

SENATE BANKING COMMITTEE CONVENES OVERSIGHT HEARING OF FEDERAL RESERVE, FDIC, AND OCC

EXECUTIVE SUMMARY

On May 16, the Senate Banking Committee held a [hearing](#) to conduct oversight of the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC). The hearing included testimony from Fed Vice Chair for Supervision Michael Barr, FDIC Chair Martin Gruenberg, and Acting Comptroller Michael Hsu. During the hearing, senators from both parties were sharply critical of the FDIC and Chair Gruenberg in light of reports on the agency's workplace culture and misconduct. Several GOP senators explicitly called on the FDIC Chair to resign from his post, whereas many Democrats either defended Chair Gruenberg or emphasized their expectations for progress to be made in addressing these issues.

In response to a comment from Fed Vice Chair Barr about "broad material changes," a few Republican senators also urged the central bank to repropose the Basel III Endgame capital requirements [proposal](#). Vice Chair Barr further indicated that the Fed still plans to finalize the rulemaking in the fall. A couple Democrats urged the Fed to support a [proposal](#) from the FDIC, OCC, and Federal Housing Finance Agency (FHFA) to augment claw back authorities for bank executives' incentive-based compensation arrangements. There was also discussion of the 2023 bank failures, the Fed discount window, recent [updates](#) to the Community Reinvestment Act (CRA), bank merger guidelines, climate-related risks, and affordable housing.

OPENING STATEMENTS

Chair Sherrod Brown (D-OH) criticized the FDIC's workplace culture, referencing the recently published [third-party report](#). He called on Chair Gruenberg to "prove" his ability to address the "toxic" workplace culture at the FDIC, raising concerns about its potential impact on the agency's work to preserve the stability of the banking system. Chair Brown expressed support for the Basel proposal. Additionally, he highlighted the [proposal](#) from the FDIC, OCC, and FHFA to augment claw back powers for bank executives' incentive-based compensation arrangements, pushing the Fed to support the proposal. Finally, Chair Brown commented on the importance of a strong merger review process, noting the FDIC's [proposal](#).

Ranking Member Tim Scott (R-SC) was highly critical of the FDIC's workplace culture, calling for a hearing focused on the topic and urging Chair Gruenberg to resign from his position. Ranking Member Scott described specific allegations of misconduct at the agency. He echoed concerns about potential negative effects on the FDIC's mission of maintaining the U.S. banking system.

WITNESS TESTIMONY

Fed Vice Chair for Supervision Michael Barr ([testimony](#)) noted several risks to financial stability, particularly rising delinquencies in commercial real estate loans, credit cards, and auto loans. He highlighted the Fed's [long-term debt proposal](#), and Vice Chair Barr added that the Fed is exploring ways to address concerns regarding deposit outflows, held-to-maturity monetization, and the effectiveness of the discount window. Finally, he remarked that the Fed is closely reviewing public feedback on the Basel proposal and expects “broad material changes” to the proposal.

FDIC Chair Martin Gruenberg ([testimony](#)) discussed matters related to misconduct and cultural issues at the FDIC, expressing a commitment to address these problems. Chair Gruenberg indicated that the FDIC plans to “swiftly” comply with recommendations outlined in the third-party report, and he announced the creation of independent positions tasked with overseeing the FDIC’s workplace environment.

Acting Comptroller Michael Hsu ([testimony](#)) highlighted the OCC’s priorities for 2024, such as: (1) asset liability management; (2) credit risk; (3) allowance for credit losses; (4) cybersecurity; and (5) operational and consumer compliance risk. Mr. Hsu touted the agency’s efforts to address overdraft fees, and he also drew attention to the OCC’s recently released [risk management guide](#) for community banks seeking to partner with fintech firms.

DISCUSSION AND QUESTIONS

FDIC Workplace Culture

- Chair Brown observed doubts among agency staff that the steps outlined by the FDIC’s leadership will bring changes to the agency’s culture. In response, Chair Gruenberg assured the committee that the new independent positions will help to increase accountability and oversight.
- Ranking Member Scott, **Sens. Catherine Cortez Masto (D-NV), Mike Rounds (R-SD), Mark Warner (D-VA), John Kennedy (R-LA), Bill Hagerty (R-TN), Laphonza Butler (D-CA), J.D. Vance (R-OH), Raphael Warnock (D-GA), Katie Britt (R-AL), Steve Daines (R-MT), and Chris Van Hollen (D-MD)** criticized the FDIC’s workplace culture and reports of misconduct.
- Ranking Member Scott, Sens. Rounds, Kennedy, Hagerty, Britt, and Daines called on Chair Gruenberg to resign.
- **Sen. Elizabeth Warren (D-MA)** pushed back against calls for Chair Gruenberg to resign, characterizing them a “political exercise” to get Republican FDIC Vice Chair Travis Hill to assume the top position at the agency.
- **Sens. Tina Smith (D-MN)** and Butler expressed confidence in Chair Gruenberg’s ability to address workplace culture issues at the FDIC.
- Chair Gruenberg agreed when Sen. Warnock asked the FDIC to provide the committee with a written progress report on its implementation of the recommendations outlined in the third-party report.

Basel III Endgame Proposal

- Ranking Member Scott and Sen. Rounds urged the Federal Reserve to repropose its Basel rulemaking to allow for public comment on changes to the proposal. Vice Chair Barr responded that Fed staff and officials are currently focused on the substance of the Basel proposal, after which they will consider how to best move forward with the rulemaking. Ranking Member Scott was concerned about how the increased capital requirements under the Basel proposal will impact accessibility to mortgages and small business loans.
- Sen. Rounds urged the Fed to provide a “work sheet” to the committee outlining the changes that have been made to the Basel proposal. Vice Chair Barr stated that this is outside of the regulators’ normal rulemaking process.
- Sen. Warner attributed the pushback against the Basel proposal to the lack of “evidence-based” analysis of the cumulative effect of rulemakings from prudential regulators. He asked the central bank to publicly provide this analysis prior to finalizing the rule.
- Sen. Warren emphasized the importance of the Basel proposal, and Vice Chair Barr answered yes when she asked whether the Fed still plans to finalize the rulemaking in the Fall.

Bank Failures, Discount Window, CRA, Compensation, & Mergers

- Sen. Vance described incongruities between the figures provided by the FDIC and public estimates regarding the sale of First Republic to JP Morgan, particularly as it relates to the loss estimates of the sale. He criticized FDIC staff for failing to sufficiently engage with his office on this issue.
- Sen. Warner referenced the 2023 bank failures, arguing that liquidity risk management tools — specifically the Fed discount window — have fallen behind technological changes in the banking system. He stated that he plans to introduce legislation to reform the discount window and address the “stigma” of its use by mandating that banks engage in “test borrowing.” The bill would require banks to prove that they can tap the discount window, Sen. Warner added. Mr. Hsu seemed supportive of reforms to the discount window.
- Sens. Smith and Van Hollen both applauded recently finalized updates to the CRA to address technological and business practice changes in the banking sector. The witnesses all emphasized the importance of the CRA updates, describing the stakeholder input that was gathered to inform the updates.
- Sens. Warren and Van Hollen touted the incentive-based compensation proposal from the FDIC, OCC, and FHFA, and asked whether the Fed would support the proposal. Vice Chair Barr committed to implementing the Dodd-Frank statute but did not offer specifics, instead stating that the central bank wants to further analyze the proposal before coming to a decision.
- Sen. Warren criticized the OCC’s proposed updates to its merger guidelines, noting that it does not comment on evaluating the impact of mergers on competition. Mr. Hsu remarked that the OCC is working on resolving this issue.
- Sen. Warren asked when the Fed plans to issue its proposed updates to its merger guidelines. Vice Chair Barr said that the central bank does not anticipate releasing its own updates but is instead working with the FDIC and OCC on their respective proposals.

Climate-Related Risks & Affordable Housing

- Sen. Smith stressed her concerns regarding rising homeowner insurance rates due to climate-related severe weather events. She asked Vice Chair Barr to discuss the potential climate-related risks to financial institutions. Vice Chair Barr pointed to the recently concluded Climate Scenario Analysis ([CSA](#)) that examined these risks at the largest U.S. banks, and he noted a finding that many banks do not have complete information regarding which properties are and are not covered by insurance.
- Sen. Butler described the negative impact of the failures of Silicon Valley Bank (SVB) and First Republic on the financing of affordable housing projects in California, and she asked Vice Chair Barr to explain how the Fed is working to ensure that financing of these projects is not jeopardized. Without going into specific detail, Vice Chair Barr stated that the Fed is working to make improvements to its supervisory framework.