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

August 7, 2025

The Honorable Lisa D. Cook
Chair of the Committee on Financial Stability
Federal Reserve Board
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Dear Chair Cook:

I write to urge the Federal Reserve Board ("Fed") to activate the countercyclical capital buffer ("CCyB"), which requires big banks to maintain an additional capital cushion when risks are building in the financial system.[1] Better capitalized banks lend more to businesses and households and are better positioned to buoy the economy in a recession – a reality growing increasingly likely in light of President Trump's economic mismanagement.[2] The Fed is inexplicably moving in the opposite direction, weakening big bank safeguards at the worst possible moment. It must reverse course immediately. More fragile banks will only exacerbate a potential downturn and inflict greater harm on American businesses and families.

After the 2008 financial crisis, Congress recognized that risks to financial stability often develop in times of economic expansion, as memories of the last crash fade and financial institutions have an increased appetite for risk. It is critical for policymakers to lean against this tendency by strengthening financial stability safeguards as markets get frothy, credit bubbles emerge, and economic risks appear on the horizon. This countercyclical approach ensures that the financial system is positioned to serve as a source of strength for the economy if a downturn occurs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act codified this strategy in law. Section 616 directs the Fed to make bank capital requirements "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..."[3] The Fed established the CCyB framework in 2013 and, in its 2016 policy statement, committed to

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[1] 12 CFR 217.11.
[2] See e.g., 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; *See also*: Federal Reserve Bank of San Francisco, "Capital regulation and bank lending," 1992, Frederick T. Furlong, https://www.fedinprint.org/item/fedfer/23251; *See also*: Federal Reserve Board, "Capital Ratios and Bank Lending: A Matched Bank Approach," Mark Carlson et al., 2011, https://www.federalreserve.gov/pubs/feds/2011/201134/201134pap.pdf.
[3] 12 U.S.C. 3907.

reviewing the CCyB level annually.[4] While the economy has grown by over 30% since the framework was first introduced,[5] and pockets of risk have emerged at various times, the Fed has kept the CCyB at 0%.[6] The Fed has also violated its own policy framework, as it has failed to even conduct a vote on the CCyB over the last five years.[7] This tool is overseen by the Committee on Financial Stability, which you Chair. It is time to finally activate it.

The Fed evaluates a variety of factors when assessing financial stability and whether to turn on the CCyB, including asset valuations, economy-wide leverage, and asset-liability mismatch.[8] In its recent financial stability report, the Fed identifies a range of concerning indicators in several of these categories.

According to the financial stability report, asset valuations are high. Stock prices remained elevated following the April 2025 market turmoil, suggesting potential overvaluation.[9] The Wall Street Journal recently noted that "of the 33 stocks in the Russell 3000 that have tripled in price since the market bottom in April, only six have generated profits over the past year," and "[t]he equity risk premium, defined as the gap between the S&P 500's projected earnings yield and the yield on 10-year Treasur[ies], is close to zero."[10] Risky corporate debt is also trading at extremely high valuations, as spreads between junk debt, higher rated debt, and Treasuries are all very tight.[11] Even investor premiums for debt in emerging markets are at their lowest levels since 2007.[12] Indeed, in his annual letter to shareholders, JPMorgan CEO Jamie Dimon cautioned, "No matter how you measure it, equity valuations are still well above their historical averages."[13] He has also stated that credit spreads are "a little unnaturally low."[14]

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[4] 12 CFR 217.11.
[5] Federal Reserve Bank of St. Louis, "Real Gross Domestic Product," https://fred.stlouisfed.org/series/GDPC1.
[6] Board of Governors of the Federal Reserve System, "Federal Reserve Board votes to affirm the Countercyclical Capital Buffer (CCyB) at the current level of 0 percent," press release, December 18, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201218c.htm.
[7] *Id.*
[8] *Id.*
[9] Board of Governors of the Federal Reserve System, "Financial Stability Report," April 2025, https://www.federalreserve.gov/publications/files/financial-stability-report-20250425.pdf.
[10] Wall Street Journal, "Five Signs of a Market Bubble Investors Are Tracking," Hannah Erin Lang, July 27, 2025, "https://www.wsj.com/finance/stocks/five-signs-of-a-market-bubble-investors-are-tracking-ddbea944.
[11] Bloomberg, "Junk Bond Investors Pile Into the Riskiest Debt: Credit Weekly," Josyana Joshua and Aaron Weinman, July 19, 2025, https://www.bloomberg.com/news/articles/2025-07-19/junk-bond-investors-pile-into-the-riskiest-debt-credit-weekly.
[12] Financial Times, "Emerging market borrowing premium over US falls to nearly lowest since 2007," Joseph Contrell and Alan Livsey, July 22, 2025, https://www.ft.com/content/c9392546-a1f9-4129-ac7c-d34301a640af.
[13] JPMorgan Chase, "Chairman and CEO Letter to Shareholders," April 7, 2025 https://www.jpmorganchase.com/ir/annual-report/2024/ar-ceo-letters.
[14] Bloomberg, "Junk Bond Investors Pile Into the Riskiest Debt: Credit Weekly," Josyana Joshua and Aaron Weinman, July 19, 2025, https://www.bloomberg.com/news/articles/2025-07-19/junk-bond-investors-pile-into-the-

In the housing market, property valuations are comparable to levels seen in the lead up to the bursting of the 2008 housing bubble.[15] In the financial stability report, the Fed warns, "A pronounced economic slowdown in major advanced and emerging economies could weigh on investor, business, and consumer sentiment and prompt a broader pullback from riskier assets or those with elevated valuations, increasing volatility in financial markets and raising the potential for market dislocations."[16]

Corporate leverage is very high and sustained high interest rates may create disruptions. The Fed's financial stability report warns of looming defaults as companies struggle to refinance loans they took out during the COVID-19 pandemic, when rates were low. During this time, companies took on significant debt, reaching 92% of GDP at its 2020 peak.[17] Year after year, corporate debt continues to rise, totaling over $13.4 trillion at the end of 2024.[18] As of the third quarter of 2024, corporate leverage stood at about 85%.[19] In the next one to three years, a significant portion of that debt – 15% of investment-grade and 27% of high-yield bonds – will come due.[20] The commercial real estate sector, one of the most fragile asset classes, may struggle to refinance nearly $1 trillion of maturing debt – or, 20% of all outstanding CRE loans – this year "amid tight lending standards, reduced property valuations, and interest rates above the levels that prevailed when much of the debt was originated."[21]

The Fed's financial stability report also notes that hedge fund leverage continues to grow and is "at or near its highest level since 2013," and is concentrated at the largest hedge funds.[22] This leverage likely exacerbated financial market turbulence following the President's April 2025 sweeping tariff announcements. Treasury yields surged - the largest jump in more than 40 years.[23] Highly leveraged hedge funds rapidly unwound their risky Treasury trades, further

riskiest-debt-credit-weekly.

15 Board of Governors of the Federal Reserve System, "Financial Stability Report," April 2025, https://www.federalreserve.gov/publications/files/financial-stability-report-20250425.pdf.

16 *Id.*

17 Federal Reserve Bank of St. Louis, "Commercial and Industrial Loans, All Commercial Banks," https://fred.stlouisfed.org/series/busloans.

18 Federal Reserve Bank of St. Louis, "Nonfinancial Corporate Business; Debt Securities and Loans; Liability, Level," https://fred.stlouisfed.org/graph/?id=BCNSDODNS.

19 Federal Reserve Bank of St. Louis, "Total Debt to Equity for United States," https://fred.stlouisfed.org/series/TOTDTEUSQ163N.

20 Board of Governors of the Federal Reserve System, "Financial Stability Report," April 2025, https://www.federalreserve.gov/publications/files/financial-stability-report-20250425.pdf.

21 *Id.*

22 *Id.*

23 Yahoo! Finance "Bond market sell-off 'severe' as long-term yields notch biggest week since 1982," Allie Canal, April 11, 2025, https://finance.yahoo.com/news/bond-market-sell-off-severe-as-long-term-yields-notch-biggest-

driving down prices and driving up yields. The financial stability report notes, "Hedge fund repositioning and deleveraging may have contributed to the recent market volatility, both in equities and risky assets as well as in some longer-dated Treasury securities."[24] The Financial Stability Oversight Council has long warned about the risks posed by these hedge funds.[25]

The rapid growth of private credit also raises significant concerns for the stability of the financial system and health of the broader economy as banks and shadow banks are increasingly interconnected. The $1.7 trillion private credit market has seen a 145% increase in the volume of bank loans to private debt funds.[26] Banks and nonbank financial companies are increasingly interconnected: as of December 2024, for example, Fitch Ratings found that "U.S. banks with the largest balances of loans to nonbanking financial institutions…reported $158 billion in loans to private credit..."[27] Describing the risk of banks' "direct exposure [to private credit] as currently limited," Fitch acknowledged that "assessing the financial stability risks and interlinkages of banks to the private credit sector is difficult due to the market's inherent opaqueness."[28] In its 2024 annual report, the Financial Stability Oversight Council also acknowledged the "potential financial stability risks" inherent in the private credit market, including "opacity, credit risk, liquidity risk, and increasing interconnectedness with banks, insurance companies, and other institutions,"[29] and discussed the "continued growth of private credit" in its June 2025 meeting.[30]

According to the Fed's recent economic projections, Trump's tariff war is driving expectations of higher inflation, higher unemployment, and less growth.[31] In a recent appearance before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, Chair Powell made clear that if it were not for Trump's tariffs, the Fed would be cutting interest rates. Only 73,000 jobs were added to the labor market in July, and June and May figures were revised down by 258,000

week-since-1982-170057642.html.

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

[25] U.S. Department of Treasury, Financial Stability Oversight Council, "2024 Annual Report," https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf.

[26] Bloomberg, "Bank Lending to Private Credit Funds Swells 145% in Five Years," Carmen Arroyo and Yizhu Wang, May 29, 2025, https://www.bloomberg.com/news/articles/2025-05-29/bank-lending-to-private-credit-funds-swells-145-in-five-years.

[27] Fitch Ratings, "U.S. Banks' Direct Exposure to Private Credit Growing; Poses Limited Risks for Now," February 12, 2025, https://www.fitchratings.com/research/non-bank-financial-institutions/us-banks-direct-exposure-to-private-credit-growing-poses-limited-risks-for-now-12-02-2025.

[28] *Id.*

[29] U.S. Department of Treasury, Financial Stability Oversight Council, "2024 Annual Report," December 2024, p. 35, https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf.

[30] U.S. Department of Treasury, "READOUT: Financial Stability Oversight Council Meeting on June 4, 2025," press release, June 4, 2025, https://home.treasury.gov/system/files/261/FSOC_20250604_Readout.pdf.

[31] Board of Governors of the Federal Reserve System, "June 17-18, 2025 FOMC Meeting," June 18, 2025, https://www.federalreserve.gov/monetarypolicy/fomcpresconf20250618.htm.

jobs.[32] The unemployment rate ticked up, job openings declined, and recent inflation data showed prices on the rise.[33] The impacts of Trump's tariff chaos are creating additional macroeconomic headwinds that exacerbate the financial stability vulnerabilities outlined above.

The Fed expects the CCyB will be activated "when systemic vulnerabilities are meaningfully above normal."[34] Current conditions are exactly what the CCyB is designed to protect against. Given your capacity as Chair of the Committee on Financial Stability and Oversight Governor for the Division of Financial Stability, I am requesting that you recommend a full Board vote to activate the CCyB. Instead of voting to reduce big bank capital and chip away at other safeguards at the worst possible moment, you should use your position as the Governor responsible for financial stability to implore the Board to reverse course. Current economic conditions demand stronger safeguards on Wall Street to ensure taxpayers, small businesses, and families are not left holding the bag once again when big banks' risk-taking blows up.

To help me better understand your approach to financial stability in this precarious moment, please respond to the following questions by September 5, 2025:

1. Why has the Fed violated its own Policy Statement by failing to vote on the CCyB over the past five years?

2. When will the Fed vote on the CCyB for 2025?

3. Do the Fed's efforts to reduce big bank capital requirements – rules you've supported – in the face of emerging economic risks violate Section 616 of the Dodd-Frank Act?

4. Are certain markets entering "bubble" territory? If so, which markets and how is the Fed assessing these potential bubbles?

5. Does the Fed view the growth in bank lending to nonbank financial companies, and the overall increase in interconnectedness between banks and nonbank financial companies, as presenting risks to financial stability? If so, in what ways? What steps has the Fed taken to determine the extent of these risks, if applicable?

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[32] CNBC, "U.S. added just 73,000 jobs in July and numbers for prior months were revised much lower," Jeff Cox, August 1, 2025, https://www.cnbc.com/2025/08/01/jobs-report-july-2025.html.
[33] USA Today, "Jobs, GDP and more: This week told us a lot about the U.S. economy," Jim Sergent, Stephen J. Beard, and George Petras, August 2, 2025, https://www.usatoday.com/story/graphics/2025/08/02/economic-data-this-week/85481484007/.
[34] Board of Governors of the Federal Reserve System, "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.

6. Do you believe systemic vulnerabilities are meaningfully above normal? If not, why not?

Sincerely,

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

CC:

The Honorable Jerome Powell
The Honorable Michelle Bowman