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

December 4, 2025

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

The Honorable Jonathan Gould
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, Comptroller Gould, and Acting Chairman Hill:

We write to request that your agencies take immediate supervisory and regulatory actions to ensure the resilience of the banking system as cracks emerge in credit markets, especially as it relates to private credit. Over the past few months, large banks have reported more than a billion dollars of losses on just a handful of poorly underwritten commercial loans. This is likely just the tip of the iceberg in terms of toxic loans lurking on bank balance sheets. We are deeply concerned that your agencies are making the banking system more fragile, at the exact moment you should be strengthening it. Your agencies are in the process of cutting bank examination staff, limiting examiners' authority, allowing banks to load up on more debt and deplete their financial cushions, and loosening other post-2008 financial crisis safeguards at the worst possible moment.[1] If a fragile banking system cannot withstand a potential economic downturn, American taxpayers, families, and small businesses will once again suffer the consequences.

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[1] *See for example*, The Wall Street Journal, "Federal Reserve to Reduce Bank Supervision Staff by 30%," Dylan Tokar and Nick Timiraos, October 30, 2025, https://www.wsj.com/economy/central-banking/federal-reserve-to-reduce-bank-supervision-staff-by-30-84fcd65f; Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation, "Agencies Issue Proposal to Focus on Supervision on Material Financial Risks," press release, October 7, 2025, https://occ.gov/news-issuances/news-releases/2025/nr-ia-2025-97.html; Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Federal Reserve Board, "Agencies Request Comment on Proposal to Modify Certain Regulatory Capital Standards," press release, June 27, 2025, https://www.fdic.gov/news/press-releases/2025/agencies-request-comment-proposal-modify-certain-regulatory-capital; Federal Reserve Board, "Federal Reserve Board requests comment on proposals to enhance the transparency and public accountability of its annual stress test," press release, October 24, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm.

Recent Credit Losses

On September 10, 2025, Tricolor Holdings, a subprime auto lender and used car dealer, suddenly filed for bankruptcy.[2] The company grew rapidly in recent years.[3] It financed its activities by securitizing its auto loans and relying on warehouse lines of credit from banks, including JPMorgan, Fifth-Third, and Barclays.[4] The company allegedly collapsed due to the discovery of fraudulent practices, including potentially pledging the same auto loans to multiple lenders as collateral.[5] JPMorgan, Fifth-Third, and Barclays are collectively expected to lose roughly half a billion dollars on their loans to the company.[6]

Just three weeks later, First Brands, a large global auto parts supplier, also suddenly filed for bankruptcy.[7] There are similar allegations of financial fraud.[8] First Brands financed its activities through an opaque set of short-term financing vehicles secured by the company's receivables. Similar to Tricolor, the same collateral may have been pledged to multiple lenders. Court filings state that about $2 billion is unaccounted for.[9] The company's bank lenders include Bank of America, Swiss bank UBS, and a consortium of Japanese financial entities, among others.[10]

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[2] Reuters, "Auto dealer Tricolor files for bankruptcy, moves to liquidate," September 10, 2025, https://www.reuters.com/legal/litigation/auto-dealer-tricolor-files-bankruptcy-moves-liquidate-2025-09-10/.

[3] Financial Times, "Tricolor collapse sparks concern about health of US subprime auto sector," Amelia Pollard, Akilia Quinio, Antoine Gara, and Jamie John, September 15, 2025, https://www.ft.com/content/27de0a41-4dd4-410c-92de-b30ec4672905.

[4] The Wall Street Journal, "Barclay's Assesses Credit Risks After $150 million Tricolor Hit," Margot Patrick and Elena Vardon, October 22, 2025, https://www.wsj.com/finance/banking/barclays-upbeat-on-outlook-as-bank-moves-to-quarterly-buybacks-6de07820.

[5] Financial Times, "Tricolor collapse sparks concern about health of US subprime auto sector," Amelia Pollard, Akilia Quinio, Antoine Gara, and Jamie John, September 15, 2025, https://www.ft.com/content/27de0a41-4dd4-410c-92de-b30ec4672905.

[6] Reuters, "JPMorgan CEO says its exposure to collapsed auto dealer Tricolor 'not our finest moment'," October 14, 2025, https://www.reuters.com/business/finance/jpmorgan-ceo-says-its-exposure-collapsed-auto-dealer-tricolor-not-our-finest-2025-10-14/; Reuters, "Fifth Third profit jumps on fee income, records $178 million loss from Tricolor bankruptcy," October 17, 2025, https://www.reuters.com/business/finance/fifth-third-profit-jumps-fee-income-records-178-million-loss-tricolor-bankruptcy-2025-10-17/; The Guardian, "Barclays can afford Tricolor loss but risks remain in the private credit market," Nils Pratley, October 22, 2025, https://www.theguardian.com/business/nils-pratley-on-finance/2025/oct/22/barclays-afford-tricolor-loss-risks-remain-private-credit-market.

[7] Financial Times, "First Brands formally accused of 'massive fraud' by lenders," Sujeet Indap and Amelia Pollard, October 31, 2025, https://www.ft.com/content/27a28cce-b0c9-471a-a7ac-1f060e68f32f; Reuters, "First Brands files for bankruptcy, revealing billions of dollars in liabilities," Saeed Azhar, Anirban Sen, Mike Spector, and Shivansh Tiwary, September 29, 2025, https://www.reuters.com/markets/us/auto-parts-maker-first-brands-files-bankruptcy-protection-2025-09-29/.

[8] Id.

[9] The Wall Street Journal, "BDO's First Brands Audit Painted Healthy Picture Months Before Collapse," Alexander Gladstone and Mark Maurer, October 31, 2025, https://www.wsj.com/articles/bdos-first-brands-audit-painted-healthy-picture-months-before-collapse-2b8268c7.

[10] The Wall Street Journal, "First Brands Bankruptcy Damage Spreads to Jefferies, UBS," Margot Patrick, October 8, 2025, https://www.wsj.com/finance/first-brands-bankruptcy-damage-spreads-to-jefferies-ubs-54ad84ef; Bloomberg, "First Brands Exposure of $1.75 Billion Hits Norinchukin JV," Irene Garcia Perez, Jonathan Randles, Taiga Uranaka, and Yusuke Maekawa, October 9, 2025, https://www.bloomberg.com/news/articles/2025-10-09/first-brands-exposure-of-1-75-billion-hits-norinchukin-venture; Reuters, "BofA's loans to bankrupt First Brands secured; Morgan Stanley has no exposure," Saeed Azhar, Tatiana Bautzer, and Manya Saini, October 15, 2025, https://www.reuters.com/business/finance/bank-america-among-lenders-bankrupt-first-brands-cfo-says-loans-are-secured-2025-10-15/.

Similar blowups, which both appear to be the result of lax loan underwriting and sloppy due diligence, are likely to emerge in the coming weeks and months. As Jamie Dimon stated, "when you see one cockroach, there are probably more."[11] Indeed, Zions, the 31st largest bank in the country, announced it is writing off $50 million on loans to a fund that invested in distressed residential and commercial mortgages.[12] The borrower allegedly misappropriated the collateral.[13] Western Alliance, the 30th largest bank in the country, announced a potential $30 million loss on loans to the same fund.[14] In addition, the French megabank BNP Paribas took an approximate $200 million hit on "a specific credit situation" that the bank clarified was separate from Tricolor or First Brands.[15]

Weak loan underwriting and recent credit losses are not unique to bank lenders. Nonbank lenders – which compete with, borrow from, or lend alongside banks – are also experiencing stress on their loan portfolios. The largest creditors to First Brands were private credit funds, including funds sponsored by Jefferies and Millenium.[16] Renovo Home Partners, a home improvement company, also filed for bankruptcy in November.[17] BlackRock, an asset management firm that held most of Renovo's $150 million in debt, wrote down the value of those loans from 100 cents on the dollar in October to 0 cents upon the company's bankruptcy filing.[18] Fast and dramatic write-downs to zero raise serious questions about the discretion of fund managers to value private credit assets, the valuation methodologies that they use, and whether transparency in private markets is sufficient to allow investors to make informed decisions in order to avoid losses.[19]

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[11] CNN, "Why Jamie Dimon is warning of 'cockroaches' in the US economy," Elizabeth Buchwald and Matt Egan, October 16, 2025, https://www.cnn.com/2025/10/16/business/jamie-dimon-us-economy-cockroaches.

[12] CNBC, "The alleged 'sweeping betrayal of trust' that rocked Zions bank and spooked Wall Street," Leslie Picker, October 18, 2025, https://www.cnbc.com/2025/10/18/the-alleged-sweeping-betrayal-of-trust-that-rocked-zions-bank-and-spooked-wall-street.html; Zions Bancorporation, National Association, "Securities and Exchange Commission Form 9-K," October 15, 2025, https://www.sec.gov/ix?doc=/Archives/edgar/data/0000109380/000010938025000118/zion-20251015.htm.

[13] CNBC, "The alleged 'sweeping betrayal of trust' that rocked Zions bank and spooked Wall Street," Leslie Picker, October 18, 2025, https://www.cnbc.com/2025/10/18/the-alleged-sweeping-betrayal-of-trust-that-rocked-zions-bank-and-spooked-wall-street.html.

[14] CNBC, "Western Alliance CEO says alleged loan fraud is 'incredibly frustrating' but isolated issue," Hugh Son, October 22, 2025, https://www.cnbc.com/2025/10/22/western-alliance-ceo-alleged-loan-fraud-isolated.html; Western Alliance Bancorporation, "Securities and Exchange Commission Form 8-K," October 16, 2025, https://www.sec.gov/ix?doc=/Archives/edgar/data/0001212545/000162828025045169/wal-20251016.htm.

[15] Bloomberg, "BNP Paribas Adds Provisions for 'Specific' Credit Issue," Claudia Cohen, October 28, 2025, https://www.bloomberg.com/news/articles/2025-10-28/bnp-paribas-rising-loan-provisions-add-to-headwinds-for-bonnafe.

[16] Bloomberg, "First Brands Collapse Blindsides Wall Street, Exposing Cracks in a Hot Corner of Finance," Eliza Ronalds-Hannon, Irene Garcia Perez, Davide Scigliuzzo, Reshmi Basu, and Jonathan Randles, October 9, 2025, https://www.bloomberg.com/news/articles/2025-10-09/first-brands-how-jefferies-ubs-ended-up-exposed-to-its-collapse.

[17] Yahoo Finance, "Huge home improvement brand files Chapter 7 bankruptcy, liquidating," Daniel Kline, November 6, 2025, https://finance.yahoo.com/news/national-home-renovation-brand-files-193042412.html.

[18] Bloomberg, "BlackRock Faces 100% Loss on Private Loan, Adding to Credit Market Pain," Davide Scigliuzzo and Silla Brush, November 10, 2025, https://www.bloomberg.com/news/articles/2025-11-10/blackrock-eyes-100-loss-on-private-loan-amid-debate-over-marks.

Lending often occurs in cycles that mirror the performance of a sector or the broader economy. In times of economic expansion and exuberance, lenders tend to ease loan underwriting and expand credit provision. The fact that Tricolor, First Brands, and other corporate credit losses are occurring after years of exuberance and loan growth – and exhibit poor underwriting – suggests there may be structural problems that are only beginning to rear their ugly head. The size and interconnectedness of the corporate credit markets that finance riskier business borrowers should have regulators on high alert, given recent disruptions. Between the junk (high-yield) bond market, leveraged loan market, and private credit market, risky business borrowers have about $4 trillion in debt outstanding.[20]

But it's not just corporate credit markets that are starting to crack. The share of consumer debt in delinquency recently climbed to its highest level since the first quarter of 2020.[21] The mounting consumer debt pressure appears to be concentrated among younger households.[22] The rise in delinquencies also tracks a weakening in consumer spending by lower income households.[23] In addition, U.S. banks "reported a 66% increase in the total value of commercial real estate (CRE) loan modifications over the last [year.]"[24] Banks have roughly $2 trillion in CRE loans, which include commercial mortgages for office buildings, multifamily homes, and retail buildings. These exposures have exhibited signs of stress in recent years following the pandemic.[25]

Bank - Shadow Bank Interconnections

The increasingly interconnected nature of banks and nonbank lenders exacerbates these credit risks. Over the past decade, banks have significantly increased lending to shadow banks, like asset management firms, private credit funds, and private equity funds.[26] Loans to nonbank financial institutions now constitute approximately 10% of total bank loans outstanding, up from approximately 3% a decade ago.[27] U.S. banks have $1.2 trillion in loans outstanding to nonbank financial institutions, of which approximately $300 billion are to private credit funds and $285

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[19] EY, "The rise of private debt: navigating valuation challenges," Christophe Vandendorpe, Vincent Remy, and Valerio Cioli, April 22, 2025, https://www.ey.com/en_lu/insights/strategy-transactions/the-rise-of-private-debt-navigating-valuation-challenges.

[20] Federal Reserve Bank of New York, "NBFIs in Focus: The Basics of Private Credit," Daniel Maddy-Weitzman, October 17, 2025, https://tellerwindow.newyorkfed.org/2025/10/17/nbfis-in-focus-the-basics-of-private-credit/.

[21] Bloomberg, "US Consumer Delinquencies Climb as Student Debt Goes Unpaid," Maria Eloisa Capurro, November 5, 2025, https://www.bloomberg.com/news/articles/2025-11-05/us-consumer-delinquencies-climb-as-more-student-debt-goes-unpaid.

[22] Id.

[23] The New York Times, "Wealthy Americans Are Spending. People With Less Are Struggling." Ben Casselman and Colby Smith, October 19, 2025, https://www.nytimes.com/2025/10/19/business/economic-divide-spending-inflation-jobs.html. .

[24] Federal Reserve Bank of St. Louis, "Banking Analytics: Modifications to Commercial Real Estate Loans Rise," Raelene Angle-Graves and Julianne Baer, October 6, 2025, https://www.stlouisfed.org/on-the-economy/2025/oct/banking-analytics-modifications-commercial-real-estate-loans-rise.

[25] Financial Stability Oversight Council, "2024 Annual Report," December 4, 2024, https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf.

[26] FitchRatings, "Rapid US Non-Bank Loan Growth Raises Risk of Wider Losses for Banks," October 20, 2025, https://www.fitchratings.com/research/banks/rapid-us-non-bank-loan-growth-raises-risk-of-wider-losses-for-banks-20-10-2025.

[27] Id.

billion are to private equity funds.[28] In addition, the eight most systemic U.S. banks have provided almost $3 trillion in credit to hedge funds to finance their risky bets in capital markets.[29] This has enabled very large hedge funds to take on exorbitant leverage, especially in the Treasury market.[30]

Nonbank financial institutions face lighter oversight than banks, and as the Tricolor and First Brands blowups demonstrate, they may perform less rigorous due diligence and adhere to weaker loan underwriting standards. Bank loans to nonbank financial institutions are often secured by the nonbank's loans to businesses or consumers. If a nonbank's underlying loans sour, it may be unable to pay off its own debt. Banks may then be stuck with the weak loans, which served as collateral. It is clear that any stress in the shadow banking sector will ultimately impact the banking sector. Banks have also faced direct competition from these same shadow banks, especially in the private credit market. That dynamic may have fed a race to the bottom in recent years, as they have competed for deals.[31]

Combating the Risks of Credit Cycles

The risk of credit cycles is as old as finance itself. Regulators must not bury their heads in the sand and pretend this time is somehow different. Years of loose underwriting and excessive risk-taking in the subprime mortgage market was at the heart of the 2008 financial crisis. That period of financial exuberance coincided with severe financial deregulation, making the financial system even more fragile at the exact moment that risks were building. Congress has since directed regulators to reject this cyclical trap, and instead lean against credit cycles by tightening safeguards in moments of economic exuberance. For example, Section 616 of the Dodd-Frank Wall Street Reform and Consumer Protection Act explicitly directs your agencies to seek to make capital requirements, a key safeguard that limits bank debt and enables banks to better absorb losses, "countercyclical so that the amount of capital required to be maintained by an insured depository institution increases in times of economic expansion and decreases in times of economic contraction."[32]

Unfortunately, instead of engaging in meaningful oversight of the financial sector, your agencies are once again deregulating Wall Street as risks build in the system. You are in the process of drastically reducing the number of bank examiners, limiting the authority of those examiners to identify and address risks, allowing banks to take on more debt and deplete their own loss-absorbing equity cushions, making the annual stress tests less stressful and providing banks the answer key in advance, and loosening other post-2008 financial crisis safeguards.[33] These actions

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28 Moody's, "US banks' private credit loan exposure nears $300 billion," October 21, 2025, https://www.moodys.com/web/en/us/insights/data-stories/breakdown-of-banks-annual-reporting-on-private-credit.html.

29 Federal Reserve Bank of New York, "NBFIs in Focus: The Basics of Hedge Funds," Sigurd Ulland, October 16, 2025, https://tellerwindow.newyorkfed.org/2025/10/16/nbfis-in-focus-the-basics-of-hedge-funds/.

30 Financial Stability Oversight Council, "2024 Annual Report," December 6, 2024, pp. 10-11, https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf.

31 Bloomberg, "Private Credit and Bank Competition for Deals Poses Risks, Fed Says," Michael Tobin, February 23, 2024, https://www.bloomberg.com/news/articles/2024-02-23/fed-researchers-see-risk-in-bank-private-credit-competition.

32 12 U.S.C. 3907.

increase short-term profits on Wall Street and boost executive bonuses, but they leave the banking system fragile and exposed to another damaging crash.

Your agencies should cease all deregulatory efforts, undo recent staff cuts, and instead actively strengthen the resilience of the banking system by taking the following actions:

1. **Special Supervisory Review**: Conduct a horizontal supervisory review of corporate credit risks at all banks with $50 billion or more in assets, with a special emphasis on loans to private credit firms and other nonbank financial institutions. The agencies should immediately deploy supervisory authorities to contain and mitigate identified risks, including setting higher capital requirements on a bank-by-bank basis[34] and initiating safety and soundness enforcement actions to require divestitures of certain toxic assets or otherwise limit banks' size and activities.[35]

2. **Activate the Countercyclical Capital Buffer (CCyB):** The Federal Reserve Board should activate the CCyB so big banks maintain larger financial cushions and operate with less debt. This tool was created after the 2008 financial crisis to ensure that big banks strengthen their financial cushions as risks build in the financial system. The Fed's own policy statement suggests that it expects "the CCyB will be activated when systemic vulnerabilities are meaningfully above normal."[36] The current risk profile of the financial sector clearly exceeds that threshold.

3. **Finalize Basel III Endgame:** The banking agencies should finalize a package of long-overdue improvements to capital requirements that are sensitive to the riskiness of bank assets, referred to as the "Basel III Endgame." In July 2023, the banking agencies proposed this package, which would fix some of the egregious holes in the capital framework that had never been addressed following the 2008 financial crisis.[37] In

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33 See for example, The Wall Street Journal, "Federal Reserve to Reduce Bank Supervision Staff by 30%," Dylan Tokar and Nick Timiraos, October 30, 2025, https://www.wsj.com/economy/central-banking/federal-reserve-to-reduce-bank-supervision-staff-by-30-84fcd65f; Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation, "Agencies Issue Proposal to Focus on Supervision on Material Financial Risks," press release, October 7, 2025, https://www.fdic.gov/news/press-releases/2025/agencies-issue-proposal-focus-supervision-material-financial-risks; Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Federal Reserve Board, "Agencies Request Comment on Proposal to Modify Certain Regulatory Capital Standards," press release, June 27, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627a.htm; Federal Reserve Board, "Federal Reserve Board requests comment on proposals to enhance the transparency and public accountability of its annual stress test," press release, October 24, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm.

34 12 USC 3907(a)(2).

35 12 USC 1818(b).

36 Federal Reserve Board, "Federal Reserve Board approves final policy statement detailing framework for setting Countercyclical Capital Buffer," press release, September 8, 2016, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20160908b.htm.

37 Federal Reserve Board, "Agencies request comment on proposed rules to strengthen capital requirements for large banks," press release, July 27, 2023, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm; Congressional Research Service, "Bank Capital Requirements: Basel III Endgame," Marc Labonte and Andrew P. Scott, November 30, 2023, https://www.congress.gov/crs-product/R47855.

particular, the proposal would strengthen financial cushions for Wall Street's risky speculative trading activities.[38]

4. **Finalize Wall Street Executive Compensation Limits:** The banking agencies should work with their colleagues at the Securities and Exchange Commission, Federal Housing Finance Agency, and National Credit Union Administration to finalize strong limits on executive bonus packages that fuel excessive risk taking. These rules were required by the Dodd-Frank Act, enacted in 2010.[39] The agencies have thus far disregarded the law. Reining in pay packages that incentivize short-term risk taking over safe and sound operations would help mitigate financial incentives for sloppy due diligence and poor underwriting.

5. **Stress Test Private Credit Market:** Your agencies all sit on the Financial Stability Oversight Council (FSOC) and should encourage Secretary Bessent to conduct a stress test that evaluates the size, scale, scope, interconnectedness, and mix of activities of the private credit market in the United States – a step I urged him to take in July.[40] This activity would help policymakers better understand these opaque markets, their interlinkages, and the potential fallout for the broader financial system and economy if Tricolor and First Brands are only the beginning of a downturn. Policymakers can then design safeguards to limit the potential damage early, before it spirals out of control. The Bank of England plans to conduct a similar stress test of banks, insurance companies, private equity firms, and other nonbanks.[41]

By December 19, 2025, please provide a written response as to which of the above actions you intend to take. For each of the above actions you do not intend to take, please provide an explanation. If there are additional actions you are taking to strengthen the resilience of the banking system, please list them in your response.

Sincerely,

[38] Federal Deposit Insurance Corporation, "Basel III Notice of Proposed Rulemaking," Chairman Martin J. Gruenberg, July 27, 2023, https://www.fdic.gov/news/speeches/2023/spjul2723a.html.
[39] U.S. Government Accountability Office, "Bank Regulation: Agencies Should Finalize Rulemaking on Executive Compensation," February 20, 2025, https://www.gao.gov/products/gao-25-107032.
[40] Letter from Senator Warren to Treasury Secretary Scott Bessent, July 17, 2025, https://www.banking.senate.gov/imo/media/doc/20250717%20Letter%20to%20FSOC%20re_%20Private%20Credit%20Risk.pdf.
[41] Reuters, "Bank of England's Bailey says First Brands, Tricolor collapses may herald worse to come," William Schomberg and David Milliken, October 21, 2025, https://www.reuters.com/sustainability/boards-policy-regulation/bank-englands-bailey-says-first-brands-tricolor-collapses-may-be-warning-worse-2025-10-21/.

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

Jack Reed
United States Senator