

HOUSE FINANCIAL SERVICES COMMITTEE HOLDS SEMIANNUAL HUMPHREY-HAWKINS HEARING

EXECUTIVE SUMMARY

On July 10, the House Financial Services Committee held a [hearing](#) to receive testimony from **Federal Reserve Chair Jerome Powell** on the central bank's semiannual monetary policy [report](#). The Basel III Endgame capital requirements [proposal](#) from the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) was a major focus of the hearing, with Republican members urging the Fed to repropose the rulemaking in light of material changes to the initial proposal. Additionally, lawmakers also asked questions regarding other Fed proposals, particularly the long-term debt (LTD) [proposal](#), debit interchange fee cap [proposal](#), reforms to the discount window, potential changes to liquidity requirements, and the incentive-based compensation arrangements [proposal](#). Some Republicans were critical of the Fed's LTD and debit interchange fee cap proposals, with **Rep. Nikema Williams (D-GA)** echoing the GOP's concerns regarding the debit interchange fee cap rulemaking.

Throughout the hearing, Democrats and some Republicans also discussed the importance of maintaining the political independence of the Fed. There were also questions about the impact of the Supreme Court decision to overturn the *Chevron* deference, though Chair Powell was unable to provide specific answers. In addition to Republicans attributing inflation to the Biden administration's economic policies, both Republicans and Democrats raised concerns about high housing prices. There was also limited discussion regarding the Fed's balance sheet, the U.S.' fiscal debt, consolidation in the banking sector, stablecoins, digital assets, and synthetic risk transfers (SRT).

OPENING STATEMENTS

Chair Patrick McHenry (R-NC) emphasized his concerns regarding inflation, which he blamed on the Biden administration's economic policies. Additionally, he voiced his support for preserving the political independence of the Fed. Chair McHenry criticized the central bank's regulatory and supervisory agenda as "politicized," especially the Basel proposal. He applauded Chair Powell's comments indicating that the Fed will release a quantitative impact study (QIS) on the Basel proposal but was worried that the central bank may "tuck" potential changes to the proposal in the QIS without a substantive public comment period. Chair McHenry threatened a Congressional Review Act (CRA) vote if regulators do not repropose the Basel proposal after making significant changes.

Ranking Member Maxine Waters (D-CA) defended the performance of the economy under the Biden administration. Ranking Member Waters attributed heightened inflation to housing prices, and she touted her Housing Prices Response Act ([H.R.4233](#)) to increase affordable housing investments. The Ranking Member also expressed concerns about the conservative policies outlined in Project 2025 — such as decreasing the independence of the Fed — which was developed to help guide a potential second term for former President Donald Trump.

Rep. Andy Barr (R-KY) echoed Chair McHenry’s concerns about inflation, which he similarly attributed to economic policies being implemented by the Biden administration. He applauded the Fed’s monetary policy in response to inflation but criticized the Basel proposal and “opaque” regulatory approach of the central bank.

Rep. Bill Foster (D-IL) stressed the importance of the Fed’s political independence, particularly with regards to its monetary policy.

WITNESS TESTIMONY

Fed Chair Jerome Powell ([testimony](#)) remarked that the economy has made “considerable progress” toward the central bank’s two percent inflation goal over the past two years and that, though labor market conditions have cooled, they remain strong. Chair Powell stated that recent data indicates “modest further progress” toward two percent inflation. He reiterated the Federal Open Market Committee’s (FOMC) belief that it will not be appropriate to reduce rates until there is greater confidence in sustainable progress toward that target. Nonetheless, the Chair acknowledged that, beyond inflation, the Fed risks other economic impacts if it cuts rates too late or too soon.

DISCUSSION AND QUESTIONS

Basel III Endgame Proposal

- Chair McHenry noted comments from Chair Powell regarding potential changes to the Basel proposal and he asked about next steps once the regulators agree on the changes. Chair Powell stated that the regulators are “very close” to agreeing on the “substance” of proposed changes. He expressed his view that the changes should be published alongside the QIS for public comment before the rule is finalized, though he stated the regulators have not yet agreed on the path forward.
- Chair McHenry inquired whether the QIS will include the interplay with stress tests, the global systemically important bank (GSIB) surcharge, and other capital charges. Chair Powell responded that the QIS will focus on the Basel proposal, which includes changes to the GSIB surcharge but not the stress tests.
- **Rep. French Hill (R-AR)** voiced support for reproposing the Basel rulemaking if there are material changes, as well as publishing the QIS. When Rep. Hill asked whether the Fed’s view on the path forward for rulemaking takes precedence over the other prudential regulators, Chair Powell stated that it is “strictly collaborative” between the agencies.

- **Rep. David Scott (D-GA)** observed that the Fed’s most recent stress tests indicate that large banks have sufficient capital to survive severe economic conditions, and he asked whether these results will impact how regulators roll out the Basel proposal. Chair Powell did not directly answer the question, instead differentiating between the Basel proposal and the stress tests.
- Rep. Scott noted that prudential regulators in other countries — particularly in the European Union (EU), Canada, and Switzerland — are delaying or abandoning proposals to increase capital requirements for their own domestic banks because they want to remain competitive with U.S. banks. Rep. Scott believed this spoke favorably of the Fed’s regulatory and supervisory approach.
- **Rep. Dan Meuser (R-PA)** cited concerns that the Basel proposal and changes to the debit card interchange fee cap could lead to new fees associated with checking accounts and other new costs for small businesses.
- Reps. Meuser, **Andrew Garbarino (R-NY)**, **Young Kim (R-CA)**, **Frank Lucas (R-OK)**, and **Brad Sherman (D-CA)** urged the Fed to repropose the Basel rulemaking due to potential material changes, in response to which Chair Powell reiterated that the regulators have yet to reach an agreement on the path forward though expressed his view that the proposal should be reproposed.
- Rep. Garbarino referenced a comment from Chair Powell that the Basel proposal will likely be finalized in the first quarter of 2025, and he asked whether implementation will then not occur until the beginning of 2026. Chair Powell was unable to answer but clarified that the proposal “might” be finalized in the first quarter of 2025.
- Rep. Kim asked if the Fed is considering the cumulative impact of the Basel proposal and potential changes to liquidity requirements. Chair Powell noted “significant” industry engagement on its proposals, adding that the central bank has not issued any proposals on changes to liquidity requirements.
- When asked by **Rep. Ritchie Torres (D-NY)**, Chair Powell expressed his view that the U.S. banking system is sufficiently capitalized. Rep. Torres then asked why the Basel proposal is needed if the banking system is sufficiently capitalized. Chair Powell stressed the importance of parity between the capital requirements in the U.S. and other large jurisdictions.
- **Rep. Zach Nunn (R-IA)** opined that the Basel proposal will negatively impact consumers and agricultural producers.
- **Rep. Monica De La Cruz (R-TX)** advocated for scrapping the Basel proposal altogether, contending that it would restrict consumer access to capital.
- **Rep. Scott Fitzgerald (R-WI)** observed the increasing role of nonbank firms in mortgage origination, and he was worried that the Basel proposal could harm the housing finance operations of both banks and nonbanks. Chair Powell disagreed that the proposal would negatively impact housing finance.
- Rep. Sherman opined that the Basel proposal, as currently written, discourages loans to small businesses due to credit risks and also makes it more costly for banks to be involved in renewable energy tax credits.

- **Rep. Erin Houchin (R-IN)** applauded Chair Powell’s comments that material changes will be made to the Basel proposal, urging prudential regulators to consider the cumulative impact of Basel and other regulations on the U.S. economy.
- Chair Powell refrained from offering any specifics when **Rep. Sean Casten (D-IL)** asked whether the repropoed Basel rulemaking will return the risk weighting of clean energy tax credits to 100 percent.

LTD, Debit Interchange Fees, Liquidity, & Other Rulemakings

- Rep. Garbarino urged the Fed to not move forward with other proposals, such as its LTD rulemaking, until it finalizes the Basel rules.
- Rep. Fitzgerald opined that the LTD proposal should be rewritten and repropoed, and he also recommended that the Fed tailor the proposal to ensure that regional banks are not burdened as much as large banks. Chair Powell acknowledged the concerns raised by Rep. Fitzgerald about the LTD proposal.
- **Rep. Nikema Williams (D-GA)** contended that the Fed’s proposal to lower the interchange fee cap on debit card transactions could negatively impact low- and moderate-income communities. Specifically, Rep. Williams highlighted her concerns regarding the potential impact of the rulemaking on access to low to no cost banking services. When prompted, Chair Powell discussed the importance of public comment for understanding the impact of proposed rulemakings.
- Rep. Fitzgerald asked Chair Powell whether the Fed has considered how the proposed debit interchange rule would impact smaller financial institutions. Chair Powell did not provide a direct answer but stated that the Fed is aware of such concerns.
- Rep. Sherman asked whether the central bank would consider increasing the fraud prevention adjustment before finalizing the debit interchange rule. Chair Powell stated that the Fed is considering this idea.
- Rep. Garbarino asked Chair Powell to commit to conducting a public QIS and full notice and comment rulemaking before imposing any new liquidity requirements. Chair Powell committed to receiving input from the public but said that the central bank has not made any decisions on new liquidity requirements.
- When prompted by Rep. Foster, Chair Powell said that the Fed can start advancing liquidity proposals once the Basel rulemaking is finalized, perhaps as soon as later this year.
- **Rep. Juan Vargas (D-CA)** asked about steps the Fed is taking to address the financial risk of climate change. Chair Powell described the “limited” role of financial regulators in addressing climate change, adding that the Fed is mostly focused on ensuring that the financial institutions they supervise are sufficiently managing risks.
- Rep. Kim asked whether the Fed is considering increasing the transparency, consistency, and engagement of stress tests. Chair Powell stated that the Fed is open to enhancing the transparency of stress tests.
- Rep. Williams applauded the Fed’s [proposal](#) to expand the operating hours of the Fedwire Funds Service and the National Settlement Service.
- **Rep. Nydia Velázquez (D-NY)** asked why the Fed decided not to join a proposal from the FDIC, OCC, and Federal Housing Finance Agency (FHFA) on incentive-based compensation

arrangements. Chair Powell responded that the central bank is considering how the current situation might warrant changes to the proposal since it was mandated in 2010, particularly as it relates to “residual risks.”

- **Rep. Josh Gottheimer (D-NJ)** cited arguments that the Fed discount window is outdated and ineffective due to the stigma associated with its use. Chair Powell agreed that the Fed’s infrastructure needs to be modernized and added that the central bank is exploring several solutions to addressing the stigma associated with the discount window, including requiring that banks use the discount window. Additionally, Chair Powell argued that the requirement that the Fed publicize which banks use the discount window has also worsened the stigma.

Fed Independence & Chevron

- Ranking Member Waters continued to emphasize her concerns regarding the policies laid out in Project 2025, particularly the proposal to reform the Fed’s dual mandate, which she argued would decrease the central bank’s independence. Additionally, Ranking Member Waters was worried about how the policies outlined in Project 2025 would impact diversity, equity, and inclusion (DEI) efforts.
- **Rep. Emanuel Cleaver (D-MO)** advocated for maintaining the independence of the Fed. Chair Powell agreed on the importance of an independent Fed for promoting economic stability.
- When prompted by **Rep. Mike Flood (R-NE)**, Chair Powell discussed the importance of the Fed’s political independence in conducting its monetary policy.
- Rep. Hill applauded the Supreme Court’s decision to overturn the *Chevron* doctrine, and he urged the Fed to commit to issuing new rules only if they are specifically authorized by Congress. Chair Powell was unable to offer specifics but commented that the Fed has always been committed to following the law.
- Chair Powell was unable to answer when Reps. Torres and **Blaine Luetkemeyer (R-MO)** asked whether the overturning of the *Chevron* deference has implications for the Basel proposal, debit interchange proposal, and other rulemakings. However, Chair Powell maintained that the rulemakings were specifically authorized by Congress.

Housing, Real Estate, & Inflation

- Rep. Flood stressed his concerns regarding housing price inflation, pondering whether high housing costs are contributing to low consumer sentiment. Chair Powell agreed that high prices in general contribute to low consumer sentiment.
- **Rep. Wiley Nickel (D-NC)** echoed concerns about rising housing costs, and he discussed how high interest rates contribute to housing inflation. Chair Powell described his view that decreasing inflation, coupled with eventually lowering interest rates, is the Fed’s best path forward for addressing high housing costs, but he pointed to the housing shortage as driving costs.
- **Rep. Brittany Pettersen (D-CO)** was also worried about housing prices and pointed to the constrained housing supply as a primary cause.
- Rep. Pettersen invited Chair Powell to discuss the risks being posed by the state of the commercial real estate market. Chair Powell said that banks have been working to address

the declining commercial real estate market for a couple years, though he expected it will take them much longer to completely solve the issues. Chair Powell noted large concentrations of commercial real estate loans among regional and community banks.

- Rep. Meuser asked whether any data exists to substantiate “greedflation,” which refers to claims that inflation is due to corporate price gouging. Chair Powell said that inflation is largely attributable to strong demand and constrained supply.
- Reps. Flood, Meuser, Kim, De La Cruz, **Byron Donalds (R-FL)**, **Mike Lawler (R-NY)**, and Lucas each expressed their concerns regarding elevated inflation.
- In response to a question from Rep. Flood about when the Fed expects to cut rates, Chair Powell explained that the central bank wants “greater confidence” that inflation is sustainably decreasing before deciding to cut rates.
- When responding to a question from Rep. Velázquez about the path to “neutral” interest rates, Chair Powell predicted that it is unlikely the Fed will return to the “very low” interest rates seen prior to heightened inflation.
- **Rep. Ann Wagner (R-MO)** disputed claims regarding “shrinkflation,” arguing that producers are also facing price pressures.

Balance Sheet, Debt, Consolidation, Digital Assets, & SRTs

- With regards to the Fed’s balance sheet, Chair McHenry noted the Chair Powell has indicated the Fed will stop declines in the size of the balance sheet once they are somewhat above the level of “ample reserves.” Chair McHenry asked Chair Powell to define “ample reserves.” Chair Powell noted progress in decreasing the size of the balance sheet but stated that there is a “good ways to go.”
- When prompted by Rep. Hill, Chair Powell affirmed that he believes the U.S. is still on an “unsustainable fiscal path,” though he clarified that he does not believe the current level of debt is unsustainable.
- Reps. Nunn and Houchin asked whether Chair Powell is concerned about consolidation in the banking sector. Chair Powell underscored the importance of community banks, though he stated that regulators should not obstruct consolidation where it is necessary.
- Rep. Nickel applauded congressional efforts to advance legislation to regulate stablecoins. Chair Powell agreed on the importance of establishing a federal standard for stablecoins.
- Rep. Gottheimer criticized the Securities and Exchange Commission’s (SEC) Staff Accounting Bulletin (SAB) [No. 121](#) as essentially prohibiting banks from offering custody services for digital assets by requiring them to put custodied digital assets on their balance sheets. When asked whether the Fed has engaged with the SEC on the matter, Chair Powell answered in the negative.
- **Rep. Al Green (D-TX)** used his time to push for exempting small banks from the FDIC’s special assessment fee to replenish the Deposit Insurance Fund (DIF).
- Rep. Foster expressed his concerns with reports that some buyers of SRTs are purchasing them using bank-provided leverage, which he believes could just result in risk being brought back to the banking system. Chair Powell indicated that the Fed is aware of this issue, both in cases where risk is not fully offloaded through SRTs or that bank financing of SRT purchases results in risk being brought back to the banking system.