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Hearing Summary

March 30, 2023

HFSC Holds Hearing To Examine Recent Bank Failures

Executive Summary

On March 29, the House Financial Services Committee held a hearing to examine the recent failures of Silicon Valley Bank (SVB) and Signature Bank, as well as the actions taken by regulators in response. The discussion featured testimony from top financial regulators — including Federal Reserve (Fed) **Vice Chair for Supervision Michael Barr,** Treasury Department **Undersecretary Nellie Liang**, and Federal Deposit Insurance Corporation (FDIC) **Chair Martin Gruenberg.**

Much like their counterparts in the Senate Banking Committee, the House panel shared bipartisan frustration that regulators failed to detect interest rate and liquidity risk issues these banks before their ultimate failure — despite unifying acknowledgment that banks in question appear to have neglected sound risk management practices. Further, lawmakers were aligned regarding concerns that SVB failed to address risk management issues highlighted by Fed officials in the previous two years — which prompted the committee to question why the central bank had not taken more aggressive action to ensure its problems were addressed by SVB. Although the regulators sought to defend the actions taken in response, lawmakers expressed frustration that the witnesses were often unable to provide detailed answers to specific questions.

Despite these points of bipartisan interest, lawmakers on the panel were divided on several issues, notably on provisions contained within the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018. Notably, Republicans attempted to debunk claims from Democrats that the 2018 banking law contributed to the banks' respective failures. In comparison, multiple Democrats on the panel insisted that enhanced regulatory standards be placed on smaller and mid-sized banks

Opening Statements

Chair Patrick McHenry (R-NC) (statement) called for unbiased investigation into the failure of SVB, emphasizing the need for facts over preconceived narratives. He noted that the bank was mismanaged and questioned the decision-making processes of financial regulators related to the bank's failure. Further, Chair McHenry raised concerns about transparency and the lack of insight into the decisions and actions of the FDIC Chair and other regulatory bodies during the crisis. He reiterated the Committee's commitment to understanding the decision making process and competence of financial supervisors during moments of stress in the banking system.

Ranking Member Maxine Waters (D-CA) (statement) highlighted the need to examine management, regulatory, and supervisory failures that contributed to the collapse and explore solutions to strengthen the safety and soundness of banks. She also emphasized the importance of understanding the role of deregulation in this crisis and committed to ongoing work on legislative proposals aimed at bolstering accountability in the banking system.

Financial Institutions Subcommittee Chair French Hill (R-AR) echoed the importance of undertaking a thorough investigation of the situation, including both SVB management as well as the response from regulators.

Financial Institutions Subcommittee Ranking Member Bill Foster (D-IL) emphasized the speed at which the bank run occurred and expressed his support for implementing a contingent capital framework.

WITNESS TESTIMONY

FDIC Chair Martin Gruenberg (testimony) discussed the timeline of the recent bank failures and the FDIC's role in the events. Chair Gruenberg noted that to prevent potential contagion into the broader banking system, the FDIC — in consultation with the Federal Reserve and Treasury Department — utilized its systemic risk exemption authorities (SREA) under the Federal Deposit Insurance Act (FDIA) to protect all depositors in winding down SVB and Signature Bank, while shareholders and unsecured creditors suffered losses. Further, he informed the panel that the FDIC would undertake a comprehensive review of the deposit insurance system, release a report by May 1, and issue a proposed rulemaking for a special assessment later that month.

Fed Vice Chair for Supervision Michael Barr (testimony) sought to assure lawmakers that the U.S. banking system is "strong and resilient," but recent events have raised questions about what more can be done to prevent isolated banking problems from undermining confidence in the system. Vice Chair Barr discussed his role in overseeing a review of the circumstances leading up to the failure of SVB and found that inadequate risk management and internal controls contributed to the Bank's collapse. Further, he asserted that central bank officials had notified SVB on several occasions of risks at the Bank. Additionally, he noted that the Fed is also undertaking a review of its actions as well as any potential changes to capital and liquidity requirements, and other supervisory tools.

Treasury Undersecretary for Domestic Finance Nellie Liang (testimony) noted the "unique threat" posed by SVB and Signature Bank to the broader banking system and the economy. She sought to justify the action taken by regulators to strengthen public confidence in the U.S. banking system, protect the economy, and prevent uninsured depositor runs. Ms. Liang commended these actions, including the move to ensure FDIC could complete its resolutions of the failed banks in a manner that fully protects depositors, the establishment of the Bank Term Funding Program (BTFP), and coordination with federal and state regulators to monitor developments across the banking and financial system.

Discussion and Questions

Nonbanks

- In questioning with **Rep. French Hill (R-AR)**, Chair Gruenberg stated his willingness to consider the FDIC's resolution process during its review. Rep. Hill urged the FDIC to consider nonbank buyers in the FDIC's resolution process. Chair Gruenberg agreed on the importance of such considerations.

Regulatory Oversight and Bank Management

- Chair McHenry and **Rep. Frank Lucas (R-OK)** probed Vice Chair Barr on what actions he had taken following a presentation by Fed staff indicating SVB's exposure to interest rate risk. Vice Chair Barr stated that he was awaiting the conclusion of Fed staff's review of the matter. Similarly, Committee Republicans reiterated interest throughout the hearing in how regulators decided to invoke their SREA.
- Chair McHenry questioned why Vice Chair Barr did not petition his Fed colleagues to extend the operating hours of the Fed's Discount Window to avert a bank collapse overnight. Vice Chair Barr stated that Fed staff worked through the evening and night with SVB to accumulate as much collateral to pledge to the Discount Window as possible. Vice Chair Barr reiterated several times throughout the hearing that Fed staff brought this to his attention in February, following a series of supervisory notices to SVB regarding potential interest rate risk exposure. Additionally, he noted that existing regulatory standards meant that SVB's rapid growth lengthened its transition to being considered for enhanced regulatory requirements.
- Chair McHenry and **Rep. Roger Williams (R-TX)** voiced criticism regarding the perceived lack of communication from when regulators were aware of the Bank's failure and when they exerted their SREA. Additionally, they critiqued the Fed's complacency in acting on reports from Fed staff that the Bank highlighted concerns over risk management.
- Chair McHenry and **Rep. David Scott (D-GA)** echoed broad bipartisan concern that federal regulators may have missed or ignored "warning" signs in the months and years preceding SVB's collapse. Although, members generally accepted that SVB's failure could largely be attributed to the Bank's poor risk management. However, lawmakers on both sides of the aisle exhibited frustration over regulators' perceived lack of specificity in answering questions.
- **Rep. Ann Wagner (R-MO)** inquired how many Matters Requiring Attention (MRA) and MRIAs had been issued to SVB regarding its risk management practices, echoing bipartisan concern regarding why these warnings were not adhered to. Vice Chair Barr informed her that six MRAs were issued in November of 2021 and one in the fall of 2022. Similarly, **Rep. Bill Foster (D-IL)** suggested implementing a requirement to make all MRAs public if they are not addressed within a specific timeframe. However, Vice Chair Barr was unable to answer before time expired.
- In questioning with **Rep. Ralph Norman (R-SC)** on what actions Fed officials may have otherwise taken in retrospect, Vice Chair Barr said that he would have assuaged Fed staff's concerns regarding SVB were elevated to the Board level sooner but emphasized that actions taken by regulators may have "saved" many small businesses.

- Ranking Member Waters inquired about SVB's liquidity rating approaching its collapse. Vice Chair Barr indicated that SVB received a liquidity rating of two — which equates to a "satisfactory" liquidity rating. However, Vice Chair Barr suggested that the Fed's review will consider whether this rating was an accurate depiction of SVB's liquidity, adding that a bank failure may indicate that bank supervisors had "failed" in their duties, along with Bank management, and the current regulatory framework.
- Similarly, **Rep. Mike Flood (R-NE)** questioned why the several supervisory notices highlighting risk management concerns at SVB did not reflect its overall liquidity rating. Vice Chair Barr acknowledged these concerns and noted that the Fed will be examining the issue more closely as it assembles its report, adding that 2022 was the first year SVB received an overall composite rating due to its growth in total assets.
- Regarding the Federal Reserve's self-assessment of its handling of the SVB situation, **Rep. Bill Huizenga (R-MI)** pointed out that any time the Fed invokes its emergency lending authority, the Government Accountability Office (GAO) is required to also conduct a review of the events surrounding its use. However, Vice Chair Barr was unaware of this. Further, Rep. Huizenga requested Vice Chair Barr provide the Committee with the same information it will be sharing with the GAO and using in its report. Vice Chair Barr agreed to this, as did Chair Gruenberg.
- Ranking Member Waters questioned whether Vice Chair Barr was implying that legislation may be needed to address bank management and regulatory oversight shortcomings. Vice Chair Barr explained that this is a topic that will be covered in the Fed's "self-assessment" of the situation.
- In questioning with **Reps. Steven Lynch (D-MA)** and **Josh Gottheimer (D-NJ),** Chair Gruenberg noted that the velocity of the bank run and the role social media may signify a new potential risk factor for regulators to consider. Ms. Liang conveyed that the Department is examining the implications this may hold for digital assets, fintech, and the payment system more broadly. However, Ms. Liang asserted in discussion with **Rep. Sylvia Garcia (D-TX)** that she did not believe digital assets played a significant role in the failure of the two banks.
- Ranking Member Waters asked if there were ways to make the supervisory process more transparent without compromising the confidential information of banks currently operating — acknowledging the notion that widely publicizing such information could in itself spark a bank run. Vice Chair Barr stated that the Fed's review will present such information as it pertains to SVB.
- Rep. Hill expressed his concern over a perceived lack of "regulatory urgency" regarding inquiries into SVB during the vacancy. Vice Chair Barr stated that the Fed's review will address any supervisory shortcomings, including whether bank supervisors should have adopted a more aggressive approach regarding SVB.
- **Rep. Jim Himes (D-CT)** inquired whether Congress should act to make actions mandatory following a bank receives a deficiency rating. Vice Chair Barr acknowledged the need for more robust risk mitigants and incentives. Rep. Himes suggested the use of automatic mechanisms, citing concerns over human involvement and social media.
- **Rep. Pete Sessions (R-TX)** echoed GOP concerns that regulators have not accepted "responsibility" for the failure of SVB — taking particular issue with the evocation of the SREA and the levying of special assessment fees, another issue frequently referenced by his

colleagues. Chair Gruenberg explained that the imposition of special assessment fees will go through notice and comment rulemaking and will be released in May. Vice Chair Barr echoed the reiteration from other regulators in underscoring the importance of conducting self-assessments.

- **Rep. Andy Barr (R-KY)** called on Chair Gruenberg to establish separate risk-based assessment systems to prevent small banks from having to bail out SVB. Chair Gruenberg noted that he will take this feedback into consideration.
- **Reps. Brad Sherman (D-CA)** and **Warren Davidson (R-OH)** voiced their disapproval of current bank accounting standards — such as listing bonds as "available for sale" or "hold until maturity. They suggested that digital asset market participants may have welcomed recent banking turmoil, insinuating it may have rallied digital asset prices.
- Rep. Sherman also claimed that banks are currently holding a "substantial" amount of unrealized losses — which he contended misrepresents current capital conditions. Further, he asked whether there are other banks with significant exposure to interest rate risk — specifically, banks whose capital is less than five percent when accounting for unrealized losses. However, Vice Chair Barr and Chair Gruenberg were unable to provide specifics on the issue.
- In similar questioning with **Rep. Ritchie Torres (D-NY)** regarding unrealized losses, Rep. Torres asked if the Fed would consider purchasing assets with unrealized losses from banks. Vice Chair Barr said that "most" banks are capable of handling their unrealized losses without assistance from the Fed, adding that banks in need of liquidity can receive it through the central bank's standing and emergency lending facilities.
- **Reps. Blaine Luetkemeyer (R-MO)** and **Andy Ogles (R-TN)** questioned whether the Federal Reserve conducts impact analysis when considering interest rate increases. Vice Chair Barr indicated that central bank officials do receive such studies.
- Rep. Luetkemeyer asked if the Federal Reserve had bank supervisors on site at SVB. However, Vice Chair Barr informed him that there is a team of bank supervisors at the San Francisco Fed broadly monitoring these issues. Echoing bipartisan sentiment, Rep. Luetkemeyer wondered why Fed officials did not "force" action at SVB to address its interest rate exposure. Vice Chair Barr stated that there was action requested in the Matters Requiring Immediate Attention (MRIA) and that any shortcomings will be included in the central bank's report.
- Rep. Barr reiterated the opinion of his Republican colleagues in asking Vice Chair Barr whether current regulatory standards in any way "concealed" the ability of regulators to conduct oversight of SVB. Vice Chair Barr stated that it did not.
- Voicing broader bipartisan interest in scrutinizing the poor risk management at SVB, **Rep. Sean Casten (D-IL)** pressed Vice Chair Barr on whether SVB was cited for its failure to have a risk management officer for several months — referencing a provision in the Dodd-Frank Act requiring banks with total consolidated assets in excess of $50 billion to have such an executive. Vice Chair Barr said that the "deficiency downgrade" levied by the Fed on SVB referenced a number of inadequate risk practices. Further, Vice Chair Barr reiterated that SVB appeared to have inaccurate risk models for its long-term bond portfolio.
- **Rep. John Rose (R-TN)** inquired why the FDIC restricted the stock gains of First Citizens Bank to $500 million, to which Chair Gruenberg explained that this was a result of the

agreement reached through negotiation. Rep. Rose questioned why the FDIC would not seek to recoup FDIC losses in the sale of the Bank, but Chair Gruenberg reiterated that this was the compromise reached by negotiations between the FDIC and First Citizens Bank. Further, Chair Gruenberg stated that the FDIC did not receive encouragement from elected officials to exclude the consolidation of large or mid-sized banks with SVB.

- **Rep. Bryan Steil (R-WI)** questioned the authority under which the Fed is allowed to loan the FDIC funds in exchange for collateral. Vice Chair Barr explained that these loans were made through the Discount Window to the bridge institutions established by the FDIC following the recent bank failures. Similarly, Rep. Steil pressed Chair Gruenberg on why the FDIC did not pursue other options to secure liquidity, instead choosing to collateralize loans with the Fed. Chair Gruenberg stated that the bridge institutions in question are now nationally chartered banks, thus granting them access to the Fed's lending facilities. Chair Gruenberg also disputed the notion that the FDIC declined to pursue other liquidity options as a result of taking on risk previously held by the failed banks. In doing so, he informed Rep. Steil that the FDIC is selling assets as part of its role overseeing the bridge institutions — not holding them.
- **Rep. Brittany Pettersen (D-CO)** asked what lessons the regulators had learned from their handling of the recent bank failures. Chair Gruenberg opined that the FDIC should focus on engaging the public on how deposit insurance works to avoid the implication that federal regulators will intervene to cover depositors.
- **Rep. Byron Donalds (R-FL)** suggested that SVB's numerous warnings from the Federal Reserve and failure to address the concerns indicate that there may be supervisory issues at the San Francisco Fed. However, Vice Chair Barr declined to "pre-judge" the outcome of the central bank's self-assessment but acknowledged that there may be supervisory issues at the Fed more broadly.
- Rep. Flood asked why SVB was not included in the FDIC's list of "problem banks," given the several warnings from Fed officials. Chair Gruenberg explained that the list is generated based on banks that receive a four or five on the capital adequacy, assets, management capability, earnings, liquidity, and sensitivity (CAMELS) scale and SVB did not meet this criteria at the time.

Regional Banks

- **Rep. Joyce Beatty (D-OH)** prompted regulators to compare the composition of Signature Bank and SVB's uninsured deposits in comparison to that of other financial institutions. Chair Gruenberg estimated that typical regional banks hold 40 percent in uninsured deposits, suggesting that Signature Bank and SVB's composition of uninsured deposits resulted in greater exposure to bank runs.
- **Reps. Steven Horsford (D-NV)** and **Zach Nunn (R-IA)** expressed bipartisan concern over how an increase in capital requirements may impact community banks with assets below $10 billion, asking how the Fed could address the concerns raised by SVB without harming community banks. Vice Chair Barr stated that the capital review the Federal Reserve is currently undertaking does not apply to community banks and that they do not intend to increase capital requirements for those banks. Further, he contended that community banks

are "well capitalized" and serving their communities effectively. Vice Chair Barr added that any potential changes to capital requirements would be focus solely on large banks and be done through the rulemaking process.

Stress Testing, Capital Requirements

- Rep. Hill contended that the debate over Dodd-Frank versus S. 2155 is not relevant in comparison §12 U.S.C 1818 cease and desist, which allows bank regulators to intervene in instances which financial institutions are not operating in a "safe and sound" manner. Vice Chair Barr agreed that regulators do have significant discretion to act accordingly. Rep. Hill expressed the opinion of many of his GOP colleagues — as well as Rep. Gottheimer — that S. 2155 provides regulators with leeway to impose greater regulatory standards on an institution at their discretion. Additionally, Rep. Barr contended that SVB was subject to enhanced regulatory standards as a result of the 2018 banking law. However, Vice Chair Barr indicated that SVB was subject to "some" enhanced requirements but not "all."
- **Reps. Nydia Velázquez (D-NY)** and **Ritchie Torres (D-NY)** asked whether Tier three and four banks should face enhanced or similar regulatory scrutiny as the largest banks. Vice Chair Barr stated that he is looking into options on potential changes to capital and liquidity standards but added that he believes a "tiered" approach to bank regulation is still the preferred option. However, he acknowledged that more robust rules on capital and liquidity standards appear necessary, considering recent events. Rep. Velázquez expressed her frustration that regulators "fail" to regulate certain banks as if they are systemically important, arguing that a "failure" to do so prompts institutions to "search" for yield despite potential risks. In questioning with Rep. Torres, Vice Chair Barr agreed that banks should be regulated by both their risk portfolio and stability of their deposit base.
- Rep. Velázquez asked whether the Fed intends to modify its regulatory framework to require all banks to consider interest rate risk. Vice Chair Barr explained that the Fed will be conducting such analysis in its report due May 1. However, he declined to specify on whether S. 2155 played a part in SVB's collapse but noted that this will also be considered during the review process.
- Rep. Velázquez wondered how Fed officials plan to balance their monetary policy mandates with their supervisory duties. Vice Chair Barr stated that the central bank has the necessary tools to monitor the health of the financial system — reiterating that deposits are "safe" — but that the Fed will factor in changing economic conditions when weighing changes to monetary policy.
- Rep. Sherman urged Chair Gruenberg to consider lifting the FDIC's insurance coverage cap to $3 million on all non-interest-bearing accounts. Similarly, Rep. Beatty suggested temporarily raising the deposit insurance coverage cap to $500,000 or $1 million and limiting it for the largest financial institutions. Chair Gruenberg asserted that the coverage for deposit insurance is statutorily set at $250,000 per account, and to adjust it would require legislation. However, he also reiterated that the FDIC is undertaking a comprehensive review of their deposit insurance system. Ms. Liang indicated that she would support a study on the issue, and Vice Chair Barr expressed willingness to discuss the matter further.

- Rep. Wagner echoed the opinion of her Republican colleagues in expressing opposition to potential Basel III "end game" reforms involving trading risk and capital requirements purportedly under consideration by the Fed. Additionally, she noted that this is contrary to previous assertions from Vice Chair Barr that the banking system is "well capitalized."
- Rep. Williams (TX) called into question the Fed's trustworthiness if it is not testing for "all scenarios" in its stress tests. Vice Chair Barr explained that he has proposed multiple new scenarios for this year's stress tests based on this concern.
- **Rep. Bill Foster (D-IL)** suggested adopting contingent capital requirements and pressed Vice Chair Barr on whether he would consider such a move during his "holistic" review of bank capital requirements, citing its role in resolving the near-collapse of Credit Suisse. Vice Chair Barr noted that the Fed, along with the FDIC, have issued an advanced notice of proposed rulemaking (NPRM) considering a similar form of contingent capital.
- **Rep. Juan Vargas (D-CA)** inquired about what prudential regulations might warrant review in order to prevent future bank failures. Chair Gruenberg highlighted supervision, unrealized losses, and the concentration of uninsured deposits as potential areas that may warrant consideration. Further, he suggested that past "light" regulatory treatment of regional and smaller banks compared to larger banks may be a topic worth revisiting.
- **Reps. Barry Loudermilk (R-GA)** and Rose prompted Ms. Liang to clarify the Treasury Department's position on deposit insurance and its willingness to take similar actions to backstop bank runs at other institutions, referencing various recent statements from Secretary Janet Yellen that he believed to be conflicting. Ms. Liang emphasized that the Department would be prepared to take similar action — regardless of the bank's size — if the conditions warranted such an approach to prevent contagion.
- **Rep. Ayanna Pressley (D-MA)** voiced concerns from several of her Democratic colleagues that the 2018 banking law may have reduced regulatory oversight for small and mid-sized banks. Vice Chair Barr explained that the intent of the law was to reduce the regulatory burden for smaller banks with total consolidated assets between $50 billion and $100 billion. Chair Gruenberg reiterated his belief that small and mid-sized banks remain healthy and that the FDIC has the authority to tailor the scope of the forthcoming special assessment rulemaking.
- Rep. Garcia pressed Vice Chair Barr on whether the actions taken by regulators to prevent further contagion to the banking system may have a negative impact on mortgage lending and credit access. The Vice Chair opined that it may lead to a reduction in access to credit.
- **Rep. Andrew Garbarino (R-NY)** questioned what evidence led to the determination that Signature Bank was also facing a liquidity crunch. Chair Gruenberg noted that it was evident on March 10 that Signature Bank would have difficulty meeting its liquidity obligations.
- **Rep. Nikema Williams (D-GA)** questioned how regulators plan to address the potential for increased moral hazards associated with increasing the FDIC insurance coverage cap, specifically as it relates to the continuation of risk-price deposit insurance premiums. Chair Gruenberg offered his support for the continuation of risk-price insurance premiums, adding that it is "vital" for regulators to reexamine how they view concentrations of uninsured deposits.

- Rep. Williams (GA) inquired about any changes to deposit insurance that may assist minority depository institutions (MDI) along with other community banks. Chair Gruenberg pointed to the joint effort by financial regulators to modernize the Community Reinvestment Act (CRA) as evidence of their commitment to assisting these institutions.
- **Rep. Young Kim (R-CA)** asked how the Fed will take under consideration the prospect of tighter credit conditions when reviewing its capital standards. Vice Chair Barr noted that, because of the length associated with the notice and comment rulemaking, any changes would be intended to be applied under future financial conditions — rather than current conditions.
- **Rep. Gregory Meeks (D-NY)** wondered whether increasing the frequency of stress tests would be appropriate for the Fed to consider during its review of capital standards, to which Vice Chair Barr stated that it will be considered.
- On the subject of stress tests for banks with assets below the Fed's $100 billion threshold, Rep. Meeks asked whether it would be helpful for depositors to have access to the results of such tests. Vice Chair Barr indicated that banks below that threshold are not subject to Fed stress tests. However, he noted that in the case of SVB, it carried out its own internal liquidity stress tests — that supervisors later discovered were not realistic or accurate.
- Rep. Meeks questioned whether FDIC insurance coverage should differentiate between personal and business deposits. Chair Gruenberg noted the FDIC will be considering the topic in its review.
- In response to lawmakers who asked whether the FDIC insurance cap should be altered, Chair Gruenberg stated that the FDIC will be considering this question during their review.

Other Topics

- Ranking Member Waters asked whether a "handful" of venture capital depositors were able to influence the withdrawal of $42 billion from SVB, suggesting that venture capitalist could coordinate in encouraging their clients to withdraw deposits from SVB. Chair Gruenberg indicated that a review is needed to determine any influence in this regard.
- Ranking Member Waters and **Rep. Steven Lynch (D-MA)** questioned whether SVB's recent acquisition by First Citizens Bank will result in the continuation of SVB's Community Benefits Plan (CBP). Chair Gruenberg indicated that such discussions are the responsibility of the involved parties. However, he added that First Citizens Bank has a similar preexisting Community Benefits Agreement (CBA) and that the bank is also subject to standards under the Community Reinvestment Act (CRA).
- Rep. Velázquez asked how Fed monetary policy staff coordinate with bank supervisory staff to signal shifts in monetary policy. Vice Chair Barr contended that the teams work closely with one another, adding that the central bank's monetary policy decisions have been telegraphed well in advance of major monetary policy decisions and that bank management failed to account for this.
- Referencing the potential role of social media in the SVB bank run, Rep. Luetkemeyer pressed Vice Chair Barr on whether future banking distress may spark large "short" sales on bank securities. Vice Chair Barr shared this concern. Rep. Luetkemeyer also expressed concern over how the Fed's instant payment system — FedNOW — may contribute to this.

- **Reps. Al Green (D-TX)** and Beatty expressed frustration over reports that SVB executives received bonuses prior to the Bank's collapse in addition to initiating significant sales of SVB stocks to Goldman Sachs. Chair Gruenberg noted that the FDIC is required by law to examine the conduct of bank executives in a bank failure. Vice Chair Barr acknowledged that he has seen similar reports. Rep. Green asked whether the regulators had the authority to clawback executive compensation. Vice Chair Barr said that, while the Fed does not have explicit clawback authority, it does have the authority to issue civil monetary penalties and restitution. Chair Gruenberg agreed and suggested that lawmakers might expand the FDIC's jurisdiction to do so under the Federal Deposit Insurance Act (FDIA). Additionally, Chair Gruenberg stated that regulators' failure to complete official clawback rulemaking under Section 956 of the Dodd-Frank Act may be attributed to a change in the presidential administration.
- **Rep. Tom Emmer (R-MN)** asked about the treatment of digital assets and whether the FDIC will sell off Signature Bank's deposits from digital assets businesses. Chair Gruenberg informed him that the FDIC will be sending back roughly $4 billion in deposits from Signature Bank's digital asset businesses back to the depositors
- Additionally, Rep. Emmer asked whether the FDIC plans to sell the rights to Signature Bank's proprietary technology — SigNet —, to which Chair Gruenberg indicated had already been sold by the Bridge Bank. Further, Chair Gruenberg indicated that the FDIC would not block the use of such technology by any prospective acquirer of Signature Bank. Chair Gruenberg also informed Rep. Emmer that all of SVB's deposits from digital asset businesses had been transferred to First Citizens Bank.
- In response to Rep. Garbarino's question regarding why the agreement to sell Signature Bank's assets excluded digital assets, Chair Gruenberg explained that the winning bidder in the deal chose not to purchase Signature Bank's digital assets and that the FDIC offered to return the digital asset deposits to the depositors. He added that he believes the SigNet technology previously owned by Signature Bank is still under receivership and is being marketed to potential buyers.
- Rep. Emmer pressed Chair Gruenberg if the FDIC had implied that firms taking on digital asset clients may face more stringent regulatory oversight, to which Chair Gruenberg stated that they had not. Rep. Emmer further alleged that the FDIC deviated from their requirement to settle bank failures at the lowest cost to the DIF, opting to instead "oust" digital asset opportunities from the U.S. financial system.
- Reps. Davidson and Donalds challenged comments made by Vice Chair Barr suggesting that stablecoins' lack of federal oversight pose a greater risk of bank runs. Vice Chair Barr insisted that those remarks demonstrate the need for "humility" in regulators' review of the events surrounding SVB.
- Rep. Torres inquired whether regulators are concerned about the commercial real estate loan portfolio in the banking system. Chair Gruenberg said that this is a risk that the FDIC has publicly stated. Similarly, Rep. Torres then prompted Chair Gruenberg on the extent to which the FDIC will seek input from affordable housing officials when seeking a buyer for Signature Bank's residential real estate debt. Chair Gruenberg offered his willingness to work with Rep. Torres on the issue.

- **Rep. William Timmons (R-SC)** echoed concern from his Republican colleagues over a perceived “misplaced” priority from regulators on issues relating to environmental, social, and governance (ESG) initiatives. However, Ms. Liang did not directly address this concern. Rep. Garcia pushed back on Rep. Timmons’ assertion, asking witnesses if they believed ESG policies contributed to the failure of the banks. Witnesses indicated that they did not think it was a factor.
- **Rep. Wiley Nickel (D-NC)** pressed Vice Chair Barr to comment on the potential implications of the U.S. defaulting on its payment obligations. Vice Chair Barr reiterated past statements from Fed officials calling on Congress to increase the federal debt limit.
- Rep. Nickel inquired about the valuation process used for the sale of SVB. Chair Gruenberg explained that First Citizens Bank presented the “strongest bid” of all bidding institutions, adding that it also pledged to purchase all of SVB’s assets and deposits.
- Rep. Horsford referenced allegations that SVB advertised to clients its FDIC guarantee to attract new depositors following its placement in receivership. Chair Gruenberg acknowledged these concerns and noted that the FDIC addressed the concern as soon as they were made aware.