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Statement by

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before the

Committee on Financial Services

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Chairman Hill, Ranking Member Waters, and other members of the Committee, thank you for the opportunity to testify on the Federal Reserve's supervisory and regulatory activities.

My testimony today will focus on two areas. First, the current state of the banking sector, as detailed in the fall 2025 *Supervision and Regulation Report*, which accompanies my submission to the Committee. Second, progress on my priorities as Vice Chair for Supervision since my confirmation earlier this year. My priorities relate to the efficiency, safety and soundness, and stability of our financial system and the effectiveness and accountability of our regulation and supervision of that system. The financial sector plays a critical role in our economy because it serves as an essential intermediary to channel savings into productive investments and enable the flow of money, credit, and capital throughout the economy. Our supervision and regulation must support a safe and sound banking system that fosters economic growth while also safeguarding financial stability.

**Banking Conditions**

Let me begin by providing an update on banking conditions. As the *Supervision and Regulation Report* shows, the banking system remains sound and resilient. Banks continue to report strong capital ratios and significant liquidity buffers, which position them well to support economic growth. The overall health of the banking sector is demonstrated by continued growth in lending, a decline in non-performing loans across most categories, and strong profitability. Notably though, nonbank financial institutions continue to increase their share of the total lending market, providing strong competition to regulated banks without facing the same capital, liquidity, and other prudential standards.

Regulated banks must be empowered to compete effectively with nonbanks that are challenging banks on both payments and lending. To that end, the Federal Reserve is encouraging banks to innovate to improve the products and services they provide. New technologies can create a more efficient banking sector that expands access to credit while also leveling the playing field with fintech and digital asset companies. We are currently working with the other banking regulators to develop capital, liquidity, and diversification regulations for stablecoin issuers as required by the GENIUS Act. We also need to provide clarity in treatment on digital assets to ensure that the banking system is well placed to support digital asset activities. I think this includes clarity on the permissibility of activities, but also a willingness to provide regulatory feedback on proposed new use cases. As a regulator, it is my role to encourage innovation in a responsible manner, and we must continuously improve our ability to supervise the risks to safety and soundness that innovation presents.

**Prioritizing Community Banking Issues**

One of the Federal Reserve's goals is to tailor our regulatory and supervisory framework to accurately reflect the risk that different banks pose to the financial system. Community banks are subject to less stringent standards than large banks, but there remains more opportunity to tailor regulations and supervision to the unique needs and circumstances of these banks. We cannot continue to push policies and supervisory expectations designed for the largest banks down to smaller, less risky, and less complex banks.

In this regard, I support efforts by Congress to reduce burden on community banks. I support increasing static and outdated statutory thresholds, including asset thresholds, that have not been updated for years. Asset growth due, in part, to inflation over time has resulted in small banks becoming subject to laws and regulations that were intended for much larger banks. I also support improvements to the Bank Secrecy Act and anti-money-laundering framework that will assist law enforcement while minimizing unnecessary regulatory burden that disproportionately falls on community banks. As an example, the thresholds for Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs) have not been adjusted since they were established, despite decades of significant growth in the economy and financial system. These thresholds should be updated to more effectively focus resources on those transactions and activities that truly are suspicious.

Where possible, the Federal Reserve is taking its own actions to further tailor regulatory and supervisory measures to support community banks in more effectively serving their customers and communities. We recently proposed changes to the community bank leverage ratio to provide community banks greater flexibility and optionality in their capital framework while preserving safety and soundness and the capital strength of the banking system. This enables community banks to focus on their core mission: stimulating economic growth and activity through lending to households and businesses. We also recently released new capital options for mutual banks, including capital instruments that could qualify as tier 1 common equity or as additional tier 1 equity. We are open to further refinement of these options and look forward to feedback.

It is also time to more effectively tailor the merger and acquisition (M&A) and de novo chartering application processes for community banks. We are exploring streamlining these processes and updating the Federal Reserve Board's (Board's) merger analysis to accurately consider competition among small banks. Now is the time to build a framework for community banks that recognizes their unique strengths and supports their critical role in providing financial services to businesses and families throughout the United States.

Effective regulatory frameworks are an essential operational foundation for our ability to effectively supervise financial institutions. We are in the process of conducting our third

Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review to eliminate outdated, unnecessary, or overly burdensome rules. My expectation is that—unlike previous EGRPRA reviews—this review will create substantive change. This type of regular assessment should be an ongoing aspect of our work. A proactive approach will ensure that regulations are responsive and adaptable to the evolving needs of, and conditions in, the banking sector.

**Regulatory Agenda for Large Banks**

We are also modernizing and simplifying the Federal Reserve's regulation of large banks. The Board is considering modifications to each of the four pillars of our regulatory capital framework for large banks: stress testing, the supplementary leverage ratio, the Basel III framework, and the global systemically important banking organization (G-SIB) surcharge.

***Stress testing***. The Board recently released a proposal to enhance public accountability and ensure robust outcomes of our stress testing framework and practices. The proposal includes disclosure of the stress test models, the framework for designing stress test scenarios, and the scenarios for the 2026 stress tests. It reduces volatility and balances model robustness and stability with full transparency. It also ensures that any future significant changes to these models will benefit from public input prior to implementation.

***Supplementary leverage ratio***. The banking agencies recently finalized changes to the enhanced supplementary leverage ratio proposal for U.S. G-SIBs.[1] These changes help ensure that leverage capital requirements serve primarily as a backstop to risk-based capital requirements, as originally intended. When the leverage ratio generally becomes the binding constraint, it discourages banks and dealers from engaging in low-risk activities, including

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[1] Board of Governors of the Federal Reserve System, "Agencies Request Comment on Proposal to Modify Certain Regulatory Capital Standards," press release, June 27, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627a.htm.

holding Treasury securities, because the leverage ratio assigns the same capital requirement across both safe and risky assets.

***Basel III***. The Board, together with our federal banking agency colleagues, has taken steps to advance Basel III in the United States. Finalizing Basel III is an important act of closure for the banking sector, reducing uncertainty and providing clarity on capital requirements, enabling banks to make better-informed business and investment decisions. My approach is to address the calibration of the new framework from the bottom up, rather than reverse engineer changes to achieve pre-determined or preconceived approaches to capital requirements. Modernizing capital requirements to support market liquidity, affordable homeownership, and the safety and soundness of banking is an important goal of these changes. In particular, the capital treatment of mortgages and mortgage servicing assets under the U.S. standardized approach has resulted in banks reducing their participation in this important lending activity, potentially curtailing access to mortgage credit. We are considering approaches to more granularly differentiate the riskiness of mortgages with benefits extending to financial institutions of all sizes, not just the largest banks.

***G-SIB surcharge***. In addition, the Federal Reserve is working to refine the G-SIB surcharge framework in coordination with broader capital framework reform efforts. It is essential that our comprehensive framework strikes the right balance between safety and soundness, ensuring financial stability and promoting economic growth. The surcharge must be carefully calibrated to avoid inadvertently inhibiting the ability of the banking sector to support the broader economy. We must maintain a robust financial system without imposing unnecessary burdens that impede economic growth.

**Supervision**

I will now turn to the Federal Reserve's supervisory program. Over the last seven years, I have consistently emphasized the importance of transparency, accountability, and fairness in supervision. These principles guided my approach as a state banking commissioner, and they continue to guide my approach today. I also remain focused on the Board's responsibility to promote the safe and sound operations of banks and the stability of the U.S. financial system.

An effective supervisory framework must focus on those factors that affect a bank's financial condition including material risks to bank operations and to the stability of the broader financial system, not immaterial issues that divert attention from core safety and soundness. It must be risk-based by design, concentrating resources where risks are most consequential and tailoring oversight to each institution's size, complexity, and risk profile. I have consistently supported a risk-focused, tailored approach to supervision and regulations, and it is the direction I have provided to Federal Reserve examiners in recent guidance and also released publicly.[2]

As part of this effort, the Federal Reserve is also considering a regulation that would clarify the standards for enforcement actions based on an unsafe or unsound practice, Matters Requiring Attention (MRAs), and other supervisory findings based on threats to safety and soundness. Our revised framework will prioritize addressing substantive threats to banks rather than administrative deficiencies. By focusing our supervisory resources on material issues that historically have correlated to bank failures, we create a more effective and efficient oversight system that enhances financial stability.

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[2] See Board of Governors of the Federal Reserve System, "Federal Reserve Board Releases Information Regarding Enhancements to Bank Supervision," press release, November 18, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251118a.htm.

Another step we are taking to address these concerns is through the review of our CAMELS framework, which has been in place since 1979 with minimal modification. The management ("M") component, for example, has been widely criticized as an arbitrary and highly subjective catch-all category. Establishing clear metrics and parameters for all of the components will ensure transparency and objectivity in our supervisory assessments. Bank ratings should reflect overall safety and soundness, not just isolated deficiencies in a single component. Prior to the recent modification of the Large Financial Institution (LFI) ratings system, banks have often been labeled as not "well managed" despite strong capital and liquidity positions. To address this shortcoming, the Board recently finalized revisions to the LFI ratings system that address the mismatch between ratings and overall firm condition.

In addition to sharpening the focus on financial risks, updating our ratings frameworks, and refining our supervisory tools, we are also reviewing our supervisory directives, reports and actions. Further, the Board officially ended the practice of using reputational risk in our supervisory program.[3] This change addressed legitimate concerns that supervision around an ambiguous concept like reputational risk could improperly influence a bank's business decisions. We are also considering a regulation to prevent Board personnel from encouraging, influencing or compelling banks to debank or refuse to bank a customer due to their constitutionally protected political or religious beliefs, associations, speech or conduct. Let me be clear: banking supervisors should never, and will not under my watch, dictate which individuals and lawful businesses a bank is permitted to serve. Banks must remain free to make their own risk-based decisions to serve individuals and lawful businesses.

[3] See Board of Governors of the Federal Reserve System, "Federal Reserve Board Announces That Reputational Risk Will No Longer Be a Component of Examination Programs in Its Supervision of Banks," press release, June 23, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250623a.htm.

Thank you, again, for the opportunity to appear before you this morning. As you know, the Federal Reserve is currently in the pre-Federal Open Market Committee (FOMC) meeting blackout period during which FOMC members are not permitted to discuss monetary policy. Therefore, unfortunately, I will not be able to discuss monetary policy during today's hearing. With that in mind, I look forward to answering your questions.