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

June 23, 2025

The Honorable Michelle Bowman
Vice Chair for Supervision
Federal Reserve Board
20th Street and Constitution Avenue NW
Washington, D.C. 20551

The Honorable Rodney Hood
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

The Honorable Travis Hill
Acting Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Dear Vice Chair Bowman, Acting Comptroller Hood, and Acting Chairman Hill:

I write to express grave concern regarding reports that the Federal Reserve Board ("Fed"), Federal Deposit Insurance Corporation ("FDIC"), and Office of the Comptroller of the Currency ("OCC") intend to soon grant the top item on Wall Street's deregulatory wish list: eviscerating the enhanced supplementary leverage ratio ("eSLR"), one of the most important post-2008 financial crisis safeguards established by your agencies.[1] The eSLR requires that for every $95 of borrowed money used to finance loans and other investments, Wall Street banks must also use at least $5 of their own money.[2] Megabanks must have their own skin in the game to absorb losses and ensure they can continue offering financial services to households and businesses in periods of stress, instead of collapsing, destabilizing the financial system, and begging for bailouts. You should not weaken this important protection against financial instability and economic devastation.

The Trump administration promised to cut costs for American families. Instead, President Trump's financial regulators are slashing safeguards so Too-Big-To-Fail ("TBTF") banks can hand out bigger dividends and spend more money on share buybacks and executive bonuses. Deregulating Wall Street is always dangerous, but it is especially destructive to do so when the

[1] The Financial Times, "US poised to dial back bank rules imposed in wake of 2008 crisis," Martin Arnold, Kate Duguid, and Claire Jones, May 15, 2025, https://www.ft.com/content/90196d6d-b147-4943-9b26-888c171d6a5a. The Federal Reserve Board and Federal Deposit Insurance Corporation have scheduled open meetings to vote on the proposal on June 25 and June 26, respectively.
[2] At the Bank Holding Company (BHC) level for covered institutions, the eSLR is set at 5% of the BHC's total leverage exposure. At the insured depository institution (IDI) level for covered institutions, the eSLR is set at 6% of the IDI's total leverage exposure.

economy already faces serious risks from President Trump's chaotic tariff policies, Republicans' efforts to blow a hole in the deficit to finance tax cuts for billionaires and big corporations, and America's involvement in another war in the Middle East.[3] Families, small businesses, and taxpayers will suffer the consequences if bank regulators get it wrong.

The eSLR is a Critical Safeguard that Promotes Lending and Financial Stability

Banks finance loans and other investments with both equity capital (stock and retained earnings) and debt (deposits and other borrowing). Capital requirements ensure that banks finance an adequate portion of their assets using their own money instead of using too much debt. This means that if the value of a bank's assets declines - such as when a large debtor defaults or bond prices decline - losses are first absorbed by shareholder capital rather than depositors' funds. This capital cushion prevents bank runs and protects depositors, the Deposit Insurance Fund, and the ability of the bank to continue serving its community.

Existing capital requirements were developed in the wake of the 2008 financial crisis, which revealed woeful inadequacies in the bank capital framework. For example, Washington Mutual was considered a "well capitalized" institution as late as December 2007.[4] Nine months later, its collapse became the largest bank failure in U.S. history, a record that still stands. Many firms were dangerously leveraged, funding as little as 1% of their assets with their own capital.[5] Even as risks increased in the financial system, capital levels fell significantly in the years preceding the crisis.[6] Many banks depleted their low capital levels and either failed or were on the precipice of failure, putting the entire economy at risk. Ultimately, Congress and the executive branch decided to provide hundreds of billions of dollars of bailouts to re-capitalize banks and stabilize the financial system.[7]

Regulators also relied too heavily on highly complex "risk-weighted" capital requirements. Unlike leverage capital requirements, risk-weighted capital requirements vary based on the real or perceived riskiness of different asset types. Sometimes, regulators get the risk-prediction wrong. For example, mortgage-backed securities and Greek sovereign debt both received low risk ratings before both asset classes ultimately blew up during the financial crisis.[8] And banks

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[3] Congressional Budget Office, "Distributional Effects of H.R. 1, the One Big Beautiful Bill Act," June 12 2025, https://www.cbo.gov/publication/61387; New York Times, "With Decision to Bomb Iran, Trump Injects U.S. Into Middle East Conflict," Jonathan Swan and Maggie Haberman, June 21, 2025, https://www.nytimes.com/2025/06/21/world/middleeast/us-bomb-iran-trump-war.html.

[4] Washington Mutual, Inc., Form 10-K, Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2007, https://www.sec.gov/Archives/edgar/data/933136/000104746908002083/a2182890z10-k.htm.

[5] Anat R. Admati, The Compelling Case for Stronger and More Effective Leverage Regulation in Banking, *The Journal of Legal Studies* 43(S2)(2014), https://www.jstor.org/stable/10.1086/677557?seq=1.

[6] John R. Walter, US Bank Capital Regulation: History and Changes Since the Financial Crisis, *Economic Quarterly*, First Quarter 2019, https://www.richmondfed.org/publications/research/economic_quarterly/2019/q1/walter.

[7] U.S. Treasury Department, "Capital Purchase Program," https://home.treasury.gov/data/troubled-assets-relief-program/bank-investment-programs/cap.

[8] Brookings, "Risk-Weighting of MBS and Sovereign Debt Under Financial Regulations," Robert C. Pozen, December 5, 2011, https://www.brookings.edu/articles/risk-weighting-of-mbs-and-sovereign-debt-under-financial-regulations/.

inevitably find ways to structure new financial products to exploit the complexity of risk-based requirements – re-creating the same financial exposure, but benefiting from a lower risk rating and lower required capital.[9] Simple leverage requirements are risk-neutral and less susceptible to both regulatory mistakes and bank manipulation.[10]

In response to these weaknesses in the capital framework, and a push from Congress to strengthen capital requirements, the banking agencies established the eSLR through a rulemaking in 2014.[11] The eSLR requires the largest Wall Street banks to finance at least 5% of their activities using equity capital and rely less on riskier forms of debt financing. In effect, it seeks to ensure that megabanks have skin in the game and are better positioned to withstand financial shocks. If anything, there is strong evidence that the financial system and broader economy would benefit from an even higher eSLR.[12]

Big Banks Oppose Capital Requirements in Search of Short-Term Payouts

Despite the critical importance of the eSLR to ensuring the stability of individual banks and the broader financial system and economy, big banks continue to push for regulators to weaken or abandon it.[13] Their arguments consistently lack merit; instead, megabanks appear motivated by the short-term benefits of capital deregulation for shareholders and executives: increased dividends, buybacks, and bonuses.

Bank lobbyists often mislead policymakers and the public by implying that capital is cash held in a vault and unable to be used for lending and other investment.[14] The implication of this fib is that easing the eSLR would free up a pot of money for banks to lend more or buy more assets, like Treasuries.[15] These claims ignore the facts. There is significant evidence that banks with

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[9] Bloomberg, "Banks' Window-Dressing Undermines Risk-Weight Trust, BIS Says," Boris Groendahl, June 23, 2023, https://www.bloomberg.com/news/articles/2013-06-23/-window-dressing-undermines-bank-risk-weight-trust-bis.

[10] Mercatus Center, "A higher leverage ratio can prevent crises, and that matters," Stephen Matteo Miller and James R. Barth, February 14, 2017, https://www.mercatus.org/economic-insights/expert-commentary/higher-leverage-ratio-can-prevent-crises-and-matters.

[11] Federal Reserve Board, "Agencies adopt enhanced supplementary leverage ratio final rule and issue supplementary leverage ratio notice of proposed rulemaking," press release, April 8, 2014, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20140408a.htm.

[12] Federal Reserve Bank of St. Louis, "An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the United States," Simon Firestone, Amy Lorenc, and Ben Ranish, June 12, 2019, https://www.stlouisfed.org/publications/review/2019/07/12/an-empirical-economic-assessment-of-the-costs-and-benefits-of-bank-capital-in-the-united-states; Basel Committee on Banking Supervision, "Working Paper 37: The costs and benefits of bank capital – a review of the literature," June 2019, https://www.bis.org/bcbs/publ/wp37.pdf; Federal Reserve Bank of Minneapolis, "The Minneapolis Plan to End Too Big To Fail," December 2017, https://www.minneapolisfed.org/policy/endingtbtf/final-proposal/summary-of-the-minneapolis-plan-to-end-too-big-to-fail.

[13] Financial Services Forum, "Simple and Transparent? Understanding the Leverage Ratio," Sean Campbell, January 15, 2019, https://fsforum.com/news/simple-and-transparent-understanding-the-leverage-ratio.

[14] Anat Admait and Martin Hellwig, "The Parade of the Bankers' New Clothes Continues: 44 Flawed Claims Debunked," January 4, 2024, https://gsb-faculty.stanford.edu/anat-r-admati/files/2024/01/Parade-Jan-4-2024.pdf.

[15] Bank Policy Institute, "Treasury Market Resiliency and Large Banks' Balance Sheet Constraints," Francisco Covas and Felipe Rosa, February 6, 2025, https://bpi.com/treasury-market-resiliency-and-large-banks-balance-sheet-constraints/; See also, https://stopbaselendgame.com/.

higher capital levels better serve the economy, lend more, and attract more funding.[16] Bank capital, like deposits and other sources of bank debt, is invested in the economy – it is not money locked in a vault. In addition to these general concerns, banks also assert that the eSLR should be lowered because it is too often the primary constraint on Wall Street risk-taking. Big banks would much rather have risk-weighted capital requirements be their primary constraint, since they know how to manipulate them. Even if policymakers agree that risk-weighted requirements should be front and center, they need not reduce leverage requirements to achieve that outcome. As former FDIC Chair Sheila Bair recently argued, "If it is too often binding, that suggests the risk-based ratios should be strengthened, not that the leverage ratio should be weakened."[17]

Furthermore, the industry has argued that the eSLR's risk-neutral approach severely inhibits banks from buying assets that otherwise receive low risk ratings in risk-weighted capital requirements, such as Treasuries, and thus reduces liquidity in these markets.[18] But empirical and historical evidence shows that these claims lack merit. Recently, the head of the New York Fed's trading operations concluded that even amidst the April Treasury market turmoil caused by President Trump's chaotic tariff announcements, "dealers continued to manage substantial two-way trading flows, and investors were still largely able to execute trades in a timely manner and at prices that did not diverge significantly from their predicted values."[19] And the broker dealers of the six megabanks alone could buy more than $3 trillion in additional Treasuries without breaching existing eSLR requirements.[20] Any current issues in the Treasury market appear to be driven by investors' reaction to President Trump's economic mismanagement – not by the plumbing of the market or the capacity of banks to buy Treasuries.

Notably, even during the COVID-19 pandemic, banks did not react to the temporary capital deregulation offered by your agencies by buttressing the Treasury market. During the pandemic, when regulators temporarily excluded Treasuries from the SLR calculation,[21] evidence suggests that the very largest bank dealers did not increase intermediation during this period.[22] In fact, at the insured depository level, only two banks elected to take advantage of the deregulatory

[16] Bank for International Settlements, "Why bank capital matters for monetary policy," Leonardo Gambacorta and Hyun Song Shin, April 7, 2016, https://www.bis.org/publ/work558.htm.
[17] The Financial Times, "Easing leverage limits on banks could backfire," Sheila Bair, April 23, 2025, https://www.ft.com/content/12587b06-6446-4f03-9ad3-6506ac6b0d56.
[18] Bank Policy Institute, "Treasury Market Resiliency and Large Banks' Balance Sheet Constraints," Francisco Covas and Felipe Rosa.
[19] Federal Reserve Bank of New York, "Recent Developments in Treasury Market Liquidity and Funding Conditions, Roberto Perli, May 9, 2025, https://www.newyorkfed.org/newsevents/speeches/2025/per250509.
[20] Federal Reserve Board, "Assessment of Dealer Capacity to Intermediate in Treasury and Agency MBS Markets," Paul Cochran et. al., October 22, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/assessment-of-dealer-capacity-to-intermediate-in-treasury-and-agency-mbs-markets-20241022.html.
[21] Federal Reserve Board, "Federal Reserve Board announces temporary change to its supplementary leverage ratio rule to ease strains in the Treasury market resulting from the coronavirus and increase banking organizations' ability to provide credit to households and businesses," press release, April 1, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200401a.htm.
[22] Federal Reserve Board, "Dealers' Treasury Market Intermediation and the Supplementary Leverage Ratio," press release, August 3, 2023, https://www.federalreserve.gov/econres/notes/feds-notes/dealers-treasury-market-intermediation-and-the-supplementary-leverage-ratio-20230803.html.

treatment in the first place. Others refused, because doing so would have placed limitations on payments to shareholders.[23]

Even the few studies that concluded that easing the SLR during the pandemic did have an impact on intermediation do not support weakening the eSLR now.[24] These studies suggest that it could be a good temporary countercyclical policy tool in periods of stress for banks that had robust capital levels heading into the turmoil.[25] The data certainly does not support a permanent reduction of big bank capital, which would obviously make the banking system more fragile.

Ultimately, banks appear to want lower capital so they can increase buybacks, dividends, and executive bonuses – not so they can increase lending to small businesses and households or support Treasury market intermediation. Big banks sometimes drop the curtain and reveal the true reason they pursue capital deregulation. As JPMorgan's CFO once stated, a refusal to reduce the eSLR could "impact the pace of capital return."[26] In 2024, with existing eSLR requirements in place, the six largest banks paid more than $100 billion in dividends and buybacks – the highest returns since 2021.[27] Clearly, the eSLR does not even inhibit banks' ability to handsomely reward shareholders.

Federal Regulators Must Reject Efforts to Weaken the eSLR

The U.S. economy is experiencing significant strain. The Fed's most recent financial stability report shows symptoms of a weakening economy,[28] warning of growing corporate debt, rising consumer credit delinquencies, and looming defaults amid refinancing challenges.[29] Multiple financial institutions have warned of elevated recession risk.[30] And financial resilience has recently been put to the test in the wake of the substantial volatility in the Treasury market earlier this year that followed the Trump administration's chaotic trade announcements. It would be irresponsible to slash the eSLR in any economic environment. It is especially reckless to do so given the numerous threats to the economy and the nation's financial system.

In addition to directly reducing the eSLR requirement, the banking agencies may consider excluding some or all Treasuries from the requirement altogether. But Treasury securities are not

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[23] Risk.net, "Ending leverage ratio relief could force US banks to downsize," Louie Woodall, February 9, 2021, https://www.risk.net/regulation/7744111/ending-leverage-ratio-relief-could-force-us-banks-to-downsize.

[24] Columbia Business School, "Bank Credit Provision and Leverage Constraints: Evidence from the Supplementary Leverage Ratio," Naz Koont and Stefan Walz, July 9, 2021, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3798714.

[25] *Id*.

[26] The New York Times, "Fed Lets Break for Banks Expire but Opens Door to Future Changes," Jeanna Smialek, March 19, 2021, https://www.nytimes.com/2021/03/19/business/economy/federal-reserve-bank-leverage.html.

[27] Bloomberg, "Banks Hand $100 Billion to Shareholders, Most Since 2021," Todd Gillespie, January 16, 2025, https://www.bloomberg.com/news/articles/2025-01-16/banks-hand-100-billion-to-investors-as-regulatory-threat-wanes.

[28] Federal Reserve Board, "Financial Stability Report," April 2025, https://www.federalreserve.gov/publications/files/financial-stability-report-20250425.pdf.

[29] *Id*.

[30] CNBC, "U.S. Treasury yields slide after retail sales tumbled in May, raising recession fears," Sean Conlon and Lee Ying Shan, June 17, 2025, https://www.cnbc.com/2025/06/17/us-treasury-yields-trump-hints-israel-iran-conflict-escalation.html.

completely riskless and banks should not be permitted to finance their Treasury investments with unlimited leverage. The clearest risk of Treasuries is interest rate risk. Silicon Valley Bank ("SVB") owned a significant amount of longer dated U.S. Treasuries, which lost value as interest rates rose in 2022.[31] Those losses sparked the run on SVB. Because the risk-weighted capital requirements assign zero risk to Treasuries, leverage requirements like the eSLR are the only safeguard that provides some protection against losses.

If your agencies propose weakening the eSLR, the proposed rule must include a robust analytical justification for public comment. The last time banking regulators proposed weakening the eSLR, in 2018 during the first Trump administration, the proposed rule included scant impact analysis and policy justifications.[32] The rule would have reduced big bank capital by $121 billion, but was never finalized.[33] The industry often demands robust analysis, under threat of a lawsuit, when regulators propose to strengthen safeguards. You have each endorsed those same arguments. It would be hypocritical and dangerous to propose weakening safeguards without meeting the same type of robust analytical justifications for which you have previously advocated. I am skeptical that any proposal to significantly increase the fragility of Wall Street banks could actually meet this standard.

If President Trump and Secretary Bessent were genuinely interested in improving the functioning and efficiency of the Treasury market, they would first abandon the reckless economic policies stoking bond market concerns. They would then build on Biden administration reforms that improved transparency, broker dealer registration requirements, central clearing, and other aspects of Treasury market plumbing.[34] Limiting hedge fund leverage in the Treasury market would also improve the resilience of the market.[35] President Trump's Securities and Exchange Commission, instead, delayed some of these new improvements.[36] All of these options should be prioritized before banking regulators even consider weakening critical rules that prevent catastrophic bank failures.

Conclusion

Americans deserve a banking system that creates economic growth by lending to small businesses and households, not a fragile arrangement that extracts wealth and forces taxpayers to pick up the tab when it all goes bust. The eSLR is a vital regulatory safeguard that ensures banks

[31] Office of Inspector General, "Federal Reserve Board, Material Loss Review of Silicon Valley Bank," September 25, 2023, https://oig.federalreserve.gov/reports/board-material-loss-review-silicon-valley-bank-sep2023.pdf.
[32] Federal Reserve Board, "Rule proposed to tailor 'enhanced supplementary leverage ratio' requirements," press release, April 11, 2018, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20180411a.htm.
[33] CNN Business, "Regulators push to shrink big bank rainy day fund by $121 billion," Matt Egan, April 12, 2018, https://money.cnn.com/2018/04/12/investing/bank-regulation-fed-capital-rules/index.html.
[34] SEC Chairman Gary Gensler, "From Hamilton to Yellen: Remarks before the 10th Annual U.S. Treasury Market Conference," September 26, 2024, https://www.sec.gov/newsroom/speeches-statements/gensler-remarks-treasury-market-conference-092624.
[35] Brookings, "Congruent Financial Regulation," Andrew Metrick and Daniel Tarullo, March 24, 2021, https://www.brookings.edu/wp-content/uploads/2021/03/15872-BPEA-SP21_WEB_MetrickTarullo.pdf.
[36] Securities and Exchange Commission, "SEC Extends Compliance Dates and Provides Temporary Exemption for Rule Related to Clearing of U.S. Treasury Securities," press release, February 25, 2025, https://www.sec.gov/newsroom/press-releases/2025-43.

finance a modest portion of their assets with their own money and are well-positioned to withstand adverse shocks without requiring bailouts and continue to serve American households and small businesses. Banks' own actions, and a clear record of evidence, demonstrate that concerns over a strong eSLR are more related to big banks' ability to make payouts to shareholders and executives than their ability to act as a source of strength to the economy during periods of stress.

If the banking agencies gut this requirement, the big banks will load up on more debt, pay out more money to shareholders and executives, and put the entire economy at risk of another financial crash. There is no valid rationale for your agencies to impose these risks on the American public.

Sincerely,

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