UNITED STATES SENATE, COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, ELIZABETH WARREN

Proposal and Comment Information

Title: LFI -Revisions to the Large Financial Institution Rating System and Framework for the Supervision of Insurance Organizations, OP-1868

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

September 23, 2025

The Honorable Michelle Bowman
Vice Chair for Supervision
Federal Reserve Board
20th Street and Constitution Ave NW
Washington, DC 20551

Dear Vice Chair Bowman:

I write to request that the Federal Reserve Board ("Fed") withdraw its proposal to weaken the big bank supervisory ratings framework.[1] The proposal would undermine supervisory ratings and ease the Fed's enforcement posture towards big banks with supervisory deficiencies. Banks with managerial weaknesses would be permitted to engage in riskier activities and supervisory deficiencies would be allowed to fester, increasing the likelihood of big bank failures. The proposal also reflects an effort to manipulate the perceived health of big banks. In July, the Fed noted that 23 out of 36 big banks are presently not rated as "well managed"[2] – but instead of forcefully addressing managerial problems through corrective enforcement actions, the Fed is proposing to artificially inflate the ratings. Ultimately, the proposal is yet another deregulatory action from President Trump's financial regulators that puts our country's financial and economic stability at risk.

Right now, examiners evaluate three components under the Fed's big bank supervisory ratings framework: (1) capital planning and positions; (2) liquidity risk management and positions; and (3) governance and controls. The Fed assigns a supervisory rating for each component, based on a four-point scale: Broadly Meets Expectations, Conditionally Meets Expectations, Deficient-1, and Deficient-2. A big bank that receives a rating of Deficient-1 or Deficient-2 in any of the three components currently cannot be considered "well managed," which generally prevents the bank from engaging in riskier activities or receiving certain regulatory privileges. For example, bank holding companies must be "well capitalized" and "well managed" to qualify as "financial holding companies" that are permitted to engage in a broader set of nonbank financial activities, including a range of capital markets activities.[3]

1 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.

2 *Id.*

3 12. U.S.C § 1843(k)

The framework also currently includes a presumption that banks with a deficient rating in at least one component will be subjected to informal or formal enforcement actions to remedy the issues. It is critical that supervisory deficiencies, including those related to management, be promptly addressed. Research from the Fed and Office of the Comptroller of the Currency demonstrates that supervisory ratings for management have been a meaningful predictor for bank performance.[4]

The Fed's proposal would create significant financial stability risks by weakening the supervisory ratings framework and allowing big banks to be deemed "well managed" despite critical deficiencies. In particular, big banks with one Deficient-1 component rating and two component ratings of Conditionally Meets Expectations (or better) would be considered "well managed." These types of deficiencies are far from trivial. A Deficient-1 rating indicates that there are "financial or operational deficiencies in a firm's practices or capabilities, which put the firm's prospects for remaining safe and sound through a range of conditions at significant risk." A Conditionally Meets Expectations rating indicates that there are "certain material financial or operational weaknesses in a firm's practices or capabilities that may place the firm's prospects for remaining safe and sound through a range of conditions at risk if not resolved in a timely manner." If the proposal is finalized, a big bank could have deficiencies in either capital, liquidity, or governance that put its safety and soundness at "significant risk," while having material weaknesses in both of the other two components, and still be considered "well managed." For example, under this proposal, Silicon Valley Bank Financial Group ("SVB") would have been considered "well managed" under this proposed framework, even though you and other Trump-appointed financial regulators claim that SVB was, in fact, poorly managed.[5] Such lax standards create heightened risk for the whole financial system.

The proposal to water down the standard for a "well managed" firm isn't just bad policy. It is also inconsistent with the law. The Bank Holding Company Act defines a "well managed" firm as one that, among other criteria, has "at least a satisfactory rating for management, if such a rating is given."[6] Under the Fed's big bank supervisory ratings framework, the governance and controls component is effectively the management rating. A big bank that receives a Deficient-1

4 Federal Reserve Bank of St. Louis, Drew Dahl and Daniel C. Coster, "Subjective Assessment of Managerial Performance and Decisionmaking in Banking," July 14, 2022, https://www.stlouisfed.org/publications/review/2022/05/10/subjective-assessment-of-managerial-performance-and-decisionmaking-in-banking; Office of the Comptroller of the Currency, Lewis Gaul and Jonathan Jones, "CAMELS Ratings and Their Information Content," January 6, 2021, https://occ.treas.gov/publications-and-resources/publications/economics/working-papers-banking-perf-reg/pub-econ-working-paper-camels-ratings.pdf.

5 As of August 2022, SVBFG had ratings of: Capital (Broadly Meets Expectations); Liquidity (Conditionally Meets Expectations); and Governance (Deficient-1). Board of Governors of the Federal Reserve System, "Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank," April 2023, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf; U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Ahead of Committee Vote, Warren Releases Troubling Responses from Trump Economic, Housing, and National Security Nominees," Minority press release, May 5, 2025, https://www.banking.senate.gov/newsroom/minority/elizabeth-warren-press-office; U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Ahead of Committee Vote, Warren Releases Troubling Responses from Trump Nominees," Minority press release, April 3, 2025, https://www.banking.senate.gov/newsroom/minority/ahead-of-committee-vote-warren-releases-troubling-responses-from-trump-nominees.

6 12 U.S.C § 1841(o)(9).

rating in governance and controls does not have a satisfactory rating for management and therefore must not be considered “well managed” under the law. But that exact scenario would be permitted under the Fed’s proposal.

The Fed’s proposal would also create risk by watering down enforcement against deficient firms. In particular, the Fed’s proposal would remove the presumption that big banks with one or more Deficient-1 component ratings will be subject to an informal or formal enforcement action. Instead of requiring big banks to fix identified deficiencies, the Fed is reserving the right to do nothing about the problems uncovered by its examiners. If anything, the Fed’s supervisory history at SVB demonstrated it does not require big banks to remedy identified supervisory issues quickly enough.[7] This proposal moves in the exact opposite direction and embraces a hands-off approach to big bank oversight.

The wave of deregulatory actions put forward by the Fed and the other banking agencies is staggering. Individually, they create serious risks for the banking system. Collectively, they put the entire American economy at risk. The Fed should withdraw this proposal, and others, before this Wall Street deregulation agenda harms American families.

Sincerely,

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

7 Board of Governors of the Federal Reserve System, “Review of the Federal Reserve’s Supervision and Regulation of Silicon Valley Bank,” 2023, https://www.federalreserve.gov/publications/review-of-the-federal-reserves-supervision-and-regulation-of-silicon-valley-bank.htm.