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

January 23, 2023

The Honorable Martin J. Gruenberg
Chair
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

The Honorable Michael S. Barr
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chair Gruenberg and Vice Chair Barr:

We are writing to support the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System's effort to strengthen our U.S. banking system. Large banks, not taxpayers, should be responsible for the costs of their failure. It is irresponsible for banks to operate in manner that could potentially leave taxpayers holding the bag for a bank that is "too big to fail." The recent advance notice of proposed rulemaking (ANPR), Resolution-Related Resource Requirements for Large Banking Organizations, is a step in the right direction.

The resolution and capital requirements Congress established in the aftermath of the Great Financial Crisis have mitigated many of the risks posed by megabanks and enhanced global financial stability. During the Great Recession, the failure of regional banks, such as Washington Mutual Bank and Indy Mac, eroded public confidence in the banking system and severely stressed the FDIC's Deposit Insurance Fund. And today, large banks have continued to grow, posing similar risks to U.S. and global financial stability.

We cannot allow the banking system to lose public confidence again. It is the responsibility of the financial institution and its investors, not taxpayers, for preventing a bank failure and absorbing losses that may occur during such a failure.

Large banks should be structured to allow an orderly resolution and have documented options (a living will) for their regulator should the unthinkable happen. Large banks are typically managed according to business lines spanning multiple subsidiaries. This business model leads to complex line of business interdependencies that make dividing the bank into saleable pieces in a resolution much more difficult than community banks or banks with a limited geographic footprint.

Large banks should also have contingency funds, in the form of segregated capital, to support emergency liquidation; just like their customers have "rainy day" funds for emergency expenses.

This loss-absorbing capacity is crucial for bank operations to continue during resolution or recovery, regardless of the resolution strategy. Continuing bank operations during times of financial crisis helps provide a sense of security to all Americans and supports orderly bank liquidation.

Whether a bank failure is a one-off event or part of a broader banking crisis, families and small businesses deserve the confidence that their money is safe and that the banking system is there to meet their needs. This ANPR suggests critical steps to ensure that our banking system is resilient and that all Americans are assured of its safety and soundness, even in the most difficult of circumstances. I urge you to steer this effort toward stronger separability and robust contingency capital requirements for all large banks.

Sincerely,

[redacted] [redacted]

Sherrod Brown
Chairman

Chris Van Hollen
Senator