions over the supervisory timeline. My suspicion is if one were to further investigate it and do more digging, there are probably alternative, more plausible explanations in terms of dysfunctions within the Federal Reserve System.

Mrs. MCCLAIN. I appreciate that. I'm running out of time.

Mr. Clements, I'll direct my same question to you. Have you observed that the Fed examiners are hindered by the former Chair's allegedly lax regulatory oversight culture?

Mr. CLEMENTS. We had a single meeting with the Federal Reserve. The issue of culture did not come up.

Mrs. MCCLAIN. Interesting.

With that, the Chair now recognizes Ms. Porter for five minutes.

Ms. PORTER. I'm going to read from the Federal Reserve's report.

It says that SVB FG became subject to liquidity risk management and internal liquidity stress testing requirements that apply to category 4 firms starting in the third quarter of 2022.

But before that, before the third quarter of 2022, is where the problem really got cooking, right? By the time we were into the third and fourth quarter, and then they have time that they have to comply with these requirements, by then the bank has failed.

So, I want to step back and read from earlier. It says—and I'm quoting from the Federal Reserve's report—The changes due to EGRRCPA, which I will call S. 2155, the deregulation of Dodd-Frank, the 2019 tailoring rule which was promulgated by the Federal Reserve, they claim that Congress, quote, "made them do it," but that was up to them, and related rulemakings, which to be clear were also the Fed's decisions, had a significant impact on the level of requirements to which SVB FG was subject in 2018 and beyond.

Had these changes not been made to the framework, SVB FG would have been subject to enhanced liquidity risk management requirements, full standardized liquidity requirements, like LCR, enhanced capital requirements, company run stress testing, supervisory stress testing at an earlier date, and tailored resolution claiming requirements.

There is, in fact, in this report an entire table, table 12—which I would like to introduce into the record, Madam Chair—that lists all of the requirements that they used to be subject to, would have been subject to, and then, were no longer subject to.

Ms. PORTER. So, it seems to me, while there is no doubt that the Federal Reserve may not have used the tools in the toolkit, it is true that they just made very clear to—or that SVB may not have used all the tools, the Fed told them that they did not need to. The Fed told them, You do not need to look at your LCR, that 70 percent is good enough. You do not need to get to 100.

So, my question is, Mr. Clements, why does the Federal Reserve not bear responsibility for not—for creating requirements that led to the bank's failure? I mean, SVB would not have met the LCR ratio, point-blank.

Mr. CLEMENTS. At this point, we have not looked at the enhanced prudential standards. Again, what I would suggest is that there were problems at the bank with the internal liquidity stress testing that a trigger mechanism would have forced action much quicker.

Ms. PORTER. Mr. Newell?

Mr. NEWELL. Certainly. So, maybe, let us take a couple of those items each in turn, because I just disagree with the conclusion in the Fed Report that these changes of enhanced prudential standards made a huge difference in the case of SVB.

So first, throughout the process, SVB was subject to the requirement that it conduct internal liquidity stress tests, which again, in 2022, it was not in compliance with. So, this was a clear enhanced prudential standard——

Ms. PORTER. But, Mr. Newell, reclaiming my time. The Federal Reserve Board's own report says that they were not subject to the internal liquidity test.

Are you saying the Feds were wrong about the regulation?

Mr. NEWELL. Yes, I do not believe that is the case. I'm reasonably certain that they were——

Ms. PORTER. I mean, I'm going to read to you from table 12: "Silicon Valley Bank's requirements as a category 4 firm as of March 1, 2023." Bullet point: "No company run stress testing requirement."

Mr. NEWELL. Yes. So, that refers to the capital stress testing exercise. It is very different than the internal liquidity stress test.

Ms. PORTER. Great. So, let us take liquidity. No LCR requirement.

Mr. NEWELL. Yes, so that is right. Again, I think you have to look at the enhanced prudential standards under 165 in their totality. There was a liquidity requirement that applied to SVB——

Ms. PORTER. But it is 70 percent.

Mr. NEWELL. No, no. I'm actually not talking about the LCR. This is an internal liquidity stress testing requirement——

Ms. PORTER. OK.

Mr. NEWELL [continuing]. That requires the bank to run the test and, after the test, to hold a sufficient buffer of liquid assets to survive a 30-day period of stress. SVB was subject——

Ms. PORTER. So, did SVB do that?

Mr. NEWELL. They were subject to the requirement. They did that. The results showed that they did not have enough liquidity.

So, here we have directly on point an enhanced prudential standard that was left in place about liquidity that SVB remained subject to, did not comply with, and the supervisors did not act.

Ms. PORTER. OK. So, I just want to wrap up.

So, the rules were lousy, the regulators were lousy at enforcing them, and the banks did not step up and take care of it all by themselves. That seems like the takeaway. I do not think it is a choice between these things. I think all three of these things seem true.

I yield back.

Mrs. MCCLAIN. Thank you, Ms. Porter.

The Chair now recognizes Mr. Fry for five minutes.

Mr. FRY. Thank you, Madam Chair.

Round two, we are back at it again.

Mr. Newell, I was on this subject before I ran out of time before. But we were talking about liquidity risks and the fact that regulators were not aware until two days prior of the bank ultimately failing. At what pace do regulators receive financial monitoring information from banks?

Mr. NEWELL. Of course, thank you, Congressman.

That varies quite widely, depending on the size of the bank and the particular bank involved. Certainly, with larger banks, there are, you know, quarterly reports, monthly reports, in some cases, daily reports. You know, I think I would have to dig in to give you a precise answer in terms of exactly what the cadence of information was in the case of SVB.

In addition to that, for a large bank like SVB that was subject to what they called continuous monitoring, which is a dedicated exam team always on the case, you know, there are kind of routinely back-and-forth requests for information. So there typically is a very steady cadence of information and certainly a lot of ability for examiners on an ad hoc basis to request more information.

Mr. FRY. Would the existing regulatory framework benefit from real-time monitoring of these issues?

Mr. NEWELL. Certainly, more information and data is always better. You know, I think to give you a fair answer, I would need to think about it a little bit more. I'm happy to do that and work with your office and get back to you. But certainly, you know, more real-time information is better all things equal.

Mr. FRY. What actions can regulators take if they identify deficiencies or noncompliance in bank operations?

Mr. NEWELL. Certainly. So, they have a very broad toolkit, and it sort of runs a spectrum of less informal activities to all the way to sort of formal enforcement orders. At one end of the spectrum, you have sort of just informal conversations. Again, exam teams talk with banks all the time, you know, raise issues in conversation all the time.

When there is a more serious issue, there is typically an issuance of an MRA or MRIA, which is a sort of examiner directing you, saying you need to fix the following problem by the following date.

And then, when concerns are more serious or where there are MRAs or MRIAs that have not been addressed for a long period of time, there is a whole suite of various types of enforcement actions and similar orders that regulators can take to demand action.

Mr. FRY. Thank you.

Mr. Clements, in the GAO report that you were talking about earlier from March 2023 related to the bank failure, in the review, did you find that regulators failed to escalate supervisory actions at their disposal in time to mitigate SVB's failure?

Mr. CLEMENTS. That is correct, we certainly found that they identified problems. But given the severity and long-term nature of the problems, we did not think the escalation was adequate.

Mr. FRY. Throughout the years, has GAO observed a pattern of issues in supervisory action?

Mr. CLEMENTS. This pattern goes back to the savings and loan crisis in 1991 of—the supervisors are good at identifying problems. There appears to be a problem of using the full suite of tools and especially the most forceful tools available to them.

Mr. FRY. Thank you.

And, finally, does FDIC have the proper early warning systems in place to detect high rates of uninsured deposits?

Mr. CLEMENTS. That I'm not sure. I would need to get back to you on that.

Mr. FRY. Mr. Newell, are you aware of that at all?

Mr. NEWELL. I'm not sure about early warning system, but certainly, I think the FDIC has access to lots and lots of data in terms of what the composition of the deposit base in insured banks is. And, you know, to what extent those are insured or not insured, I think those are part of the typical call reports.

Mr. FRY. Thank you, Madam Chair. And with that, I yield back.

Mrs. MCCLAIN. Thank you, Mr. Fry.

The Chair now recognizes Ranking Member Porter for her closing statement.

Ms. PORTER. Thank you, Madam Chairwoman, for addressing recent bank failures in this Subcommittee. This is an incredibly important topic, and I wish I could say that this was my first rodeo with bank failures, but this is actually my third.

I hope you won't take it personally, Madam Chairwoman, when I say that I'm tired of talking about what can be done to stop bank failures. Back in 2018, when I was first running for Congress, I publicly warned my future congressional colleagues not to pass S. 2155, a bill that rolled back Dodd-Frank regulations. I knew that deregulation would set our country up for bank failure, and Republicans and too many Democrats didn't listen.

When I got to Congress in 2019, I pushed Mr. Powell from the dais to not reduce the regulatory standards, not reduce the testing. And he assured me that, in fact, there was no such reduction in regulatory tests.

Now here I am in my third term in Congress, and we have had a string of bank failures, all starting with Silicon Valley Bank. The Fed has affirmed one of the main contributing factors to this failure was the lower supervisory standards that came from passing S. 1255, their 2019 tailoring rule and their related rulemakings. Surprise, surprise. We regulated after the 2008 financial crisis. We deregulated with bipartisan support under President Trump, and now we are back at bank failure. What is even worse is that we have too many members in both parties who claim we do not know what to do to break this vicious cycle.

I'm glad and grateful that there has been bipartisan agreement that bank supervisors need to do a better job. I might even say do their jobs. That is clear.

Bank regulators needed to better manage Silicon Valley Bank's vulnerability and hold their management accountable more quickly. In the future, bank regulators need to be more active supervisors for all banks under their purview. But effective supervision requires both good regulators and good regulations.

We do not have the right regulations. First, let us roll back the worst part of the bank lobbyist bill that Congress passed in 2018. Title IV of that law raised the asset threshold at which a bank is considered and regulated as a systemically important financial institution, exempting Silicon Valley Bank and other similarly sized banks from enhanced liquidity and other requirements. Because of the elusive restrictions, when push came to shove, Silicon Valley Bank had not kept enough liquid assets to pay out the dollars being drawn out. If Dodd-Frank had been kept intact for banks of this size, Silicon Valley Bank would not have had the choice to choose to prioritize its profits over stability.

I do not want to give banks this choice again. I urge all of my colleagues to cosponsor my Secure Viable Banking, SVB Act, and to roll back Title IV of S. 2155.

Second, let us stop bank executives from unjustly earning millions in stock sales and bonuses while they mismanage their banks into failure. That is exactly what my bipartisan Failed Bank Executives Clawback Act would do.

Again, it is bipartisan, folks. I've got Representatives Spartz, Gallego, Buck, Gluesenkamp Perez leading this bill with me. I think everyone here can identify with at least one of those members. This bill is something we can do now across party lines.

Oversight is my bread and butter. It is important to hold regulators to account, and I'm grateful for the Chairwoman's partnership in that regard. But unless we can take what we learn from oversight and translate it into effective policy, regulations will continue to swing with the political tides. Let us put regulations and regulators in place that keep our economy growing and stable.

I yield back.

Mrs. MCCLAIN. Thank you, Ranking Member Porter.

I now recognize myself for a closing statement.

Thank you all for being here. Thank you for your testimony.

Today's hearing was very helpful in the first step in understanding the many failures that led to Silicon Valley Bank's collapse. The executives and the board at Silicon Valley Bank clearly dropped the ball. I do not—I have not heard anyone argue that different. Their incompetence has not been questioned, and the markets have held them accountable.

But yet again, Federal bureaucrats fail at their jobs and escape any accountability. What is their consequence to their action? The fact that there have not been any resignations or any firings at the top of the Fed and the FDIC is unfortunate, but it is not surprising for this Administration. I mean, not a single resignation or firing or reprimand. I mean, SVB was, what, number 19? And no one's head is going to roll? Really? Tell me how that would play out in the private sector. It does not.

The lack of self-awareness or accountability knows no bounds with this crew, but we were sent to Congress to hold people accountable, especially on this Committee, and that is what we are going to do through our investigations, our future hearings, and our future legislation.

In closing, I want to thank our panelists once again for their important testimony today.

And without objection, the Members will have five legislative days to submit materials and submit additional written questions for the witnesses, which will be forwarded to the witnesses for their response.

If there is no further business, without objection, the Subcommittee stands adjourned.

[Whereupon, at 3:42 p.m., the Subcommittee was adjourned.]