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

March 16, 2023

The Honorable Janet Yellen
Secretary, U.S. Department of the Treasury
1500 Pennsylvania Ave NW Ste 2000
Washington, DC 20220

The Honorable Martin Gruenberg
Chair, Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

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

Secretary Yellen, Chair Gruenberg and Vice Chair Barr:

Over the past week, we saw the second and third largest bank failures in U.S. history. I commend the federal banking regulators for stepping in to protect the stability of our financial system, ensuring that workers received their paychecks, and small businesses survived.

Silicon Valley Bank and Signature Bank served venture capital firms and the broader tech industry – with sophisticated clients as well as small and medium sized businesses. While the banks were based in California and New York, respectively, their failures reached throughout the country – including many businesses in Ohio – putting small businesses at risk of not being able to make payroll or to pay suppliers and potentially losing their hard-earned money because of risky decisions and poor management by the banks' executives.

The rapid deterioration and ultimate failure of these banks, which followed on the heels of the voluntary liquidation of crypto-friendly Silvergate Bank, created concern that a panic could sweep across the rest the banking system, causing chaos for Main Street businesses. The U.S. banking system is unique, with thousands of institutions ranging from small banks and credit unions that serve their local communities to large regional banks and money-center megabanks with global reach. The stability of our banking system depends on every depositor resting assured that their money is safe at any bank, no matter its size or location.

While we are still understanding the full scope of these failures, several factors contributing to their demise have come to light. These banks were overconcentrated and overreliant on particular industries and operated with an exorbitantly high percentage of uninsured deposits. Furthermore, the banks also lacked adequate risk management. For example, we have recently learned Silicon Valley Bank operated without a Chief Risk Officer for almost a year, executives received bonuses hours before the bank failed, and the CEO sold millions in company stock days before the failure. Panic among certain bank clients provoked runs on the bank that were exacerbated by social media. The banks, which were between $100 and $250 billion in assets at the end of 2022, grew rapidly over the past few years, almost doubling in size since 2019. They also were subject to the least stringent capital, stress testing, and liquidity requirements among large banks.

I understand that the Federal Reserve will conduct a review of what went wrong with Silicon Valley Bank, and that the Federal Deposit Insurance Corporation (FDIC) will complete a review of the failures of Silicon Valley Bank and Signature Bank, as required by law for every bank failure. I also understand that the FDIC as receiver for the failed banks will recoup as much value as possible to minimize losses to the Deposit Insurance Fund.

In the course of the reviews and resolutions of these bank failures, I urge you to:

- Consider the magnitude of the banks' uninsured deposits and the role that social media-led coordination among customers played in causing or accelerating the failures.
- Identify and close regulatory gaps, shortfalls, or failures by state or federal regulators that contributed to the banks' failures, including with respect to capital, liquidity, stress testing, concentration risk, and risk management.
- Hold those responsible for these bank failures accountable for their actions, including by clawing back executive bonuses and compensation and taking other appropriate regulatory actions to hold these banks' executives accountable.

I also urge you to identify any broader vulnerabilities in the banking system and take action to mitigate them. All of this comes at a time when international banking concerns have come into focus.

Finally, you must strengthen the guardrails for banks to prevent failures and mitigate contagion and panic risks to protect consumers and small businesses and to preserve small banks and credit unions on Main Street.

Financial watchdogs must ensure the banking system remains stable, strong and resilient, and depositors' money is safe. Americans should continue to be confident in their preferred financial institutions in their communities. Thank you for your attention to this important matter.

Sincerely,

Sherrod Brown

Sherrod Brown
Chairman

cc: Hon. Todd Harper, Chair, National Credit Union Administration
Mr. Michael J. Hsu, Acting Comptroller of the Currency