**Review of the FY 2024 Budget for the Department of the Treasury**
**Financial Services and General Government Subcommittee**
**March 22, 2023**

## Opening Statements

**Chair Van Hollen (D-MD)** welcomed Secretary Yellen and said that he suspected much of her recent attention has been on the banking system. He gave her, the Biden Administration, the FDIC, and others high marks for how they responded to this collapse. Van Hollen said they made it crystal clear that the government will not bailout the owners and investors of the bank and ensured that depositors will not be harmed. Van Hollen said this was an important measure to take to ensure that workers at small businesses and other companies got paid and to prevent contagion. Van Hollen also applauded Yellen's efforts to implement sanctions on Russia and move toward a global minimum tax rate for corporations. He continued that he will ask about the debt ceiling, saying the US has always paid its bills on time, making them a trustworthy partner here and around the world. Additionally, Van Hollen said we need to make sure the IRS has the capacity and resources needed to collect revenues that are due, including from wealthy tax cheats and improve customer service. He commended Yellen and her staff for being responsive to the Committee.

**Ranking Member Hagerty (R-TN)** looked forward to working with Van Hollen on strengthening oversight of US taxpayer dollars. He said that the Treasury has a fundamental role in managing the nation's debt and noted how Yellen is supposed to give sound economic guidance. He said that the US has accumulated unprecedented amounts of debt and we are on an unsustainable path, so we must live within our means. Hagerty said we need to take serious steps now, or the global financial markets will make these decisions for us. He was disappointed to see that the President's Budget proposes tax increases. Hagerty highlighted that combating inflation is a priority for him. He noted that Americans are facing higher taxes and pointed to his legislation, the *SNOOP Act*, regarding reporting on 1099-K forms. Hagerty added that he has watched the bank failures over the past two weeks and how these failures should have been foreseen. He said that it appears that SVB management was asleep at the wheel, noting how they did not even have a Chief Risk Officer. Hagerty questioned why the banks were taken into receivership, instead of a quick auction process. He said that no one knows the limits of the deposit backstop and this sets a dangerous precedent. Hagerty said that this sets up Americans to foot the bill. He noted that losses are accumulating and they will fall on the US banking system and taxpayers.

## Witness Testimony

**The Honorable Janet Yellen**, ***Secretary, U.S. Department of Treasury,*** discussed how the Treasury has advanced the US's economic priorities given the resources that have been given to them. She noted the bank failures and how the Treasury worked with the other regulators to take decisive and forceful actions to strengthen public confidence in the banking system. She said that this was designed to mitigate risks to the banking system and added that shareholders and bondholders from these banks are not being protected by the government. Yellen said that the US banking system is sound. She then noted the Treasury's work to help the economy recover from the pandemic. Yellen said that they are also working on a swift response to Russia's illegal war in Ukraine. She then highlighted the Treasury's budget request with regard to the IRS, how it will help the Treasury respond to Russia's immoral war, and how it enables them to continue their work to bolster the long-term foundations of the American economy.

**Member Questions**

**Chairman Van Hollen (D-MD)** turned to the banking situation and noted her recent remarks on how we are still determining the root causes of the crisis. He pointed to the hearings in Senate Banking next week on this and said that there is one area where they can agree, which is the issue of accountability. Van Hollen said that there should be legislation so the FDIC can claw back executive profits from those at failing banks. He said that this already exists for the biggest banks, but not those that are the size of SVB. Van Hollen knew that Biden had called upon Congress to change the law to hold executives accountable and asked if Yellen would work with him and others who are interested in fashioning this legislation. Yellen said certainly and agreed with Biden on how these executives should not be profiting from this. Van Hollen looked forward to doing this and said that Americans are looking at how those responsible for this situation are running away with profits. Van Hollen said that there is a sense of riskiness in the banking system which may lead to people going into the shadow banking system, which is even more risky since they do not have a lot of regulation or capital requirements. He pointed to how Yellen can designate nonbanks as SIFIs via FSOC and he said that he asked the prudential regulators about this at a previous hearing and they all said that they would support a repeal of the Trump-era guidance on the shadow banking system. Van Hollen asked Yellen if the FSOC can move forward and have a vote on this and if so, when. Yellen said that they are working on revising draft guidance on FSOC's capacity to designate nonbanks as SIFIs and subject them to regulation. She said that with the risks he mentioned in the nonbank financial sector, sometimes other forms of intervention are appropriate and she has made an effort to look at a number of different risks in the nonbank financial sector, like MMFs and open-end bond funds. She added that the SEC has some authority here and they are taking appropriate action. Yellen agreed that risks have migrated to this sector and designation is an important power that should be in the toolkit. Van Hollen then asked about the debt ceiling and Republicans warning about budget cuts. He asked Yellen if she believes that the recent uncertainty in the banking system means that we should threaten the full faith and credit of the US to get the budget we want. Yellen said that a default would be a failure of the US government for the first time since 1789 and it would cause a loss of confidence in the US as the reserve currency. She said that this is something that should not even be contemplated.

**Ranking Member Hagerty (R-TN)** asked Yellen if it is possible to agree that debts will be paid before getting to the question of specific spending reductions. Yellen was not sure what he was suggesting and said that Biden has given a path for spending and the deficit. Hagerty said that we are facing an unprecedented spending epidemic and if we do not address it, the capital markets will. He said that we need to find a way to address this. Yellen again pointed to President Biden's Budget and how it will reduce the deficit. Hagerty added that it also increases taxes and then turned to the bank failures. He said that the situation was caused by a remarkable set of failures. Hagerty pointed to how Yellen said that no losses would be borne by the taxpayer and said that this is impossible to square with how these programs, like the Deposit Insurance Fund (DIF), actually work. He said the systemic designation used to guarantee SVB and Signature Banks' deposits relies on the FDICs DIF, which would be replenished with a special assessment on banks across the nation, which will inevitably be passed on to bank customers, and in essence, the taxpayers. Hagerty then asked if the costs to the DIF from these failures will be paid for by special assessment fees from banks across the nation. Yellen said yes, but she was not sure what the final cost to the DIF would be. Hagerty said that these costs would be borne by bank customers and taxpayers. Yellen said that it may be borne by shareholders. Hagerty turned to the Treasury considering the possibility of guaranteeing all bank deposits, which would be backed by the Exchange Stabilization Fund (ESF), and he was deeply concerned by these reports. He asked Yellen if insuring all FDIC deposits over $250,000 would require congressional approval. Yellen said that this is not something they are looking at and when the failure of a bank is judged by the regulators to be creating systemic risk, then they are likely to invoke the systemic risk exception, which allows the FDIC to protect all depositors. Yellen said that they have not focused on blanket guarantees for deposits. Hagerty reminded her that if she was to do this, it would require congressional approval. He then discussed how there is a two tier issue with regard to insurance if some banks are systemically important and others are not. Yellen pointed to her comments at the ABA conference and how the failure of small banks could also trigger runs and lead to a judgment that it poses a systemic risk. Hagerty wanted more clarity here and then turned to the ProPublica leak of taxpayer information. He asked if anyone had been held to account on this. Yellen also wanted to know who was responsible for this and she does not know more details as it was turned over to IGs.

**Sen. Murray (D-WA)** pointed to the failures of SVB and Signature and how it shows the important role of the Treasury in our financial system. She said working families are the backbone of the economy and highlighted the importance of sanctions and IRS customer service. Murray noted how the IRS needs to be modernized for various reasons. She then moved to the debt ceiling and how it should not be held hostage for political points at the expense of working Americans. She said that she would be paying attention to the issues related to SVB and Signature and wanted updates going forward. Murray pointed to SECURE 2.0 and asked what resources the Treasury needs to implement this in a timely manner. Yellen said that they do need some resources and they are included in the FY24 budget. She said that the BFS, OTP, and IRS all need funding to implement this. Murray said that she would be following this and then pointed to how she wanted a detailed plan about how the IRS is using their new funding. Yellen said that she has seen a draft of the plan, but she should see the final plan shortly. Murray then noted the President's Budget and asked if it would increase inflation or put us on a path to fiscal ruin. Yellen did not think so, saying it invests in America, our people, and our economy.

**Sen. Collins (R-ME)** discussed the consequences of the Treasury, Fed, and FDIC's decision to use the systemic risk exception in the FDIC Act to insure all SVB deposits, saying that last Wednesday, the new CEO of SVB held a conference call for concerned clients and urged them to return their deposits to the bank since 'there is no safer place to in the banking system for their deposits.' She was troubled by this because it invites deposit flows from community banks to a bank that was poorly managed and took excessive risk. Collins said that by guaranteeing deposits, the well managed community bank is at a competitive disadvantage. She asked Yellen how this is fair. Yellen explained that SVB had experienced a calamitous run and it created the potential for fear about the safety of uninsured depositors in many other banks and failing to protect them at the time SVB was put into receivership would have led to fears of uninsured depositors at many other banks. She said that this risked contagion in the banking system and thought that it was not a question of protecting that bank, but the implications for the broader banking system. Collins said that it created a situation where wealthy depositors are rewarded and said that of the bankers she has talked to, the majority of their depositors fall under the $250,000 limit. She followed up on a point Hagerty made on the level of FDIC insurance and said that Warren and others want to raise it and asked if Yellen agreed. Yellen replied that she was focused on stabilizing the banking system and right now we need to focus on improving the public's confidence. She said that we can debate over the threshold for deposit insurance in the days ahead. Yellen would not weigh in on this specifically and wanted to use the current tools to improve confidence. Collins turned to IRS customer service, saying that the IG for Tax Administration calculates their own caller response, and for this filing season, the IG calculated that the IRS has only responded to 52% of calls and if you add automated calls and service representative calls, that the number of calls declined even more to 29%. She hoped that we would get to the bottom of this and said that her state offices are having a hard time getting in touch with the IRS. Yellen replied that she would be happy to follow up.

**Sen. Heinrich (D-NM)** discussed the deficit and asked Yellen to remind the Committee of how the Trump tax cuts contributed to the deficit. Yellen replied that the tax cuts were a major contributor. He pivoted to the banking situation, saying that he was pleased that the Administration acted quickly so that small depositors and banks do not take the brunt of the fallout. Heinrich added that he thought the bank failures could have been prevented, pointing to how Congress rolled back key rules in 2018. He asked how regulators can shore up confidence and stability in this asset class of banks and if the regulators need additional tools. Yellen agreed that it is appropriate to conduct a review of what factors caused the bank failures and agreed that there was legislation that weakened bank regulation along with regulatory decisions from the Fed and other banking agencies. She was pleased that VC Barr is undertaking an investigation and will report on what was involved in these bank failures. Yellen added that the SVB circumstances were unique, pointing to their high interest rate risk and high number of uninsured deposits, and thought it was appropriate to review everything. Heinrich said that SVB was the first 'digital' bank run, in terms of how the fire spread, and asked how we should think about that in providing oversight and de-risking these institutions going forward. Yellen replied that SVB was an overwhelmingly rapid bank run and they had not seen a run at this pace before, saying that many of the depositors were tech companies and acknowledged that while this was a small community, this kind of thing may happen more readily now. She said that some of the assumptions that go into modeling the pace at which deposits might flee for liquidity stress tests and liquidity requirements may need to be updated. Heinrich referred to a bill introduced by Republicans on debt payment prioritization and said that Yellen has referred to this plan as 'default by another name,' and asked what she thought about this plan to prioritize foreign investments over servicemembers and others. Yellen replied that there is a set of bills that comes due and the Treasury's responsibility is to ensure that all these bills are paid. She added that rating agencies, Fitch in particular, have already said that a default would ruin the country's credit rating. Yellen said that our systems are payment systems and are set up to pay a bill when it is due, not prioritize and pick and choose bills to pay.

**Sen. Kennedy (R-LA)** asked if the Administration's proposed budget is half a trillion dollars more than this fiscal year. Yellen replied yes. Kennedy asked if it is true that since 2019 until today, the US population has increased 1.8% and the budget is up 55%. Yellen said that she does not have the number in her head but did not dispute what he said. Kennedy asked if it is true that the budget proposes $4.7 trillion in additional taxes. Yellen said yes, about that. Kennedy asked if the budget would increase gross debt from $33 trillion to $51 trillion by 2033. Yellen said that is probably a fact. Kennedy asked if the deficit had been reduced then. Yellen replied that it is reduced, saying that $33 trillion is the baseline. Kennedy said that the projected gross debt is $51 trillion. Yellen rejected that, saying that the deficit would be even more without the President's proposals and said that it is an improvement because it raises taxes. She added that the revenue increases exceed proposed investments. Kennedy asked if it is a fact that in January 2019, the Fed issued a warning to SVB on its risk management systems. Yellen said that she is not involved in banking supervision and does not have access to the details about the supervision of SVB. Kennedy said that the Fed issued a matter requiring attention (MRA) on risk management practices and asked if it is true that months before SVB went under, the bank disclosed that the mark to market value of its bonds was $16 billion less than its balance sheet value. He asked if the Fed noticed this. Yellen said that she was not in charge of supervision and was not at the Fed at the time. Kennedy said that SVB was not stress tested in 2022 and asked if it had been stress tested, if it would have passed. Yellen did not know because it was not tested and that it is not her job to stress test. Kennedy asked if it was a fact that the Fed's 2022 Stress Test only stress tested credit risk, not duration risk. Yellen believed that the stress tests take interest rate risk into account.

**Chairman Van Hollen (D-MD)** underscored the point Yellen made that the President's Budget reduces the deficit over the next 10 years, more than it would have been reduced if nothing was done. Yellen replied yes. Van Hollen asked if it was true that one quarter of the accumulated national debt was during the Trump Administration and during that time, Congress passed the debt ceiling three times without drama. Yellen replied yes to both. Van Hollen turned to debt payment prioritization and asked if, back in 2011, S&P downgraded the credit rating of the US when we got close to the waterfall of the debt ceiling. Yellen replied that this is why she has asked Congress to raise the ceiling expeditiously, to avoid any downgrade in our credit. Van Hollen welcomed a vigorous debate on the budget and then raised the issue of the IRS budget and the $80 billion provided from the Inflation Reduction Act (IRA) to the IRS. He said that Yellen has said that the IRS will not increase audits on taxpayers and businesses making less than $400,000 above any historical level. Yellen replied that she has told the IRS that they cannot increase the audit rates on consumers or small businesses under $400,000. Van Hollen said that wealthy folks are not paying their taxes on time and that is where the money is. Yellen agreed with this. Van Hollen said that the IRS has calculated hundreds of billions of lost dollars annually because of the tax gap. Yellen said that the money appropriated to the IRS is money that brings in more tax revenues and, in that sense, is not very costly. Van Hollen said that in terms of IRS funding, in addition to collecting taxes from tax cheats, he said that answering constituents' calls have improved. Yellen agreed that the response rate has been 80-90% this tax season. Van Hollen thought that making sure that wealthy people pay their taxes is important. He closed by referring to a letter regarding abuses of trusts that allow billionaires to pay on money without any taxation. Yellen replied that she had some proposals to clamp down on that abuse and was happy to discuss further.

**Sen. Boozman (R-AR)** said that SVB and Signature were different from many banks, especially rural community banks, and asked about the SRE and asked what metrics the regulators focus on. Yellen replied that they were focused on the potential failure of these banks and losses for uninsured depositors triggering runs on other banks, adding that anecdotal reports were looked at as well. She discussed the fear of contagion and said that the steps taken were designed to improve the confidence of all depositors. Boozman said that while the uninsured deposits will be paid for by the DIF, the costs will be passed down to customers through higher banking costs, and he worried that Arkansans would have to subsidize this. He asked what specific legal authority exists for the regulators to exclude certain banks from being charged a special assessment and if community banks would get charged this special assessment. Yellen did not know the rules around that precisely and said that the FDIC may have some ability to decide what banks are charged. Boozman asked what specific authority the Treasury, FDIC, or the Fed have to guarantee, even temporarily, all uninsured deposits of open banks. Yellen replied that if the FDIC wanted to put a program in place, like the TAG Program, that requires congressional approval. Boozman asked for a timeline of when the Treasury or IRS will write any further rulemakings or guidance regarding the IRA's direct pay provisions related to tax exempt entities. Yellen replied that there are many rulemakings required to implement the features of the IRA and they are doing this as fast as possible. Boozman turned to the CDFI Fund and asked what analysis the Treasury has done on the impact that the new certification application changes will have on current CDFIs, how the changes will impact recipients of ECIP funds, and if depository institutions will be less likely to meet certification requirements under the new standards. He also asked how this would impact the fund's ability to support investment and access to capital in underserved communities. Yellen said that she would get back to him on this and said that the CDFI Fund is trying to get money out to CDFIs so they can lend in underserved communities, not make it harder.

**Ranking Member Hagerty (R-TN)** said that with SVB, we saw mismanagement and the lack of a Chief Risk Officer, and asked if S. 2155 would not have done anything about that. Yellen was not prepared to weigh in on the causes of these bank failures at this point. Hagerty said that there is also a failure of oversight at the San Francisco Fed and, over the weekend, the auction should have taken place, and that he understood that the FDIC did have a bidder but did not conclude the auction. He thought that we would be in a much better place if there had been a successful auction. Hagerty turned to the President's Budget on another $2.5 trillion in spending increases and $4.7 trillion in tax increases. He thought these tax increases would over complicate the tax system further and asked how many more forms and hours will be required to address this tax increase. Yellen could not give him an estimate but said that if Congress would consider the proposals, the Treasury would be able to make estimates. Hagerty was concerned that the Greenbook calls for targeted tax increases on fossil fuels and thought that this doubles down on the weaponization of the tax code against industries the Administration does not like. Yellen replied that fossil fuels have benefited from many tax features for decades and at a time when we need to shift to clean energy, subsidizing fossil fuels through the tax code is not appropriate according to the Administration. Hagerty disagreed.

**Sen. Kennedy (R-LA)** went through the President's budget again insinuating that the budget will increase the debt. Yellen rejected his assessment and said that the size of the economy is increasing. Kennedy asked if it was a fact that the President's new budget proposes new taxes of $4.7 trillion. Yellen said yes. Kennedy continued by asking if the President's budget would go from $32.7 trillion to $50.7 trillion by 2033. Yellen said this is $3 trillion less than it would increase without the proposals in the budget. Yellen said the size of our economy is large and a better metric for assessing the impact of the budget is real net interest payments that we must make relative to the size of our economy. She said these payments run at or around 1% percent of GDP, which is normal. Yellen added that debt is increasing and interest rates are moving toward more normal levels. Kennedy asked if $33 trillion in debt up to $51 trillion bothers

Yellen. She replied that she believes the budget is fiscally sustainable. Kennedy replied by asking how much debt is too much debt, to which Yellen replied that she just provided the metric to him. Kennedy asked what percentage of debt of our GDP is too much. Yellen said this budget has debt moving up to 109% of GDP, which she says is historically high but real interest rates have been lower than in previous decades. Kennedy asked if it is acceptable for the government to stimulate the economy by borrowing and spending when they are in a recession. Yellen said it can be.

**Sen. Manchin (D-WV)** discussed the $250,000 cap and said that they should assume that 90% of WV depositors are under that. He asked who would absorb the cost of raising this $250,000 threshold. Yellen said a decision has not been made and it could be a consumer, but it could be a special one-time assessment. Manchin knew that there are a lot of tools that bankers can use to ensure that their depositors deposits are covered and said that he believed the consensus from bankers he has talked to is that the San Francisco Fed did a bad job and mismanaged SVB. Yellen replied that she is not involved with that. Manchin said that from $250,000 and above, he asked if he should have to pay a higher fee to get protection up to a different amount of money and asked if this would take legislation. Yellen said that it would and said that the uninsured depositors in community banks are small businesses. She thought that the discussion was worthwhile among his colleagues and said that at the moment, the situation is being stabilized through the tools available. Manchin turned to how the White House is working with the EU on a trade agreement that will allow them to become eligible for the first half of the EV credits, saying that he had a problem with going to countries that we do not have a secure supply chain with and said that some other countries that minerals come from are not in the EU and if they are trying to expand that, then we are back in the situation of having unreliable supply chains. Yellen replied that she understands the intent of the bill and that any agreements would be consulted closely with Congress to ensure supply chains are secure. Manchin believed that he has furnished Yellen with the concerns he has with production, sourcing, processing versus the manufacturing and why they think there is a difference there and said it is imperative that we keep that difference. Yellen thought they were on the same page. Manchin said that knowing what we have and how critical the financial system is, he asked how we should operate our government's financing right now when we know we do not have our financial house in order. He did not think it was unreasonable that Republicans are discussing recommendations on the debt. Yellen agreed that we should have a reasoned discussion to accomplish our fiscal path and said that the President has offered to meet with anyone. Manchin said that our finances are not in order right now but said that he would vote to raise the debt ceiling.