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

October 14, 2020

The Honorable Randal Quarles
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th St and Constitution Ave NW
Washington, D.C. 20551

The Honorable Jelena McWilliams
Chair
Federal Deposit Insurance Corporation
550 17th St NW
Washington, D.C. 20429

The Honorable Rodney Hood
Chair
National Credit Union Administration
1775 Duke St
Arlington, VA 22314

Mr. Brian Brooks
Acting Comptroller
Office of the Comptroller of the Currency
400 7th St SW
Washington, D.C. 20219

Dear Vice Chair Quarles, Chair McWilliams, Chair Hood, and Acting Comptroller Brooks:
In addition to catastrophic effects on public heath, the COVID-19 crisis has wrought devastation throughout the American economy. Your agencies must ensure that our financial system is safe and strong, so that this public health and economic crisis does not turn into a financial crisis. Yet, bank and credit union exposure to deteriorating economic conditions, lax regulation, and the public health risks of managing a financial crisis and resolving failed institutions during a deadly pandemic raise serious financial stability concerns. I am deeply concerned that the system is blinking red and, just as in the lead-up to the 2007-2008 financial crisis, you are asleep at the switch.

For millions of working families – many of whom are still recovering from the Great Recession – this is already a crisis. Currently, 78 million American adults report that they are having difficulty paying their usual household expenses[1] and nearly 25% of Americans have no emergency savings to fall back on.[2] An estimated 11 million adults report that their household is behind on rent, with higher rates of hardship reported by Black and Latino adults than their white counterparts.[3] Ninety-five percent of workers in low-income households have been laid off or lost income because of the coronavirus.[4] Another 840,000 people have filed for unemployment.[5] Millions of temporary job losses are turning into permanent ones.[6]

[1] https://www.census.gov/data-tools/demo/hhp/#/https:?measures=EXR
[2] https://www.marketwatch.com/story/nearly-25-of-americans-have-no-emergency-savings-and-lost-income-due-to-coronavirus-is-piling-on-even-more-debt-2020-06-03
[3] https://www.cbpp.org/research/poverty-and-inequality/tracking-the-covid-19-recessions-effects-on-food-housing-and
[4] https://www.marketwatch.com/story/nearly-25-of-americans-have-no-emergency-savings-and-lost-income-due-to-coronavirus-is-piling-on-even-more-debt-2020-06-03
[5] https://www.nbcnews.com/business/economy/first-time-jobless-claims-rose-840-000-last-week-v-n1242591
[6] https://www.nytimes.com/2020/10/03/business/economy/coronavirus-permanent-job-losses.html

As the Trump Administration and Senate Republicans allowed the direct relief provided by the CARES Act to lapse, economic conditions are worsening. Americans have been forced to skip payments on their student loans, auto loans, credit cards and other household debt.[7] Many have turned to inadequately regulated online "fintech" lenders who routinely flout the law and prey on consumers.[8] Homeowners are struggling to make their mortgage payments and face the risk of foreclosure, and up to 40 million Americans are at risk for eviction over the next several months.[9] The commercial real estate market shows signs of distress as small businesses continue to face declines in revenue and are forced to shutter.[10]

Absent additional fiscal relief to individuals and small businesses, these deteriorating conditions are a troubling financial system vulnerability that could ripple through the banking system, and banks and credit unions with significant exposure to these areas are particularly susceptible. According to recent bank and credit union data, earnings have declined, lending has decreased, net charge-offs have increased, and credit quality has deteriorated.[11] For example, commercial real-estate concentrations, a key cause of bank failures during the last two banking crises, rose by 144% in the last quarter.[12] While many banks and credit unions have worked with their customers during this crisis, credit risk is high across sectors and the scale of losses could be substantial.[13]

The Trump Administration's deregulatory agenda has also left our financial system exposed, even before the shock of COVID-19. This Administration has rolled back important protections put in place in response to the last financial crisis intended to safeguard our financial system and protect consumers from predatory lending, risky investment activities, and exposure to overleveraged companies. The banking agencies have also lowered capital requirements and sanctioned the continued issuance of dividends, allowing banks to prop up their executives and shareholders, instead of lending in their communities. And, as I wrote earlier this year, I am alarmed that your agencies have gone further than Congress provided to turn temporary regulatory relief measures meant to help consumers and small businesses during the pandemic into industry giveaways.

The challenge of handling a financial crisis during an historic public health crisis compounds these systemic vulnerabilities. The OCC has acknowledged elevated compliance and operational risk at agencies and banks in light of the pandemic, including increased technological and cybersecurity risks.[14] In a recent report raising questions about the FDIC's crisis preparedness, the FDIC Inspector General highlighted the importance of addressing emerging supervisory risks, interagency coordination, and robust crisis readiness plans, training, and exercises.[15] Your

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[7] https://www.wsj.com/articles/americans-skip-millions-of-loan-payments-as-coronavirus-takes-economic-toll-11592472601
[8] https://theintercept.com/2020/08/30/fintech-debt-personal-loans-economic-crisis/
[9] https://www.aspeninstitute.org/blog-posts/the-covid-19-eviction-crisis-an-estimated-30-40-million-people-in-america-are-at-risk/
[10] https://www.ft.com/content/e4b2302b-76c5-494a-8560-e6d24de9358f
[11] https://www.americanbanker.com/creditunions/list/5-takeaways-from-ncuas-q2-2020-data; https://www.fdic.gov/bank/analytical/qbp/2020jun/qbp.pdf#page=1
[12] https://www.ft.com/content/0865e993-d454-40d0-af57-9a75c7016177; https://www.aei.org/economics/the-coronavirus-could-send-hundreds-of-small-banks-to-the-icu/
[13] https://www.ft.com/content/c95e5a72-8322-4cfc-b36a-69e8998aea01?sharetype=blocked
[14] https://www.occ.treas.gov/publications-and-resources/publications/semiannual-risk-perspective/files/semiannual-risk-perspective-spring-2020.html
[15] https://www.fdicoig.gov/sites/default/files/publications/EVAL-20-004.pdf

agencies must now prepare for the unprecedented challenge of resolving failed financial institutions in the middle of a pandemic in a way that protects the health and safety of staff and the broader public.

"Watchful waiting" and deregulation are insufficient regulatory responses to the myriad stressors in the financial system.[16] The COVID-19 pandemic has created fragility across sectors and any one could trigger bank failures and financial contagion. Your agencies must show that they are responding to and preparing for threats to financial stability before the real economy suffers even further. Please provide a response to the following questions by October 28, 2020:

1. What compliance, operational, and other risks does the public health crisis pose to your agencies' ability to handle a potential financial crisis? What concrete steps have your agencies taken individually and on a coordinated basis to address these risks?

2. How are your agencies monitoring and addressing concentration risks with respect to leveraged lending, household and consumer debt, credit card debt, and the mortgage and commercial real estate markets. What are your agencies doing to monitor and address exposure to fragility in the funding markets, particularly the overnight repurchase market? What other emerging risks have you identified?

3. What preparations have your agencies made if it needs to resolve failed banks or credit unions, including in a widespread failure scenario involving G-SIBs, large regional institutions, and community banks? What specific table-top exercises have your agencies participated in to ensure you are operationally prepared to wind-down a failing bank or credit union?

4. To what extent have your agencies increased their budgets to accommodate additional crisis preparedness measures? To what extent have your agencies purchased or made arrangements to quickly acquire personal protective equipment (PPE) for all staff in the event of a failed institution resolution?

5. Please provide copies of all agency crisis-readiness plans, policies, and procedures.

Thank you for your attention to this important matter.

Sincerely,

Sherrod Brown
Ranking Member

cc: Hon. Jerome H. Powell, Chair, Board

[16] https://www.brookings.edu/wp-content/uploads/2020/06/WP63_Stein-et-al_FINAL.pdf