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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

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June 8, 2022

Esther L. George
President and Chief Executive Officer
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, MO 64198

Dear President George:

I am writing once again about the Kansas City Fed's unusual treatment of an application for a Federal Reserve master account by the Reserve Trust Company ("Reserve Trust"). It has been brought to my attention that the Kansas City Fed recently revoked Reserve Trust's master account after determining, among other things, that the company is no longer eligible for one. Reserve Trust's website, which once prominently boasted about the company's unique Fed master account, has now been scrubbed of any mention of a master account.¹ This development heightens the significant concerns already surrounding the fairness, transparency, and consistency of the Federal Reserve System's approach to master account applications.

The revocation of Reserve Trust's master account is just the latest turn in this strange saga. As you know, in June 2017, the Kansas City Fed rejected Reserve Trust's application for a Fed master account because it did not meet the definition of a depository institution. After the denial, former Federal Reserve Governor Sarah Bloom Raskin personally called you, in August 2017, on behalf of Reserve Trust, on whose board she served. Subsequent to Ms. Raskin's call, the Kansas City Fed reversed its decision and granted Reserve Trust a master account in 2018. As a result, Reserve Trust became the first—and it appears the only—non-bank fintech to obtain this coveted type of account.² The Kansas City Fed has claimed that it reversed its decision because Reserve Trust "changed its business model and the Colorado Division of Banking reinterpreted the state's law in a manner that meant [Reserve Trust] met the definition of a depository."³ But the Colorado Division of Banking has disputed this claim.⁴ Now just four years after this reversal, the Kansas City Fed has revoked Reserve Trust's master account.

¹ Compare Reserve Trust, <https://www.reservetrust.com/> (accessed June 7, 2022) (making no mention of the Fed or a master account) with Reserve Trust, <https://web.archive.org/web/20220315155633/https://www.reservetrust.com/> (accessed Mar. 15, 2022) (stating that "Reserve Trust has a master account at the Federal Reserve Bank of Kansas City").

² See, e.g., Reserve Trust, <https://web.archive.org/web/20220224003846/https://www.reservetrust.com/company/careers> (stating that "Reserve Trust is the first fintech trust company with direct Federal Reserve access" and emphasizing the "unprecedented access" to the U.S. payment system).

³ Statement from the Federal Reserve Bank of Kansas City (Feb. 7, 2022), https://www.kansascityfed.org/News/documents/8617/Statement_02_07_2022.pdf.

⁴ See Thomas Franck, *State bank regulator disputes KC Fed's claim about fintech firm linked to Biden nominee Raskin*, CNBC (Feb. 15, 2022), <https://www.cnbc.com/2022/02/15/bank-regulator-disputes-kc-fed-claim-about-firm-linked-to-biden-nominee-raskin.html> ("We consider the statement that the division 'reinterpreted' state law as a misrepresentation of our practice.")

It is my understanding that the Fed has undertaken a review of master account decisions. In the past two years, the Fed has twice solicited public comments about master account eligibility because there are significant policy questions around what entities should be able to obtain this highly valuable public good.⁵ Congress has a responsibility to taxpayers to review and ensure that regulators award public goods fairly, transparently, consistently, and without favoritism. In a case like Reserve Trust's, which involves both curiously timed reversals and legitimate concerns of favoritism, federal regulators should not withhold from public scrutiny information directly relevant to such congressional oversight. And yet, requests for information of the Kansas City Fed about its unusual approval of Reserve Trust's master account application have been stonewalled.⁶ The Kansas City Fed has refused to subject its claims of having acted appropriately and reasonably to public scrutiny.

Given the issues raised by the Kansas City Fed's abrupt revocation of Reserve Trust's master account, just months after publicly defending its decision to approve the account, please provide a briefing on this matter to my staff no later than June 15, 2022 and provide the following information no later than June 22, 2022:

1. Copies of all correspondence sent by the Kansas City Fed to Reserve Trust regarding the status of its Fed master account, including the revocation of that account;
2. Any legal memoranda or other material used to support the determination that Reserve Trust is no longer eligible for a Fed master account; and
3. An explanation of the Kansas City Fed's analysis of legal eligibility for Fed master accounts, including how that analysis differs from prior analyses of this issue.

It is critical that the Federal Reserve System be transparent with the public and Congress on all matters. That principle becomes even more important when serious concerns are raised that undermine the public's faith that the Fed makes decisions when granting a public good to a private actor in a fair and consistent manner on behalf of the American people rather than what might be best for well-connected operators.

Thank you for your attention to this matter.

Sincerely,



Pat Toomey
Ranking Member

⁵ Guidelines for Evaluating Account and Services Requests, 87 Fed. Reg. 12957 (Mar. 8, 2022); Proposed Guidelines for Evaluating Account and Services Requests, 86 Fed. Reg. 25865 (May 11, 2021).

⁶ See Letter from Senator Toomey to President George (Feb. 1, 2022), https://www.banking.senate.gov/imo/media/doc/toomey_letter_to_kansas_city_fed.pdf; see also Letter from Senator Toomey to President George (Feb. 11, 2022), https://www.banking.senate.gov/imo/media/doc/toomey_letter_to_kc_fed.pdf.

cc: The Honorable Sherrod Brown, Chairman, Committee on Banking, Housing, and Urban Affairs
The Honorable Jerome Powell, Chair, Federal Reserve Board of Governors
The Honorable Lael Brainard, Vice Chair, Federal Reserve Board of Governors
The Honorable Michelle Bowman, Governor, Federal Reserve Board of Governors
The Honorable Lisa Cook, Governor, Federal Reserve Board of Governors
The Honorable Philip Jefferson, Governor, Federal Reserve Board of Governors
The Honorable Christopher Waller, Governor, Federal Reserve Board of Governors
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