# United States Senate

WASHINGTON, DC 20510

August 3, 2026

The Honorable Michelle Bowman
Vice Chair for Supervision
Federal Reserve Board
20th Street and Constitution Ave NW
Washington, D.C. 20219

The Honorable Jonathan Gould
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington, D.C. 20551

The Honorable Travis Hill
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

The Honorable Kyle Hauptman
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

The Honorable Russell Vought
Acting Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

Dear Vice Chair Bowman, Comptroller Gould, Chairman Hill, Chairman Hauptman, and Acting Director Vought:

We write to request that the Federal Financial Institutions Examination Council (FFIEC) amend its proposed revisions to the Uniform Financial Institutions Rating System (known as "CAMELS") to ensure that bank supervision is forward-looking, so bank management and supervisors address risks before they fester into more serious problems that threaten credit availability for small businesses and households.[1]

The CAMELS proposal is the latest in a string of deregulatory proposals by the federal banking agencies that purportedly seek to prioritize "material financial risks."[2] As Federal Reserve Vice

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[1] Financial Institutions Examination Council, Uniform Financial Institutions Rating System, press release (May 19, 2026), https://www.ffiec.gov/news/press-releases/2026/pr-05-19.

[2] *See* Board of Governors of the Federal Reserve System, Federal Reserve Board requests comment on targeted proposal to revise its supervisory rating framework for large bank holding companies to address the 'well managed' status of these firms, press release (July 10, 2025), https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250710a.htm; Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency, Federal Register Notice, Unsafe or Unsound Practices, Matters Requiring Attention (Oct. 30, 2025),

Chair for Supervision Michelle Bowman recently stated, the primary justification for these proposals is that bank supervisors "failed to sufficiently identify, understand, and act upon the material risks that ultimately contributed to" the failure of Silicon Valley Bank (SVB) and other regional banks in March 2023.[3] We agree that bank supervision must be strengthened, but the FFIEC's proposed amendments to the CAMELS rating system would hamstring bank supervisors and invite more bank failures, threatening access to capital for small businesses and households. The failure of SVB illustrates the need for the CAMELS rating system to require rigorous evaluation of the capabilities and performance of bank management and forward-looking bank supervision that demands proactive remediation of risks that could develop into material financial risks.

***The Need for Forward-Looking Bank Supervision***

When SVB failed, the federal government stepped in to keep the crisis from spreading. The Federal Deposit Insurance Corporation (FDIC) estimates that the failures of SVB, Signature Bank, and First Republic Bank cost the Deposit Insurance Fund, in total, more than $30 billion.[4] But the hidden cost from the crisis, which lasted far longer, was the significant reduction in credit available to small and midsize businesses (SMBs) and consumers, particularly in rural and underserved areas. Regional and community banks are vital for SMBs and consumers to access loans and other banking services.[5] When these banks struggle, so do the SMBs and communities they support.[6]

The March 2023 banking crisis did not just cause the failure of three large regional banks. It was also responsible for more than $210 billion of deposits fleeing regional and community banks

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https://www.federalregister.gov/documents/2025/10/30/2025-19711/unsafe-or-unsound-practices-matters-requiringattention.

[3] Board of Governors of the Federal Reserve System, "Statement on Modernizing Financial Regulation by Vice Chair Michelle W. Bowman," press release (July 13, 2026), https://www.federalreserve.gov/newsevents/speech/bowman20260713a.htm.

[4] Martin J. Gruenberg, Chair of the FDIC, Testimony Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs (May 18, 2023), https://www.fdic.gov/news/speeches/2023/spmay1723.html; FDIC, FDIC's Supervision of First Republic Bank (Sept. 8, 2023) at 2, https://www.fdic.gov/news/press-releases/2023/pr23073a.pdf.

[5] Francisco Covas , Benjamin Gross and Jose Maria Tapia, *The Importance of Regional Banks for Small Business Lending Economic Growth*, Bank Policy Institute (May 16, 2023), https://bpi.com/the-importance-of-regional-banks-for-small-business-lending-and-economic-growth/; Eldar Beiseitov, Federal Reserve Bank of St. Louis, *Small Banks, Big Impact: Community Banks and Their Role in Small Business Lending* (Oct. 20, 2023), https://www.stlouisfed.org/publications/regional-economist/2023/oct/small-banks-big-impact-community-banks-small-business-lending.

[6] The CAMELS proposal would remove a requirement that one of the factors considered in management's rating is a bank's "demonstrated willingness to serve the legitimate banking needs of the community." This requirement should remain in place because it is critical to ensuring that banks fulfill their statutory obligation to meet the convenience and needs of the community (*see e.g.,* 12 U.S.C. 2901(a)). Removing this requirement could result in banks providing less credit to consumers and small businesses in their communities, particularly in rural and underserved areas.

across the country for the largest banks, such as J.P. Morgan and Bank of America.[7] Without these deposits, regional and community banks were forced to reduce lending to the SMBs and consumers they serve. It took more than a year for deposit and lending levels at regional and community banks to recover. The reputational damage to regional banks from the crisis also caused regional bank shares to drop by more than 30 percent in the months following the bank failures.[8] This means regional banks had even less access to capital to lend to SMBs and consumers that could not access services from the largest banks.

SVB failed, in large part, because it did not appropriately manage its interest rate risk (IRR). SVB's failure to manage its IRR started in 2017, when the bank began to periodically exceed its limits on IRR. The issues grew as SVB sold hedges that reduced its IRR and failed its liquidity stress tests.[9] Supervisors undoubtedly failed to escalate and address these material financial risks at SVB in a timely fashion. But the primary culprit of SVB's risk management failures was SVB's board and senior management. The fact that SVB had numerous issues managing its IRR over many years indicates that the bank's leadership prioritized short-term profits and failed to anticipate and address problems before they became material financial risks. According to the analysis conducted by the Federal Reserve immediately following the failure of SVB, "[t]he full board of directors did not receive adequate information from management about risks at Silicon Valley Bank and did not hold management accountable for effectively managing the firm's risks."[10] For example, in 2022 SVB went eight months without a Chief Risk Officer, leaving the bank without an experienced risk officer to advise the board on risk management. Bank supervisors do not have sufficient resources or visibility into a bank's business to monitor every potential risk. That is why management must have adequate systems in place to evaluate potential risks, escalate them to senior leadership, and mitigate the issues before they become material enough to weaken the bank's financial position.

The CAMELS proposal purports to accomplish two objectives. The first is to focus bank supervision on material financial risks rather than procedural requirements that do not promote bank safety and soundness. We agree with the sentiment that bank supervision leading up to the 2023 bank failures focused too much on "check-the-box" procedural requirements. But exclusively identifying material weaknesses in banks' financial statements today may miss an

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[7] Federal Reserve Bank of St. Louis, Deposits, Small Domestically Chartered Commercial Banks, https://fred.stlouisfed.org/series/DPSSCBW027SBOG.

[8] KBW Nasdaq Regional Banking Index (March 3, 2023 to May 12, 2023).

[9] Board of Governors of the Federal Reserve System, Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank (April 2023) at 3, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[10] *Id.* In August 2022, SVB's regulators identified similar deficiencies with the bank's board oversight and risk management. *See* Letter to Silicon Valley Bank, California Department of Financial Protection and Innovation (Aug. 17, 2022), https://www.federalreserve.gov/supervisionreg/files/svbfg-and-svb-2021-supervisory-ratings-letter-20230817.pdf, (Examiners identified "thematic, root cause deficiencies related to ineffective board oversight, the lack of effective challenge by the second line independent risk function, insufficient third line internal audit coverage of the independent risk management function, and ineffective risk reporting").

opportunity to catch emerging risks early and prevent a bank crisis tomorrow.[11] Vice-Chair Bowman has stated that reforms to bank supervision are intended to "[keep] frameworks forward-looking and adapting to current and emerging material risks."[12] To achieve this goal, supervisors must require banks to identify and mitigate future financial risks.

The second stated purpose of the CAMELS proposal is to make supervisory ratings more objective and measurable. But purely objective supervision conflicts with the goal of forward-looking supervision because it limits supervisory actions to quantitative risks that can be seen on a bank's balance sheet today. Not every financial risk is quantitative. A bank's culture, policies, and other qualitative factors all affect its financial risk because people ultimately build the risk models and direct the business.[13] And not every financial risk is visible to an examiner at the time of an exam. Immediately prior to the bank crises in both 2008 and 2023, the banks that failed were all rated "well-capitalized" by their supervisors. This means that the capital, liquidity, and other financial metrics for these banks showed they had no material financial risks at the time. Yet, they were unprepared to address the emerging risks that led to a crisis. Supervisors need the discretion to anticipate emerging risks and bring adverse actions against banks that are unprepared for them.

In April, the Federal Reserve amended its Statement of Supervisory Operating Principles to include a requirement that supervisory staff "maintain, develop, and continuously improve forward-looking tools to identify significant threats to the safety and soundness of Board-supervised banking organizations and to U.S. financial stability."[14] This is an important addition, but it is not enough to require forward-looking supervision in guidance. This principle must also be added to the CAMELS ratings to ensure that examiners prioritize forward-looking supervision and that there are real consequences for banks that fail to comply.

If bank management does not identify and mitigate financial risks before they become material, by the time the risks are significant enough to merit supervisory action it may be too late. When SVB's IRR issues finally met the federal banking agencies' standard for "material financial risk," the risks were already apparent on SVB's balance sheet. Depositors identified the sizeable weaknesses in SVB's financial position and quickly ran on the bank. This is even more

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[11] Bank management's failure to address emerging risks has led to other bank scandals, including the London Whale. *See* United States Senate Permanent Subcommittee on Investigations, JP Morgan Chase Whale Trades: A Case History of Derivatives Risks and Abuses (Mar. 15, 2013), https://www.hsgac.senate.gov/wp-content/uploads/imo/media/doc/REPORT%20-%20JPMorgan%20Chase%20Whale%20Trades%20(4-12-13).pdf.

[12] Board of Governors of the Federal Reserve System, Statement on Modernizing Financial Regulation by Vice Chair Michelle W. Bowman, press release (July 13, 2026), https://www.federalreserve.gov/newsevents/speech/bowman20260713a.htm.

[13] *See e.g.,* The Washington Post, *Silicon Valley Bank's risk model flashed red. So its executives changed it.* (April 2, 2023), https://www.washingtonpost.com/business/2023/04/02/svb-collapse-risk-model/.

[14] Board of Governors of the Federal Reserve System, Division of Supervision and Regulation, Updated Statement of Supervisory Operating Principles (April 21, 2026), https://www.federalreserve.gov/supervisionreg/files/statement-of-supervisory-operating-principles-20260430.pdf.

concerning in an age where faster and more ubiquitous public and private communications mechanisms can cause tens or hundreds of billions of dollars to flee a bank in a single day. [15] The largest banks in the country may be capable of weathering that storm, in part because there is an implicit guarantee that the government will not let them fail. But regional and community banks do not have the same safety net. If SVB's management had proactively identified and remediated SVB's IRR issues before they became material financial risks, SVB may have been able to avoid a bank run. Instead, the market lost confidence in the bank and its ability to manage its financial risks. Banks do not just need to be financially sound, they also need to be perceived that way by customers and creditors. Effective bank supervision reassures the public that a bank is safe, preventing runs. Regional and community banks need bank supervision to be forward-looking so that this critical segment of the banking system is prepared for and resilient to the next crisis. Otherwise, the SMBs and consumers these banks serve will continue to suffer.

***Revisions to the CAMELS Proposal***

We request that the FFIEC revise the CAMELS proposal by: (1) restoring several references to the need for supervisors to evaluate bank management's ability to "identify, monitor, measure, and control" risks, including emerging risks, and (2) requiring that bank supervisors conduct a forward-looking assessment of risks that could develop into material financial risks.

The following examples illustrate the types of changes that should be made to the CAMELS proposal to require that bank supervisors conduct a forward-looking assessment of risks that could develop into material financial risks:

- ***Composite Ratings –***

  *Composite ratings are based on a careful evaluation of an institution's financial condition and risk profile with emphasis on material financial risks* ***and risks that could develop into material financial risks***.

- ***Composite 2 –***

  *Any risk management weaknesses are moderate and generally do not result in material financial risk* ***or inhibit the bank's ability to assess and mitigate risks that could develop into material financial risk*** *to the institution.*

- ***Capital Adequacy –***

[15] In February 2023 the Financial Times reported that SVB's large securities portfolio with significant AFS securities had substantial unrealized losses. This led large depositors to assess SVB's balance sheet and run on the bank, resulting in $40 billion deposit outflow in one day. Tabby Kinder, Dan McCrum, Antoine Gara, and Joshua Franklin, *Silicon Valley Bank Profit Squeeze in Tech Downturn Attracts Short Sellers*, Financial Times (Feb. 22, 2023), https://www.ft.com/content/0387e331-61b4-4848-9e50-04775b4c3fa7?syn-25a6b1a6=1.

Restore the following evaluation factor:

***The ability of management to address emerging needs for additional capital.***

- ***Management –***

  *The Management rating reflects the effectiveness of a financial institution's board of directors and management, in their respective roles, to identify, measure, monitor, and control material financial risks****, and risks that could develop into material financial risks,*** *associated with the institution's activities*

In addition to making these changes to the CAMELS proposal, the federal banking agencies should amend other recent rules on supervision, including the Federal Reserve's final notice revising the Large Financial Institution Rating System and the OCC and FDIC's recent proposal to define unsafe or unsound practices, to reflect this forward-looking approach to supervision.

***Conclusion***

A critical lesson from the 2008 financial crisis and the 2023 bank failures is that bank supervision must be forward-looking, especially to enhance the resilience of regional and community banks. If regional and community banks are not adequately prepared to mitigate future stresses, the SMBs and consumers that rely on them will suffer from more frequent restrictions in credit, as they did in March 2023. Economic growth, particularly in rural and underserved areas, depends on a healthy and stable banking system. The FFIEC should accept our amendments to the CAMELS proposal to support stable access to credit for SMBs and consumers.

Sincerely,

John Hickenlooper
United States Senator

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