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

March 10, 2025

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

Dear Chair Powell:

I write today – two years after the collapse of Silicon Valley Bank ("SVB") – to express serious concern with the lack of accountability the Federal Reserve Board has imposed on the bank's Board of Directors and senior management ("executives") and to request information regarding your efforts to investigate SVB's executives. These executives drove the bank into the ground, requiring extraordinary government intervention and costly support to stave off another catastrophic banking crisis that would have harmed working families. But the Federal Reserve Board has not exercised its clear enforcement authorities against the individuals that egregiously violated banking laws and regulations. The Federal Reserve Board has also failed to complete any meaningful rulemakings to prevent another similar blow-up, including the executive compensation rules required by Section 956 of the Dodd-Frank Act. This is an abdication of your responsibility to maintain the safety and soundness of the nation's banking system and an invite for future mismanagement by the next generation of wealthy bank executives.

SVB grew rapidly in the years prior to its failure. From the end of 2018 to the end of 2021, the bank tripled in size, while the banking sector grew by only 29%.[1] The bank also relied heavily on risky uninsured deposits. At the end of 2022, 94% of SVB's deposits were uninsured and highly concentrated in venture-capital-backed technology and life sciences companies.[2] SVB also took on substantial interest rate risk, as it was heavily invested in longer duration securities.[3] This combination was a toxic mix, especially as the first Trump Administration rolled back rules on banks of this size.[4] These risks came to a head as the Federal Reserve rapidly raised interest rates

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[1] Board of Governors of the Federal Reserve System, Michael S. Barr, Vice Chair for Supervision, "Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank," April 28, 2023, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[2] *Id.*

[3] *Id.*

[4] Board of Governors of the Federal Reserve System, "Statement by Governor Lael Brainard," press release, October 10, 2019, https://www.federalreserve.gov/newsevents/pressreleases/brainard-statement-20191010.htm.

starting in 2022.[5] On March 8, 2023, SVB announced the sale of $21 billion of securities at a nearly $2 billion loss, and an intention to raise capital.[6] The next day, the bank suffered a $40 billion run by depositors.[7] It was closed on March 10, 2023, by the California Department of Financial Protection and Innovation after another $100 billion of depositors lined up to pull their funds.[8]

On March 12, 2023, the Secretary of the Treasury, after consultation with the President and at the unanimous recommendation of the Federal Reserve Board and Federal Deposit Insurance Corporation ("FDIC") Board of Directors, made the decision to backstop the uninsured depositors of SVB and Signature Bank, which also failed that day.[9] In addition, the Federal Reserve Board announced an emergency lending facility that enabled banks to borrow against certain underwater securities at their face value.[10] These extraordinary actions were taken to prevent a full blown banking panic that could have inflicted serious harm on working families.

At the time, you said that, "Silicon Valley Bank management failed badly—they grew the bank very quickly, they exposed the bank to significant liquidity risk and interest rate risk, didn't hedge that risk."[11] The Federal Reserve Board's initial review of the failure found that the bank failed, in part, due to, "a textbook case of mismanagement by the bank. Its senior leadership failed to manage basic interest rate and liquidity risk. Its board of directors failed to oversee senior leadership and hold them accountable."[12]

In its role as receiver of the failed bank, the FDIC conducted a thorough investigation of the conduct of SVB's Board of Directors and senior management. Based on its findings, the FDIC sued seventeen former directors and officers of SVB for "negligence, gross negligence, and breaches of fiduciary duty."[13] The FDIC determined that, "in the two years before the Bank failed, the Officer Defendants and Director Defendants ignored fundamental standards of prudent banking and SVB's own risk policies in pursuit of short-term profit for the Bank's parent, SVB

[5] FRED, "Federal Funds Effective Rate," https://fred.stlouisfed.org/series/FEDFUNDS.

[6] Silicon Valley Bank, "SVB Financial Group Announces Proposed Offerings of Common Stock and Mandatory Convertible Preferred Stock," press release, March 8, 2023, https://ir.svb.com/news-and-research/news/news-details/2023/SVB-Financial-Group-Announces-Proposed-Offerings-of-Common-Stock-and-Mandatory-Convertible-Preferred-Stock/.

[7] Board of Governors of the Federal Reserve System, Michael S. Barr, Vice Chair for Supervision, "Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank," April 28, 2023, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[8] *Id.*

[9] Federal Deposit Insurance Corporation, "Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC," press release, March 12, 2023, https://www.fdic.gov/news/press-releases/2023/pr23017.html.

[10] Board of Governors of the Federal Reserve System, "Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors," press release, March 12, 2023, https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm.

[11] Board of Governors of the Federal Reserve System, "Transcript of Chair Powell's Press Conference March 22, 2023," March 22, 2023, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230322.pdf.

[12] Board of Governors of the Federal Reserve System, Michael S. Barr, Vice Chair for Supervision, "Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank," April 28, 2023, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[13] Federal Deposit Insurance Corporation v Becker et al, 5:25-cv-569.

Financial Group."[14] For example, SVB "repeatedly breached its own interest-rate risk policies and metrics" and then manipulated assumptions in one of the risk models to cover up the breaches.[15] The bank also removed interest-rate hedges on its securities portfolio to boost short-term profits, leaving the bank exposed to interest rate increases just as the Federal Reserve was raising interest rates.[16] In addition, the bank approved dividends to the parent company to boost the stock price, just months before the bank failed.[17]

The purpose of the FDIC's lawsuit against the bank's executives is to recover funds for the Deposit Insurance Fund. As the primary federal regulator of the failed bank, it is the Federal Reserve Board that retains the authority to hold executives financially accountable for unsafe and unsound practices and other legal violations through the imposition of civil money penalties.[18] It also retains the authority to ban executives from the banking industry if the unsafe or unsound practice or other legal violation caused financial loss for the bank and involved, "personal dishonesty […] or demonstrates willful or continuing disregard by such party for the safety or soundness of such insured depository institution."[19] But the Federal Reserve has not yet exercised any of these authorities, despite the ample evidence uncovered by the Federal Reserve's preliminary review and the FDIC's lawsuit. It is not too late for you to act to hold these irresponsible executives accountable, and I ask that you do so without delay.

In addition, to help me understand the status of the Federal Reserve Board's investigation into the executives of SVB, I request that you answer the following questions by March 24, 2025:

1. Has the Federal Reserve Board concluded its investigation into the conduct of the former executives of Silicon Valley Bank?
    a. If so, why has the Federal Reserve Board not yet exercised its authorities under 12 U.S.C. 1818(i) to impose civil money penalties on institution-affiliated parties or its authorities under 12 U.S.C. 1818(e) to ban institution-affiliated parties from the banking industry?
    b. If not, when does the Federal Reserve Board expect to complete its investigation?

2. Do you believe it is an unsafe and unsound practice for bank executives to manipulate risk model assumptions, without any legitimate basis, to cover up internal risk limit breaches?

3. Do you believe it is an unsafe and unsound practice for bank executives to remove hedges on securities portfolios for the sole purpose of boosting short-term profits and the bank's stock price?

4. Do you believe it is an unsafe and unsound practice for bank executives to approve dividends when the bank is in an extremely vulnerable financial position?

[14] *Id*.
[15] *Id.*
[16] *Id.*
[17] *Id.*
[18] 12 U.S.C 1818(i)(2).
[19] 12 U.S.C. 1818(e).

5. Please list the rulemakings the Federal Reserve Board has completed, individually or jointly, that are responsive to the weaknesses in the regulatory framework demonstrated by the failure of Silicon Valley Bank.

It is deeply troubling that two years after the collapse, the Federal Reserve Board has still not held SVB's executives accountable for the third largest bank failure in U.S. history. There is clear evidence that the bank's executives engaged in unsafe and unsound practices, negligence, gross negligence, and breaches of fiduciary duty. It is critical you uphold the rule of law and apply the law fairly.

Sincerely,

Elizabeth Warren
Ranking Member
Committee on Banking,
Housing, and Urban Affairs