United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

October 13, 2021

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chair Powell,

As Governor Quarles's term as Vice Chair for supervision expires on October 13, 2021, I am writing to request that the Board cease any further deregulatory actions until the President has chosen a slate of Board appointees for upcoming terms and Congress has had the opportunity to consider their confirmation.

When Vice Chair Quarles was confirmed to his position, banking lobbyists cheered.[1] Not only did he immediately set out a plan[2] to shift post-crisis rules to benefitting industry interests over protecting working families, he dutifully continued his deregulatory efforts even as the economy was shaken by a global pandemic. I am deeply concerned about these efforts during a global economic crisis.

Just days before the World Health Organization declared COVID-19 to be a pandemic, the Board approved a rule that drastically reduced bank capital requirements across the financial system and gutted the efficacy of the Fed's stress-testing regime.[3] The failure of regulators to consider future risks to the banking system was a key cause of the 2008 crisis, and this rule stands as proof of the "collective amnesia" that has set in just a decade later.

Throughout the pandemic, despite warnings from regulatory experts, Congress, and even members of the Board, deregulation of critical capital and liquidity rules for a host of risky bank activities continued, even as unemployment reached its highest level since we began tracking it in 1948.[4] Vice Chair Quarles even mounted a campaign[5] to use the pandemic as an excuse to gut the supplementary leverage ratio, providing the biggest banks with a deregulatory gift they had been seeking for years.[6]

To defend this reduction in capital *requirements*, Fed officials have misleadingly responded that current capital *levels* are relatively high. As the Federal Reserve Bank of Minneapolis has pointed out[7], this ignores the impact of the enormous interventions the Fed took during the pandemic to shore up credit markets and provide a backstop to the entire financial system, benefitting bank balance sheets despite the reduction in regulatory standards.

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[1] https://bankingjournal.aba.com/2017/10/senate-confirms-quarles-as-feds-top-bank-regulator/
[2] https://www.federalreserve.gov/newsevents/speech/files/quarles20180119a.pdf
[3] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200304a.htm
[4] https://www.bls.gov/opub/ted/2020/unemployment-rate-rises-to-record-high-14-point-7-percent-in-april-2020.htm
[5] https://www.americanbanker.com/news/fed-likely-to-tweak-capital-measure-because-of-pandemic-quarles-says
[6] https://bpi.com/shortcomings-of-the-leverage-ratio/
[7] https://www.minneapolisfed.org/article/2021/government-fiscal-support-protected-banks-from-huge-losses-during-the-covid-19-crisis

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Governor Quarles's tenure over the Fed's supervisory and regulatory agenda has been a failure that must come to a close with the end of his Vice Chairmanship. A new direction for financial regulation must be determined by whomever the President chooses, and Congress confirms, to critical leadership positions on the Board.

Sincerely,

Sherrod Brown

Sherrod Brown
Chairman
US Senate Committee on Banking, Housing and Urban Affairs