Welcome to a hearing of the Senate Banking, Housing, and Urban Affairs' Subcommittee on Economic Policy.

The rapid collapse of three banks—Silicon Valley Bank, Signature Bank and First Republic Bank—was a shock. These three bank failures together put more assets at risk than the 25 bank failures in the 2008 crash.

Silicon Valley Bank's failure was another symptom in what has become a predictable string of failures in the governance of the Federal Reserve. SVB's collapse and the other bank failures it triggered forced the FDIC, the Treasury Department, and other regulators to rush to the rescue to avoid implosion of our banking system. So far, the FDIC Insurance Fund has suffered billions of dollars of losses, and, as a result of the bailouts, America's biggest too-big-to-fail bank got even bigger.

The failure of those banks was a first-order management disaster. Same old story: their executives took too much risk, got too greedy, and blew up their banks. Those executives need to be held accountable – and I'm working on bipartisan legislation to claw back money when executives take big bonuses for blowing up their banks.

But look deeper. The implosion of all three banks are rooted in the failure of those banks' regulators and supervisors – most notably, the Federal Reserve.

The Fed's own report on the SVB failure identified problems high and low, finding that as SVB got bigger and bigger, the Fed's Board of Governors, under the direct leadership of Jerome Powell, weakened banking regulations. This is exactly the kind of deregulatory shift I warned about in 2018 when I opposed Powell's nomination as Fed Chair and again in 2021 when I said that he was a dangerous man to keep at the Fed.

Notably, the Fed's report also laid blame at the feet of Congress for passing legislation to weaken bank rules – an agenda that Chair Powell eagerly embraced.

The Fed's report also found that bank examiners at the San Francisco Fed, which was SVB's regulator on the ground, followed orders from the Fed and backed off, allowing SVB's executives to pile on more and more risk. Now the San Francisco Fed and the Board of Governors are pointing fingers at each other, playing a pathetic game of "not it" while they each try to duck any accountability.

The Fed is independent within the government and needs to maintain that independence when it comes to doing its primary job of setting interest rates. Independence should not be conflated with a total lack of accountability when the Fed and its leadership make serious mistakes. Unfortunately, the Fed has faced little accountability. In recent years, a growing list of scandals has tarnished the Fed's reputation and its credibility.

In 2021, high-level Fed officials were embroiled in a scandal involving stock and other financial trades made even as the Fed took extraordinary action to right the economy during the COVID pandemic. The Fed responded with a sham investigation by the Fed's own Inspector General—an official hired and fired by the Fed itself. This investigation failed to look into key aspects of the scandal. Even when the Fed IG found that there was improper trading in Chair Powell's accounts, it imposed no consequences.

And when Congress tried to get information from the Fed Board and from the regional Reserve Banks on the scope of this scandal and the response, we got the cold shoulder. The Fed simply refused to turn over key documents and information to Congress and stopped any outside investigation in its tracks.

That's not all. Reports have surfaced about Fed leadership giving secret speeches and sensitive information to bankers and bankers' wealthy clients. We learned that – unbelievably – the President of SVB sat on the Board of the San Francisco Fed up until the day the bank failed.

The culture of corruption at the Fed has already undermined the Fed's credibility with the American public.

The hearing today will discuss proposals that would make the Fed more transparent and accountable to help restore some of that credibility.
I've got an idea – a bipartisan idea that I'm introducing with Sen. Rick Scott today: get the big bankers off the Reserve Banks boards of directors.

And there's more. Senator Scott and I also introduced a bill, which was included in a separate bill with Sen. Tillis, to give the Fed a true, Senate-confirmed independent Inspector General to serve as an agency watchdog.

Mark Bee-all-ick, the current Fed IG, is here today. Mr. Bee-all-ick, I appreciate your joining us, because I know you have a busy schedule. And I want you to know that my concern about your current role is not personal. My concern is institutional. You were chosen by then-Fed Chairman Ben Bernanke in 2011, and you serve today at the discretion of Chair Powell and the Board. In other words, you are supposed to be the watchdog of exactly the people who hired you and who have the power to fire you. That dynamic tends to create watchdogs that don't bark.

At best, you are in an impossible, compromised position when it comes to investigating wrongdoing at the Fed. To restore confidence in the Fed, we need a strong, Senate-confirmed Inspector General to conduct rigorous, independent oversight.

I appreciate your joining us, and I look forward to discussing these and other matters today.