

Congress of the United States

Washington, DC 20515

April 28, 2026

The Honorable Michelle Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Vice Chair Bowman:

We write to urge the Federal Reserve Board (Fed) to immediately rescind its dangerous stress testing proposals and to completely overhaul its internal stress testing models in advance of the 2027 stress tests. The proposals would dismantle the stress testing framework put in place following the 2008 financial crisis to help ensure big banks can withstand economic shocks without collapsing and necessitating taxpayer bailouts.¹ Wall Street has long sought to weaken the Fed’s stress tests in order to reduce their loss-absorbing capital cushions through higher dividends and share buybacks.² In October 2025, the Fed yet again delivered for big banks—including by publicizing, in the form of a proposed rule, its internal models; proposing changes to weaken those models; and proposing to allow banks to help shape the economic scenarios used in the stress tests.³ In other words, the Fed is allowing banks to choose the questions designed to assess their resilience to economic shocks and is then providing them with the answer key—creating a dangerous illusion of stability as our economy faces significant stress.

Rigorous Stress Testing Helps Ensure Banks Can Withstand Economic Shocks

The banking system was severely undercapitalized in the lead up to the 2008 financial crisis. Weak rules allowed big banks to load up on unsustainable levels of debt to fund high-risk activities in the preceding years.⁴ Firms that operated with razor-thin capital cushions were especially vulnerable to collapse when the subprime mortgage market started to unravel in 2007, necessitating extraordinary government intervention and taxpayer bailouts.⁵ In the Great Recession that followed, Americans endured the largest job losses since the Great Depression,

¹ Board of Governors of the Federal Reserve System, Proposed Rule, “Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL,” November 18, 2025, <https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios>.

² Bank Policy Institute, “Banks and Business Groups File Legal Challenge Against Federal Reserve Over Flawed Stress Testing Framework,” press release, December 24, 2024, <https://bpi.com/banks-and-business-groups-file-legal-challenge-against-federal-reserve-over-flawed-stress-testing-framework/>.

³ Board of Governors of the Federal Reserve System, Proposed Rule, “Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL,” November 18, 2025, <https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios>.

⁴ United States Financial Crisis Inquiry Commission, “The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States,” January 2011, <https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>.

the wealth gap between the richest Americans and the middle class widened drastically, and nearly 10 million homes were foreclosed on.⁶ The crisis was also catastrophic for community banks and small businesses, which unlike Wall Street firms, were allowed to fail en masse.⁷

The Fed introduced forward-looking stress tests for large banks in 2009 to help identify additional weaknesses and recapitalize the banking system. To help restore confidence in the banking system, stress test results were publicly announced to demonstrate how firms could weather severe economic downturns.⁸ In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, requiring the Fed to conduct annual stress tests and subjecting firms to enhanced capital planning requirements.⁹ The Fed could block stock buybacks and shareholder dividends if the firm's projected capital ratios fell below regulatory minimums or if the bank's capital plan has material deficiencies. These reforms helped build big bank capital levels in the years following the 2008 financial crisis.¹⁰

The Fed is Delivering on Wall Street's Wish List

Wall Street has long attempted to weaken stress tests, claiming that the scenarios included within them are too "severe"¹¹ and pushing for greater predictability.¹² And during the first Trump Administration, the Fed significantly weakened stress testing assumptions and requirements.¹³

⁵ The Journal of Legal Studies, Volume 43, , The Compelling Case for Stronger and More Effective Leverage Regulation in Banking," Anat R. Admati, June 2014, p. 38 , <https://www.jstor.org/stable/10.1086/677557?seq=1>.

⁶ UC Berkeley Labor Center, Joint Center for Political and Economic Studies, "The Great Recession, Jobless Recoveries and Black Workers," November 2010, p. 1, <https://laborcenter.berkeley.edu/pdf/2010/the-great-recession.pdf>; Los Angeles Times, "The financial crisis hit 10 years ago. For some, it feels like yesterday," Colleen Shalby, September 15, 2025 <https://www.latimes.com/business/la-fi-financial-crisis-experiences-20180915-htmlstory.html>; Stanford Center on Poverty and Inequality, The Russell Sage Foundation, "Income, Wealth, and Debt and the Great Recession," October 2012, p. https://inequality.stanford.edu/sites/default/files/IncomeWealthDebt_fact_sheet.pdf.

⁷ Federal Deposit Insurance Corporation, Martin J. Gruenberg, "Three Financial Crises and Lessons for the Future," January 14, 2025, <https://www.fdic.gov/news/speeches/2025/three-financial-crises-and-lessons-future>.

⁸ Better Markets, "Stressless 'Stress' Tests for Wall Street's Banks Endanger Main Street Families, Businesses, and Community Banks," June 2024, p. 2, https://bettermarkets.org/wp-content/uploads/2024/06/Better_Markets_Stress_Test_Fact_Sheet-6.25.24.pdf.

⁹ Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203, Section 165(i)(1). Distinct from the supervisory stress tests, the Dodd-Frank Act also established a company-run stress testing requirement.

¹⁰ For example, the 34 large bank holding companies subjected to the 2017 stress tests had more than doubled their high-quality risk-weighted capital levels from 5.5 percent in Q1 2009 to 12.5 percent in Q1 2017. Similarly, these banks materially increased their simpler and more reliable leverage capital levels between 2009 and 2017. Board of Governors of the Federal Reserve System, "Federal Reserve releases results of Comprehensive Capital Analysis and Review (CCAR)," press release, June 28, 2017,

<https://www.federalreserve.gov/newsevents/pressreleases/bcreg20170628a.htm>; See Chart 1, Federal Reserve Bank of Kansas City, "Bank Capital Analysis Semiannual Update," October 2024, https://www.kansascityfed.org/Banking/documents/10556/Bank_Capital_Analysis_Report_-_2O_2024_-_final.pdf.

¹¹ Bank Policy Institute, "Federal Reserve's Stress Scenario is Much More Severe Than the 2007-2009 Financial Crisis," Bill Nelson and Francisco Covas, February 6, 2019, <https://bpi.com/federal-reserves-stress-scenario-is-much-more-severe-than-the-2007-2009-financial-crisis/>.

¹² Financial Services Forum, "Observations and Recommendations for a New Administration and U.S. Economic Growth," January 2025, p. 4, <https://fsforum.com/wp-content/uploads/2025/07/Financial-Services-Forum-Jan-2025.pdf>.

¹³ Board of Governors of the Federal Reserve System, "Federal Reserve Board approves rule to simplify its capital rules for large banks, preserving the strong capital requirements already in place," press release, March 4, 2020,

For example, leverage capital requirements were stripped from the stress tests, certain assumptions regarding balance sheet growth were relaxed, and pre-funding requirements for planned dividends and share buybacks were significantly reduced. The Economic Growth, Regulatory Relief, and Consumer Protection Act and the Fed’s “tailoring” rule increased the size threshold at which banks are subjected to the stress tests, reduced the number of scenarios in the stress tests, and reduced their frequency for certain firms.¹⁴ Silicon Valley Bank is one firm that did not face stress tests prior to its failure due to these rollbacks and the associated long transition periods.¹⁵

In the intervening years, the Fed took steps to bolster its stress testing frameworks. But after the November 2024 election, Wall Street initially turned to the courts to enact their desired changes to the stress testing framework. In December 2024 big banks sued the Fed, claiming that stress tests violate the Administrative Procedure Act, and that models and scenarios should be disclosed for public notice and comment.¹⁶ In a 49-page legal brief countering the industry’s weak lawsuit, the Fed vigorously defended its broad discretion with regard to administering stress tests and setting capital requirements¹⁷ But as soon as you took over as Vice Chair for Supervision, you eagerly moved forward with plans to weaken the stress tests, instead of maintaining the existing framework and fighting big banks’ dubious lawsuit in court.

In Trump’s second term, the Fed has once again taken an axe to the stress testing framework. In April 2025, the Fed issued a proposal with the clear aim of reducing large banks’ stress capital buffer requirement, which is a risk-sensitive capital requirement calculated annually based on a firm’s stress test results.¹⁸ The proposed change would use a two-year average of stress test results instead of a single year’s. This approach would rely on outdated data, therefore failing to capture the most current risks facing a firm. By the Fed’s own admission, this approach would lead to a “slower responsiveness of stress capital buffer requirements to changes in firm risk profiles and economic conditions.”¹⁹

<https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200304a.htm>; Board of Governors of the Federal Reserve System, “Federal Reserve Board announces it will limit the use of the ‘qualitative objection’ in its Comprehensive Capital Analysis and Review (CCAR) exercise, effective for the 2019 cycle,” press release, March 6, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20190306b.htm>.

¹⁴ 132 Stat. 1296; Board of Governors of the Federal Reserve System, “Federal Reserve Board finalizes rules that tailor its regulations for domestic and foreign banks to more closely match their risk profiles,” press release, October 10, 2019, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191010a.htm>.

¹⁵ Board of Governors of the Federal Reserve System, “Review of the Federal Reserve’s Supervision and Regulation of Silicon Valley Bank,” April 28, 2023, <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>.

¹⁶ American Bankers Association, “Banks and Business Groups File Legal Challenge Against Federal Reserve Over Flawed Stress Testing Framework,” press release, December 24, 2024, <https://www.aba.com/about-us/press-room/press-releases/banks-legal-challenge-flawed-stress-testing>.

¹⁷ Bank Policy Institute, Ohio Chamber of Commerce, American Bankers Association et al. v. Board of Governors of the Federal Reserve System, No. 2:24-cv-04300 (S.D. Ohio, 2024), <https://storage.courtlistener.com/recap/gov.uscourts.ohsd.299067/gov.uscourts.ohsd.299067.49.0.pdf>.

¹⁸ Board of Governors of the Federal Reserve System, “Proposed rule to reduce the volatility of the stress capital buffer requirement,” memorandum, April 11, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20250417a1.pdf>.

¹⁹ Board of Governors of the Federal Reserve System, Proposed Rule, “Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement,” April 22, 2025, <https://www.federalregister.gov/documents/2025/04/22/2025-06863/modifications-to-the-capital-plan-rule-and-stress-capital-buffer-requirement>.

In October 2025, The Fed took its most decisive—and destructive—step toward decimating the big bank stress testing framework. Specifically, it released a proposed rule that publicized its internal testing models, proposed weakening those models, and proposed allowing banks to help shape the stress test’s economic scenarios.²⁰

Disclosing Models Will Allow Megabanks to Game Stress Tests—Creating a Dangerous Illusion of Resilience

From the very beginning of its stress testing program, the Federal Reserve has prudently limited the information it discloses to big banks regarding its internal models. Disclosing information on the internal models would enable big banks to game the stress tests and engineer their balance sheets to limit projected losses, reducing the capital required by the tests and increasing correlations across the banking system.²¹ This dynamic increases big banks’ capacity for share buybacks and dividends, at the expense of their resiliency to stress. In 2024, Greg Feldberg, Research Director of Yale’s Program on Financial Stability, testified before the House Financial Services Committee, explaining that, “Too much transparency can be a bad thing....US supervisors are already revealing a lot about the stress test methodologies to the regulated industry, which may allow banks to merely optimize to the stress test rather than build resiliency. The Federal Reserve’s disclosures about its models and methods, along with the Bank of England’s, are far more transparent than other authorities across the world.”²²

On several occasions, the Fed has acknowledged the risks of publishing its stress testing models and allowing banks to help shape the stress test’s economic scenarios. In its legal brief responding to the banks’ 2024 lawsuit, the Fed stated that “full disclosure of all details related to supervisory models could make the financial system at large more vulnerable by allowing firms to make modifications to their businesses that would change their supervisory stress test results without materially changing their risk profile.”²³ Even during the first Trump administration, while loosening the stress testing framework, the Fed cautioned against full model disclosure: “In the presence of such behavior, the stress test could give a misleading picture of the actual vulnerabilities faced by firms. Further, such behavior could increase correlations in asset

²⁰ Board of Governors of the Federal Reserve System, Proposed Rule, “Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL,” November 18, 2025, <https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios>.

²¹ Cambridge University Press, “Stress Tests Disclosure: Theory, Practice, and New Perspectives,” Itay Goldstein and Yaron Leitner, February 2022, <https://finance.wharton.upenn.edu/~itayg/Files/stresstestsnewperspectives-publihed.pdf>; International Journal of Forecasting, “Stress testing banks,” Til Schuermann, September 2014, <https://www.sciencedirect.com/science/article/abs/pii/S016920701300143X>. The scenarios used by the Federal Reserve Board are only a couple of the hundreds or thousands of scenarios that could play out in reality. They are not meant to be predictive. For example, the severely adverse scenarios have generally contemplated interest rate declines in periods of stress, unlike the Spring 2023 banking turmoil.

²² Written Testimony of Greg Feldberg to the U.S. House Subcommittee on Financial Institutions and Monetary Policy, June 26, 2024, <https://docs.house.gov/meetings/BA/BA20/20240626/117459/HHRG-118-BA20-Wstate-FeldbergG-20240626.pdf>,

For an international comparison, see page 7.

²³ Bank Policy Institute, Ohio Chamber of Commerce, American Bankers Association et al. v. Board of Governors of the Federal Reserve System, No. 2:24-cv-04300 (S.D. Ohio, 2024), <https://storage.courtlistener.com/recap/gov.uscourts.ohsd.299067/gov.uscourts.ohsd.299067.49.0.pdf>.

holdings among the largest banks, making the financial system more vulnerable to adverse financial shocks.”²⁴

The Fed has stated that one purpose of its recent stress testing proposals is to reduce volatility and improve predictability for big banks. This notion ignores that volatility and unpredictability are key features of stress testing, ensuring that firms manage their risks conservatively to account for tail risks that are by definition unexpected. Big banks will never have certainty and predictability regarding real-world financial shocks. Moreover, internal model disclosure means that banks will be less likely to develop their own risk management capabilities. In the Fed’s words, disclosure could “incent banks to simply use models similar to the Federal Reserve’s rather than build their own capacity to identify, measure, and manage risk,” and “would create a ‘model monoculture’ in which all firms have similar internal stress testing models.”²⁵ When all major firms rely on similar methodologies, they may miss firm-specific, idiosyncratic vulnerabilities. This dynamic also increases correlations across the banking system and the likelihood that a financial shock could wipe out banks in unison.

In addition, subjecting stress testing models and economic scenarios to public review runs the risk that these exercises become ossified. As Governor Barr notes in his dissent, “[s]tress test models are inherently complex. They require nimble adjustments to maintain accuracy and relevance as banks innovate and create new products and risks.”²⁶ A lengthy notice and comment process will reduce the dynamism needed for rigorous and reliable stress tests. Moreover, it invites the banking industry to object to models or scenarios they expect will lead to higher projected losses and required capital.

Finally, the risks outlined above are not merely theoretical. In 2002, the now defunct Office of Federal Housing Enterprise Oversight (OFHEO) established a stress testing program for Fannie Mae and Freddie Mac.²⁷ By law, OFHEO was required to fully disclose the models and scenarios it used to conduct the stress test.²⁸ Perhaps unsurprisingly, the stress tests gave Fannie Mae and Freddie Mac a clean bill of health prior to the 2008 financial crisis. On September 7, 2008, the firms were placed into conservatorship and ultimately received a \$187.5 billion bailout.²⁹

²⁴ Board of Governors of the Federal Reserve System, Final Rule, “Enhanced Disclosure of the Models Used in the Federal Reserve’s Supervisory Stress Test,” February 28, 2019, <https://www.federalregister.gov/documents/2019/02/28/2019-03505/enhanced-disclosure-of-the-models-used-in-the-federal-reserves-supervisory-stress-test>.

²⁵ Bank Policy Institute, Ohio Chamber of Commerce, American Bankers Association et al. v. Board of Governors of the Federal Reserve System, No. 2:24-cv-04300 (S.D. Ohio, 2024), <https://storage.courtlistener.com/recap/gov.uscourts.ohsd.299067/gov.uscourts.ohsd.299067.49.0.pdf>.

²⁶ Board of Governors of the Federal Reserve System, “Statement on Proposals to Enhance the Transparency and Public Accountability Of the Board’s Stress Testing Framework By Governor Michael S. Barr,” press release, October 24, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20251024.htm>.

²⁷ Federal Reserve Bank of Boston, “The Failure of Supervisory Stress Testing: Fannie Mae, Freddie Mac, and OFHEO,” W. Scott Frame, Kristopher Gerardi, and Paul S. Willen, March 2015, p. 2, <https://www.bostonfed.org/publications/research-department-working-paper/2015/the-failure-of-supervisory-stresstesting-fannie-mae-freddie-mac-and-ofheo.aspx>.

²⁸ *Id.*

²⁹ The stress tests were stagnant, relied on stale assumptions, and provided the subjects of the test an opportunity to influence its design. U.S. Department of the Treasury, “Statement by Secretary Henry M. Paulson, Jr. on Treasury and Federal Housing Finance Agency Action to Protect Financial Markets and Taxpayers,” press release, September 7, 2008, <https://home.treasury.gov/news/press-releases/hp1128>; Federal Reserve Bank of New York. Staff Reports,

The Fed is Not Only Disclosing its Models, It's Weakening Them Too

The Fed's proposal appears to be designed with the single objective of slashing megabank capital requirements. The Fed's proposal significantly weakens the stress test's credit risk, market risk, and operational risk models. The Fed's proposed models rely on optimistic assumptions and ignore the realities of the nature of financial shocks. As Governor Barr notes in his dissent, "If these new credit, market, and operational risk models were used for the 2024 or 2025 stress test, they would have led to lower projected losses, leading to projected capital ratios that were roughly 100 basis points higher than using the existing models. That's approximately \$115 billion of additional capital more optimistically projected by these three models. These higher projected capital levels would translate to lower stress capital buffer requirements."³⁰

The proposed credit risk models, for example, replace regional-level variables with national ones – a change will reduce sensitivity to localized, regional downturns, which have historically driven destabilizing losses.³¹ With respect to market risk models, the proposed changes include shortening liquidity horizons and reducing the severity of the global market shock in ways that may not reflect true market dysfunction during a crisis. Revisions to loss given default and line of credit draw rate assumptions underestimate the intensity with which firms draw down credit lines during crises, which has historically driven destabilizing liquidity crunches.³²

Indeed, the Fed notes that its proposed stress test changes will reduce megabank capital requirements. According to the Fed's analysis, estimated post-stress CET1 capital ratios would rise 29bps. As a result, the Fed estimates banks' stress capital buffer requirements would fall by 2.2 percent. In other words, banks would look stronger following shock events without doing anything to actually minimize their risks and they would be in a worse financial position to deal with those risks. The Fed's proposal would reduce capital cushions at the riskiest banks by an estimated \$35 billion,³³ and the impact could be far more severe than that in practice, given balance sheet optimization and the reliance on big bank-produced estimates that are vulnerable to manipulation for certain stress testing models.³⁴ That's billions of dollars that could be diverted directly to shareholders through dividends and stock repurchases, and billions less available to lend to the economy or absorb losses during periods of economic turbulence.

"The Rescue of Fannie Mae and Freddie Mac," W. Scot Frame, Andreas Fuster, Joseph Tracy et al., March 2015, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr719.pdf.

³⁰ Board of Governors of the Federal Reserve System, "Statement on Proposals to Enhance the Transparency and Public Accountability Of the Board's Stress Testing Framework By Governor Michael S. Barr," press release, October 24, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20251024.htm>.

³¹ Board of Governors of the Federal Reserve System, Proposed Rule, "Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL," November 18, 2025, <https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios>.

³² *Id.*

³³ As of December 31, 2025, aggregate common equity tier 1 (CET1) capital across participating firms was \$1.61 trillion, per FR Y-9C data. A 2.2% reduction in required CET1 capital would decrease this amount by roughly \$35 billion.

³⁴ Board of Governors of the Federal Reserve System, "Statement on Proposals to Enhance the Transparency and Public Accountability Of the Board's Stress Testing Framework By Governor Michael S. Barr," press release, October 24, 2025, <https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20251024.htm#fn3>.

Questions

To help us better understand the purpose behind the Fed's recently released stress testing proposal and its implications for the stability of our financial system, we request answers to the following questions no later than May 12, 2026:

1. Can banks accurately predict real world shocks? What incentives exist at banks to accurately identify real world shocks that will impact their viability in the case of a crisis or unexpected event? What incentives exist at banks to ignore, or downplay, the same potential shocks?
2. How does making stress tests more predictable undermine their utility in assessing a bank's performance amid adverse shocks?
3. Did the Fed estimate the reduction in banks' discretionary capital buffers as a result of the proposed changes? If so, provide those estimates. If not, why not?
4. On several occasions, the Fed has raised concerns that disclosing its internal models could result in a model monoculture among banks, in which firms use similar stress testing models. What changed?
 - a. What controls has the Fed put in place to ensure banks do not rely on the same, or similar, models?
 - b. Has the Fed estimated the risks to financial stability that may occur if banks use the same, flawed, model that fails to capture distinct vulnerabilities?
 - c. Can heightened correlations amongst banks exacerbate adverse financial shocks?
 - d. Could model disclosure disincentivize banks from investing in robust risk management capabilities?
5. What steps will the Fed take to preserve the dynamism of stress tests now that they are subject to lengthy notice and comment periods?
6. What do you see as the lessons learned from the Office of Federal Housing Enterprise Oversight's stress tests of Fannie Mae and Freddie Mac prior to the 2008 financial crisis?
7. The Fed's proposal will rely more heavily on firms' own projections of its pre-provision net revenue. Is the Fed concerned that banks submit rosier estimates to reduce required capital? If not, why not?
8. The Fed has proposed and finalized a number of measures that significantly weakened the big bank capital framework, including changes to the stress testing regime, enhanced supplementary leverage ratio, Basel III endgame, and GSIB surcharge. Has the Fed conducted a holistic review of these changes, including analysis that takes into consideration empirical trends toward capital optimization over time? If so, please provide this analysis.

Sincerely,



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



Maxine Waters
Ranking Member
Committee on Financial
Services