House Financial Services Republicans Defend Industry Donors From Enhanced Capital Requirements, Ignoring The Carnage Of Historic March 2023 Bank Failures

Summary: In July 2023, federal regulators from the Office of the Comptroller of the Currency (OCC), the Federal Reserve System Board of Governors(Federal Reserve), and the Federal Deposit Insurance Corporation (FDIC) announced new proposed rulemaking enhancing capital requirements for banks with $100 billion or more in assets, including the calculation of "unrealized gains and losses from certain securities in their capital ratios."

These changes are seen as a direct reaction to the string of major bank failures starting in March 2023, when Silicon Valley Bank and Signature bank became "two of the largest U.S. banks to fail since the Great Depression of the 1930s." In early May 2023, First Republic became the second-largest bank to fail in U.S. history. These failures were partly due to "the plunge in the value of bonds," with Silicon Valley Bank having "$1.8 billion in paper losses" at the end of 2022.

A litany of banking and other industry trade groups have come out against the much-needed changes to capital requirements. In September 2023, the Bank Policy Institute, the American Bankers Association, the Financial Services Forum, the Institute of International Bankers, the Securities Industry and Financial Markets Association, and the U.S. Chamber of Commerce submitted a comment letter blasting the proposed capital requirement changes, arguing the agencies failed to adhere to the Administrative Procedure Act in releasing the proposal.

Since the March 2023 bank failures, several Republican members of the House Financial Services Committee have joined Senate Republicans in coming out against enhanced capital requirements, attacking the federal regulators' proposal as "hinder[ing] small business growth" and "taking advantage of recent instability in the well-capitalized banking system to push through their long-held priority of raising capital requirements of our nation's banks."

Unsurprisingly, these attacks from HFSC Republicans come amid **$77,500 in contributions from industry groups opposed to the enhanced capital requirements.**

- **Since March 2023, House Financial Services Chair Patrick McHenry (R-NC)**—who criticized regulators in July 2023 as "taking advantage of recent instability in the well-capitalized banking system to push through their long-held priority of raising capital requirements of our nation's banks"—**has received $25,500 from industry groups opposed to enhanced capital requirements.**

- **Since March 2023, Rep. Frank Lucas (R-OK)**—who voiced concerns that month that proposed changes "could increase the cost of hedging to end-users [of commodity derivatives]"—**has received $3,500 from industry groups opposed to enhanced capital requirements.**

- **Since March 2023, Rep. Blaine Luetkemeyer (R-MO)**—who in November 2023 criticized the proposed changes as placing an "excessive burden on banks, businesses, and individuals to meet higher capital requirements"—**has received $16,500 from industry groups opposed to enhanced capital requirements.**

- **Since March 2023, Rep. Andy Barr (R-KY)**—who in September 2023 criticized the proposal as being "incorrectly pushed as a response to the March banking instability"—**has received $9,000 from industry groups opposed to enhanced capital requirements.**

- **Since March 2023, Rep. Roger Williams (R-TX)**—who attacked the proposal in July 2023 as "ha[ving] the potential to inadvertently hinder small business growth and their contributions to the economy"—**has received $2,500 from industry groups opposed to enhanced capital requirements**.

- **Since March 2023, Rep. Dan Meuser (R-PA)**—who slammed the proposal in July 2023 as "jeopardiz[ing] our American small businesses' access to affordable and reliable credit nationwide" —**has received $8,500 from industry groups opposed to enhanced capital requirements.**

- **Since March 2023, House Financial Services Vice Chair French Hill (R-AR)**—who in October 2023 said there was "[nothing] that's more concerning to [him]" than the proposed capital requirements rule—**has received $12,000 from industry groups opposed to enhanced capital requirements.**

In July 2023, Federal Regulators Announced New Rulemaking Enhancing Capital Requirements For Banks With $100 Billion Or More In Assets, Including The Calculation Of "Unrealized Gains And Losses From Certain Securities In Their Capital Ratios," A Direct Reaction To The String Of Major Bank Failures Starting in March 2023.

In July 2023, The Office Of The Comptroller Of The Currency (OCC), The Board Of Governors Of The Federal Reserve System (Federal Reserve), And The Federal Deposit Insurance Corporation (FDIC) Announced New Rulemaking Seeking To Enhance Capital Requirements for Banks with $100 Billion Or More In Assets—A Move Seen As Improving Risk Management For Targeted Banks And Making Regulators' Supervisory And Market Assessments More Effective.

July 2023: The Office Of The Comptroller Of The Currency (OCC), The Board Of Governors Of The Federal Reserve System (Federal Reserve), And The Federal Deposit Insurance Corporation (FDIC) Issued A Joint Notice Of Proposed Rulemaking Seeking To "Substantially Revise" Capital Requirements For Banks With $100 Billion Or More In Assets. "On July 27, 2023, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) issued a joint notice of proposed rulemaking to substantially revise the regulatory capital requirements applicable to banking organizations with total assets of $100 billion or more and their subsidiary depository institutions (large banking organizations) and banking organizations with significant trading activity." [Office of the Comptroller of the Currency, 07/27/23]

The Proposed Changes Were Seen As Improving Risk Management For Targeted Banks And Making Regulators' Supervisory And Market Assessments More Effective. "The proposed revisions would improve the calculation of risk-based capital requirements to better reflect the risks of these banking organizations' exposures, reduce the complexity of the framework, enhance the consistency of requirements across these banking organizations, and facilitate more effective supervisory and market assessments of capital adequacy." [Office of the Comptroller of the Currency, 07/27/23]

The Proposed Capital Requirement Rule Would Require Targeted Banks, "Include Unrealized Gains And Losses From Certain Securities In Their Capital Ratios," In Reaction To A String Of Major Bank Failures Starting In March 2023.

In Reaction To The "Banking Turmoil In March 2023," The Proposed Rules Would Require Banks With $100 Billion Or More In Assets To "Include Unrealized Gains And Losses From Certain Securities In Their Capital Ratios," Among Other Changes. "Additionally, following the banking turmoil in March 2023, the proposal seeks to further strengthen the banking system by applying a consistent set of capital requirements across large banks. In particular, the proposal would require banks with total assets of $100 billion or more to: [...] Include unrealized gains and losses from certain securities in their capital ratios; [...] Comply with the supplementary leverage ratio requirement; and [...] Comply with the countercyclical capital buffer, if activated." [Federal Deposit Insurance Corporation, 07/27/23]

In March 2023, Silicon Valley Bank And Signature Bank, With Assets Over $209 And $110 Billion Respectively At The End Of 2022, Became "Two Of The Largest U.S. Banks To Fail Since The Great Depression Of The 1930s." "The collapses in March of Silicon Valley Bank (SVB) and Signature Bank – two of the largest U.S. banks to fail since the Great Depression of the 1930s – have led some to wonder if the nation may be headed for a new widespread banking crisis. SVB, which catered to technology startups and venture capital firms, had more than $209 billion in assets at the end of 2022, making it the second-biggest bank to fail since the Federal Deposit Insurance Corporation (FDIC) started keeping records in 1934. Signature – which counted many big New York law firms and real estate companies as customers and was one of the few mainstream banks to seek out cryptocurrency deposits – had nearly $110.4 billion in assets at the end of 2022, ranking it as the fourth-largest bank failure after adjusting for inflation." [Pew Research, 04/11/23]

In May 2023, First Republic Bank Became The Third American Bank To Fail In Recent Months Despite A "Last-Ditch Effort To Persuade Rival Lenders To Keep The Ailing Bank Afloat Failed." "Regulators took possession of First Republic on Monday, resulting in the third failure of an American bank since March, after a last-ditch effort to persuade rival lenders to keep the ailing bank afloat failed. JPMorgan Chase, already the largest U.S. bank by several measures, emerged as winner of the weekend auction for First Republic. It will get all of the ailing bank's deposits and a 'substantial majority of assets,' the New York-based bank said." [CNBC, 05/01/23]

Silicon Valley Bank's Failure Was Seen As Partly Due To "The Plunge In The Value Of Bonds" It Held, Which Caused "$1.8 Billion In Paper Losses" At The End Of 2022.

At The End Of 2022, Silicon Valley Bank Disclosed "$1.8 Billion In Paper Losses On Some Bonds At The End Of 2022." "Silicon Valley Bank disclosed it had $1.8 billion in paper losses on some bonds at the end of 2022. And yet the lender didn't reduce a key measure of capital strength monitored by regulators. Those losses became existential for the bank once it was forced to sell these assets, triggering a run that ended with the bank's seizure on March 10." [Yahoo! Finance, 03/19/23]

Silicon Valley Bank's Failure Was Partly Due To "The Plunge In The Value Of Bonds It Acquired During Boom Times." "SVB's downfall was tied, in part, to the plunge in the value of bonds it acquired during boom times, when it had a lot of customer deposits coming in and needed somewhere to park the cash." [CNN, 03/12/23]

Banking Industry Trade Groups Have Come Out Against The Proposed Changes To Capital Requirements, Arguing Federal Regulators Violated The Administrative Procedure Act In Introducing The Rule.

In September 2023, The American Bankers Association, The Bank Policy Institute, And Several Other Trade Groups Spoke Out Against The Proposed Capital Requirement Changes, Arguing Agencies Failed To Adhere To The Administrative Procedure Act In Releasing The Proposal.

September 2023: The American Bankers Association, The Bank Policy Institute, And Several Other Trade Groups Sent A Comment Letter To Federal Financial Regulators Criticizing Their Proposed Changes To Capital Requirements As A "Violation Of The Law." "Proposed capital requirements for larger banks rely on data and analyses that federal agencies have not made publicly available, which is in violation of the law, the American Bankers Association, Bank Policy Institute and four other trade groups said today in a letter to regulators. The groups also criticized the agencies' stated goal of continuing to gather information on the effects of the rulemaking during the public comment period, saying such a strategy doesn't give the public adequate time to weigh in on the data collected." [ABA Banking Journal, 09/12/23]

- **The Letter Was Sent By The Bank Policy Institute, The American Bankers Association, The Financial Services Forum, The Institute Of International Bankers, The Securities Industry And Financial Markets Association And The U.S. Chamber Of Commerce.** [American Bankers Association, 09/12/23]

The Trade Groups Attacked The Proposal As Violating The Administrative Procedure Act, Due To "Failing To Publicly Disclose" The Data Backing Up Their Rulemaking. "The FDIC, Federal Reserve and OCC in July proposed new capital requirements for banks with more than $100 billion in assets that would implement the so-called 'Basel III endgame' standards. In their letter, the associations said the proposal violates the Administrative Procedure Act, which requires agencies to publicly disclose the data and analyses on which their rulemaking is based. That has not happened in the case of the capital requirements, which in many instances refer to information that has not been made public, the groups said." [ABA Banking Journal, 09/12/23]

In Their Letter, The Trade Groups Urged The Agencies To "'Suspend The Current Open Rulemaking, Complete Any Data Collection And Analysis Necessary To Support Their Crafting And Calibration Of The Rule, Re-Propose The Rule In Light Of The Additional Analyses And Data, And Make That Information Available To The Public.'" "In addition, they criticized the agencies' plans to collect additional data 'to refine estimates of the rule's effects,' noting the purpose of the comment period is for the public to review the agency's proposal, including any supporting evidence, and not for the agencies to finish doing work 'that should have been completed before issuing the proposal.' The agencies 'must suspend the current open rulemaking, complete any data collection and analysis necessary to support their crafting and calibration of the rule, re-propose the rule in light of the additional analyses and data, and make that information available to the public and then allow commenters an opportunity to respond,' the associations said. 'Any other approach would violate the agencies' duty to identify and make available for public review and comment the technical studies and data on which any rule is based.'" [ABA Banking Journal, 09/12/23]

Since The March 2023 Bank Failures, Several House Financial Services Republicans Have Attacked Proposed Increases To Capital Requirements—Alongside Recent Opposition From Senate Banking Republicans—While Receiving $77,500 From Industry Groups Also Opposed To Enhanced Capital Requirements.

Since March 2023, Several Republican Members Of The HFSC Have Come Out Against Enhanced Capital Requirements, Attacking The Federal Regulators' Proposal As "Hinder[ing] Small Business Growth" And "Taking Advantage Of Recent Instability In The Well-Capitalized Banking System To Push Through Their Long-Held Priority Of Raising Capital Requirements Of Our Nation's Banks."

Since March 2023, Several House Financial Services Committee Republicans Have Come Out Against Enhanced Capital Requirements, Including The Federal Regulators' Proposed Capital Requirements Rule:

HFSC Republican	Statement Against Changes To Capital Requirements
HFSC Chair Patrick McHenry (R-NC)	July 2023: "Biden appointees are taking advantage of recent instability in the well-capitalized banking system to push through their long-held priority of raising capital requirements of our nation's banks. The consideration of a sweeping rewrite of regulations threatens to increase borrowing costs and further hammer consumers already struggling to make ends meet."
Rep. Frank D. Lucas (R-OK)	March 2023: "The U.S. banking regulators are in the initial phases of proposed changes to bank capital requirements. And as I raised to Federal Reserve Chairman Powell yesterday during his testimony before the Financial Services Committee, I'm concerned that this could increase the cost of hedging to end-users."
Chair of the HFSC Subcommittee on National Security, Illicit Finance, and International Financial Institutions Rep. Blaine Luetkemeyer (R-MO)	November 2023: "The Basel III Endgame proposal places an excessive burden on banks, businesses, and individuals to meet higher capital requirements. Despite the supremacy of the U.S. financial system, the Federal Reserve, FDIC, and Office of the Comptroller of the Currency (OCC) aim to adopt European standards lacking U.S. input. Rep. Luetkemeyer has previously expressed concerns over the plan's impact on small businesses and lower-income individuals attempting to access necessary loans."
Chair of the HFSC Subcommittee on Financial Institutions and Monetary Policy Andy Barr (R-KY)	September 2023: "The Basel-related proposal is incorrectly pushed as a response to the March banking instability, has been delivered in an underdeveloped and hurried fashion, and, in many crucial areas, is glaringly arbitrary and capricious."
Rep. Roger Williams (R-TX)	July 2023: "The Federal Reserve's proposal to increase bank capital requirements has the potential to inadvertently hinder small business growth and their contributions to the economy. This would increase borrowing costs and reduce credit access, which businesses rely on to expand their operations. It is crucial for the Federal Reserve to review this policy and consider its impact on the small business lending community."
Rep. Dan Meuser (R-PA)	July 2023: "'As a member of the Small Business and Financial Services Committees, I understand the connection between the financial system and main street,' said Congressman Dan Meuser. 'The Fed's proposed increase to capital requirements jeopardizes our American small businesses' access to affordable and reliable credit nationwide.'"
HFSC Vice Chair French Hill (R-AR)	October 2023: "Let me conclude with Basel III. I'm concerned about the avalanche of the regulatory proposals that are coming out – the SEC, the [CFPB], the DOL, because many, many of them are what I call pro-cyclical. You're going into a weaker economy - they're going to make that weaker economy worse. As opposed to being a counter-cyclical approach. I don't think there's anything that's more concerning to me than the approach that's being taken in public, I'll say that, by the Federal Reserve with Vice-Chairman Barr on Basel III."

Since A String Of Bank Failures Starting In March 2023, HFSC Republicans Opposed To Enhanced Capital Requirements Have Received A Combined $77,500 From Industry Groups Opposed To The Federal Regulators' Proposed Changes.

Since A String Of Bank Failures Starting In March 2023, HFSC Republicans Came Out Against Enhanced Capital Requirements, Including The Federal Regulators' New Proposed Changes, Have Received $77,500 From Industry Groups Also Opposed To Capital Requirement Changes:

HFSC Republican	American Bankers Association	Bank Policy Institute	Financial Services Forum	Securities Industry and Financial Markets Association	U.S. Chamber of Commerce	TOTAL
Rep. Patrick McHenry (R-NC)	$5,000	$5,000	$5,000	$7,000	$3,500	$25,500
Rep. Frank D. Lucas (R-OK)	$2,500	$0	$0	$1,000	$0	$3,500
Rep. Blaine Luetkemeyer (R-MO)	$10,000	$1,500	$0	$5,000	$0	$16,500
Rep. Andy Barr (R-KY)	$5,000	$1,500	$1,000	$1,500	$0	$9,000
Rep. Roger Williams (R-TX)	$2,500	$0	$0	$0	$0	$2,500
Rep. Dan Meuser (R-PA)	$7,500	$0	$1,000	$0	$0	$8,500
Rep. French Hill (R-AR)	$5,000	$1,500	$1,000	$4,500	$0	$12,000
					TOTAL:	$77,500

*Figures include contributions to sponsored leadership PACs

In November 2023, Senate Banking Committee Ranking Member Tim Scott (R-SC) Led A Group Of 39 Senate Republicans In A Letter Urging Federal Regulators To Withdraw Their Proposed Capital Requirements Rule.

November 2023: Senate Banking Committee Ranking Member Tim Scott (R-SC) Led A Group Of 39 Republicans In Urging Federal Regulators To Withdraw Their Proposed Capital Requirements Rule. "Ranking Member Tim Scott (R-S.C.) is leading 38 of his colleagues in urging the Federal Reserve (Fed), Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) to withdraw the Basel III Endgame proposal. The Senate Banking Committee is set to hear testimony from the financial regulators tomorrow, where Republicans will press the regulators on their many burdensome regulations that fail to consider the downstream impacts on everyday Americans, including the Basel III Endgame proposal." [Senate Banking Committee, 11/13/23]

Senate Republicans Criticized The Proposed Rule As "Curb[ing] Banks' [Lending] Activity By Forcing Them To Hold More Capital." "Republicans have been consistently critical of the so-called 'Basel III endgame' proposal, but Monday's letter marks one of the broadest, most explicit attempts so far to derail that effort, as lawmakers contend the proposal, if finalized, could curb banks' activity by forcing them to hold more capital." [Reuters, 11/13/23]