

Scheduled for delivery at:  
10:00 a.m. EST  
February 26, 2026

Statement by  
Michelle W. Bowman  
Vice Chair for Supervision  
Board of Governors of the Federal Reserve System  
before the  
Committee on Banking, Housing, and Urban Affairs  
U.S. Senate  
February 26, 2026

Chairman Scott, Ranking Member Warren, and 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. Second, progress on my priorities as Vice Chair for Supervision since my confirmation last year. My priorities relate to the effectiveness, safety and soundness, and stability of our financial system, and the effectiveness and accountability of our regulation and supervision of that system. Our supervision and regulation must support a safe and sound banking system that fosters economic growth while also safeguarding financial stability.

### **Banking Conditions**

I will begin by providing an update on banking conditions. 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, non-bank financial institutions continue to increase their share of the total lending market, creating strong competition for regulated banks without facing the same capital, liquidity, and other prudential standards. This competition from nonbanks includes payments and lending.

Regulated banks must have the tools and flexibility to innovate and compete effectively while maintaining the safety and soundness that defines our banking system. To that end, the Federal Reserve is encouraging banks to innovate to improve the products and services they provide. We have rescinded several policies that were intended to hinder innovation.<sup>1</sup> We are

---

<sup>1</sup> See, e.g., Board of Governors of the Federal Reserve System, “Federal Reserve Board Withdraws 2023 Policy Statement and Issues New Policy Statement Regarding the Treatment of Certain Board-Supervised Banks that

also working with the other banking regulators to develop regulations that include capital and liquidity for stablecoin issuers as required by the GENIUS Act.

Additionally, we will provide clarity regarding the treatment of digital assets to ensure that the banking system is well placed to support digital asset activities. This includes clarity on the permissibility of activities and 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 that innovation may present to safety and soundness.

### **Prioritizing Community Banking Issues**

One of the Federal Reserve's goals is to tailor our regulatory and supervisory framework so that it accurately reflects the risk that different bank business models pose to the financial system. Community banks are and should be subject to less stringent standards than large banks, and there is significant 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.

Therefore, 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 many years. Asset growth due, in part, to inflation and economic growth 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 the unnecessary

---

Facilitates Responsible Innovation," press release, December 17, 2025,  
<https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251217a.htm>.

regulatory burden that disproportionately falls on community banks. As an example, the thresholds for Currency Transaction Reports and Suspicious Activity Reports 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 actions to further tailor regulatory and supervisory measures to support community banks in more effectively serving their customers and communities. We are carefully considering comments on our proposed changes to the community bank leverage ratio. These changes would provide community banks greater flexibility and optionality in their capital framework while preserving safety and soundness and enabling these banks to focus on their core mission: to support 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 tailor the merger and acquisition and de novo chartering application processes for community banks. We are exploring streamlining those processes and updating the Federal Reserve Board's (Board's) merger analysis to accurately reflect and 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 appropriately supervise financial institutions. We are currently 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 G-SIB surcharge.

### ***Stress Testing***

The Board released a proposal in October of last year 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. The proposed model changes reduce volatility in capital requirements by addressing some shortcomings in our models and by providing full transparency. The proposal also ensures that any future significant changes to these models will benefit from public input prior to implementation. Earlier this month, after reviewing the comments on the 2026 scenarios, the Board published the final scenarios for the 2026 stress test.

### ***Supplementary Leverage Ratio (SLR)***

The banking agencies also finalized changes to the enhanced SLR proposal for U.S. global systemically important banking organizations (G-SIBs).<sup>2</sup> 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 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 reduces uncertainty and provides clarity on capital requirements, enabling banks to make better-informed business and investment decisions. My approach is to calibrate the new framework from the bottom up, rather than reverse engineer changes to achieve predetermined or preconceived outcomes to capital requirements. These changes will modernize capital requirements to support market liquidity, affordable homeownership, and safety and soundness. In particular, the capital treatment of mortgage loans and mortgage servicing assets under the U.S. standardized approach has resulted in banks reducing their participation in this important lending activity, limiting access to mortgage credit. We are considering approaches to differentiate the riskiness of mortgages in ways that will benefit financial institutions of all sizes, not just the largest banks.

---

<sup>2</sup> 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>.

### ***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. We must maintain a robust financial system without imposing unnecessary burdens that impede economic growth while carefully calibrating the surcharge to avoid inadvertently inhibiting the ability of the banking sector to support the broader economy.

### **Supervision**

Turning 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 and I 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 the core material risks to banks operations and to the stability of the broader financial system. Let me be clear: those core material risks include non-financial risks where they pose threats to safety and soundness. Strong risk management, whether in credit, liquidity, cybersecurity, or operations, remains essential, and we will continue to examine for these risks.

Supervision must also be tailored, matching oversight to each institution's size, complexity, and risk profile. I have consistently supported a risk-focused, tailored approach to supervision and regulation. This approach is consistent with the direction I provided to Federal

Reserve examiners in guidance that was also publicly released last fall.<sup>3</sup> One example of this implementation is our work on new and existing Matters Requiring Attention (MRAs), ensuring they are based on threats to safety and soundness and are aligned with this guidance using clear language and identifying transparent expectations. This review is an opportunity to recalibrate—to prioritize what truly matters—and it complements the supervision that is ongoing. We will also continue to issue supervisory findings when necessary. It is not a reduction of our supervisory toolkit or approach.

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 core material risks, updating our ratings frameworks, and refining our supervisory tools, we are also reviewing our supervisory directives, reports, and actions. This includes an independent third-party review of the 2023 bank failures.

---

<sup>3</sup> 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>.

This review will objectively examine why our supervision fell short and deliver actionable findings to further strengthen our supervisory practices. Further, the Board has officially ended the practice of using reputational risk in our supervisory program.<sup>4</sup> This change addressed legitimate concerns that supervision around an ambiguous concept like reputational risk could improperly influence a bank's business decisions. We have also proposed 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.

Finally, I am also increasing supervisory transparency. We have begun publishing internal supervisory manuals, which started with our manuals for G-SIBs.<sup>5</sup>

Thank you again for the opportunity to appear before you this morning. I look forward to answering your questions.

---

<sup>4</sup> 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>.

<sup>5</sup> See Board of Governors of the Federal Reserve System, "Federal Reserve Board Publishes First of Several Staff Manuals for the Supervision of the Largest and Most Complex Banks," press release, December 18, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251218a.htm>.