Congress of the United States
Washington, DC 20515

October 9, 2020

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

The Honorable Randal K. Quarles
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Powell and Vice Chairman Quarles:

We write to commend the actions taken by the Federal Reserve Board (FRB) throughout the COVID-19 pandemic to support market functioning and the flow of credit to businesses and consumers. The establishment of numerous lending and liquidity facilities under the FRB's 13(3) authority, under an expedited timeline, as well as significant asset purchases by the FRB have been crucial components of economic stability and recovery.

As you have acknowledged, the U.S. financial system has served as a source of strength throughout the pandemic by intermediating much of the support authorized by Congress and implemented by the FRB. Importantly, the largest U.S. banks have increased business lending by \$97 billion and securities underwriting by \$500 billion. In addition to filling the important role of transmitting liquidity to households and businesses, large banks have experienced an unprecedented influx of deposits, both as a result of the FRB's actions and of consumer and investor demand for stability in a time of continued economic uncertainty. For the U.S. GSIBs, deposits have increased by more than 17 percent over the first half of this year, compared to a historical average increase of roughly one to three percent over a six-month period.

As the FRB has increased asset purchases by roughly \$2.4 trillion this year, deposits at the largest banks have increased by \$1.1 trillion. When the FRB purchases securities, the cash received by the seller is ultimately placed in a deposit account. The significant asset purchases conducted by the FRB and subsequent growth in bank deposits naturally results in an increase in the balance sheets of financial institutions, which in turn impacts the required capital they must retain. We agree with the FRB's recent statement that, "the capital framework emphasizes the value of not increasing capital requirements under stress and thus exacerbating a downturn,"[1] and appreciate the steps that have been taken to narrowly modify regulatory capital rules with the goal of ensuring that banks can continue to assist in facilitating relief and recovery. Specifically, the temporary exclusion of U.S. Treasuries (UST) and Federal Reserve Bank balances from the Total Leverage Exposure for purposes of the Supplementary Leverage Ratio denominator was a

[1] https://www.federalreserve.gov/publications/ccar-resubmission-qas.htm

recognition of the important role U.S. banks play during the unprecedented nature of our current economic conditions. Likewise, we welcome the U.S. banking agencies decision to neutralize the effects of participation in the FRB's Money Market Liquidity Facility on bank's "risk-based and leverage capital ratios."

Unfortunately, the adjustments to the regulatory capital rules have not been carried through to the GSIB surcharge. Without changes to the GSIB score calculation by the fourth quarter of this year, banks subject to the surcharge may see an increase in required capital, impacting the availability of credit at a time when consumers are facing unprecedented challenges. Indeed, from Q4 2019 to Q2 2020, U.S. GSIBs saw an aggregate increase in their GSIB scores of 218 points – the largest increase on record. While we appreciate that an increase in a firm's GSIB score does not have a technical effect for two years, as you know, decisions about capital allocation are generally immediate as investors demand that banks quickly meet the heightened requirements.

We request the FRB to thoughtfully consider extending the exclusion of UST and FRB balances and the impact of banks' participation in the MMLF to the GSIB surcharge, and, to the extent, you do not intend to align the regulatory capital rules in this way, we request a detailed rationale for that decision.

Thank you for your commitment to ensuring that our financial system continues to be well-positioned facilitating economic recovery for businesses and consumers while preserving safety and soundness. We look forward to hearing from you on this matter.

Sincerely,

Trey Hollingsworth
Member of Congress

Patrick McHenry
Member of Congress

Blaine Luetkemeyer
Member of Congress

Andy Barr
Member of Congress

Bill Huizenga
Member of Congress

Ann Wagner
Member of Congress

Steve Stivers
Member of Congress

Scott Tipton
Member of Congress

Lee Zeldin
Member of Congress

Barry Loudermilk
Member of Congress

French Hill
Member of Congress

David Kustoff
Member of Congress

Denver Riggleman
Member of Congress

Tom Emmer
Member of Congress

Roger Williams
Member of Congress

Frank Lucas
Member of Congress

Bill Posey
Member of Congress

Alex X. Mooney
Member of Congress

Ted Budd
Member of Congress

Warren Davidson
Member of Congress

Bryan Steil
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William R. Timmons IV
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Lance Gooden
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Anthony Gonzalez
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John Rose
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Van Taylor
Member of Congress