STATEMENT OF

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on

“The Federal Regulators’ Response to Recent Bank Failures”

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

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Chairman McHenry, Ranking Member Waters, and other members of the Committee, thank you for inviting me to testify today.

I have had the opportunity to speak with committee members several times in recent days to share updates from Treasury regarding current events. In light of that, I will keep my introductory remarks brief.

The American economy relies on a healthy banking system – one that includes large, small and mid-size banks and provides for the financial needs of families, businesses, and local communities. Households depend on banks to finance their cars and homes and build their savings. Businesses borrow from banks to start and expand their operations, creating jobs for American workers and benefits for their local economies.

Nearly three weeks ago, problems emerged at two banks with the potential for immediate and significant impacts on the broader banking system and the economy. The situation demanded a swift response. In the days that followed, the federal government took decisive actions to strengthen public confidence in the U.S. banking system and protect the American economy.

On March 9th, depositors of Silicon Valley Bank (SVB), withdrew $42 billion in deposits in a period of just a few hours. After concluding that significant deposit withdrawals would continue the next day, the California state regulator closed SVB and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver on March 10th. Two days later, on Sunday March 12th, the New York regulator closed Signature Bank, which also had experienced a depositor run, and appointed the FDIC as receiver.

Treasury worked to assess the effects of these failures on the broader banking system, consulting regularly with the Federal Reserve and FDIC. On Sunday evening, recognizing the urgency of reducing uncertainty for Monday morning, Treasury, the Federal Reserve, and the FDIC announced a number of actions to stem uninsured depositor runs and to prevent significant disruptions to households and businesses.

First, the boards of the FDIC and the Federal Reserve unanimously recommended, and Secretary Yellen approved after consulting with the President, two actions that would enable the FDIC to complete its resolutions of the two banks in a manner that fully protects all of their depositors. These actions ensured that businesses could continue to make payroll and that families could access their funds. Depositors were protected by the Deposit Insurance Fund. Equity holders and bond holders were not covered.

Second, the Federal Reserve created the Bank Term Funding Program, a new facility to provide term funding to all insured depository institutions eligible for primary credit at the discount window, based on their holdings of Treasury and government agency securities. This program, along with its pre-existing discount window, has helped banks meet depositor demands and bolstered liquidity in the banking system.

This two-pronged, targeted approach was necessary to reassure depositors at all banks, and to protect the U.S. banking system and economy. These actions have helped to stabilize deposits throughout the country and provided depositors with confidence that their funds are safe.

In addition to these actions, on March 16th, 11 banks deposited $30 billion into First Republic Bank. The actions of these large and mid-size banks represent a vote of confidence in the banking system and demonstrate the importance of banks of all sizes working to keep our economy strong. Moreover, on March 20th the deposits and certain assets of Signature Bridge Bank were acquired from the FDIC, and on March 26th the deposits and certain assets of Silicon Valley Bridge Bank were acquired from the FDIC.

We continue to closely monitor developments across the banking and financial system, and coordinate with Federal and state regulators. As Secretary Yellen has said, we have used important tools to act quickly to prevent contagion. And they are tools we would use again if warranted to ensure that Americans' deposits are safe.

Looking forward, while we do not yet have all the details about the failures of the two banks, we do know that the recent developments are very different from those of the Global Financial Crisis. Back then, many financial institutions came under stress because they held low credit-quality assets. This was not at all the catalyst for recent events. Our financial system is significantly stronger than it was 15 years ago. This is in large part due to post-crisis reforms for stronger capital and liquidity requirements.

As you know, the Federal Reserve announced a review of the failure of SVB and the FDIC a review of Signature bank. I fully support these reviews and look forward to learning more in order to inform any regulatory and supervisory responses. We must ensure that our bank regulatory policies and supervision are appropriate for the risks and challenges that banks face today.

The American financial system is strong in part because of our dynamic and diverse banking system. Large, small, and mid-size banks all play an important role in our economy. Small and mid-size banks, including community banks, serve a vital role in providing credit and financial support to families and small businesses. Smaller banks provide 60% of loans to US small businesses.[1] Their specialized knowledge, expertise, and relationships in their communities enable them to capably serve customers, and their presence increases competition in the banking sector for the benefit of consumers.

I want to thank the Committee for its leadership on these important issues and for inviting me here to testify today. I look forward to your questions.

[1] https://cdn.advocacy.sba.gov/wp-content/uploads/2022/07/12095600/2020-Small-Business-Lending-Report-508c.pdf