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LAURA SWANSON, STAFF DIRECTOR
LILA NIEVES-LEE, REPUBLICAN STAFF DIRECTOR

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

March 28, 2023

The Honorable Gene L. Dodaro
Comptroller General of the United States
U.S. Government Accountability Office
441 G St., NW
Washington, D.C. 20548

Dear Comptroller General Dodaro:

We write to request that the Government Accountability Office (GAO) re-examine the supervisory practices of bank regulators that are responsible for ensuring depository institutions operate in a safe and sound manner. In the last month, Silicon Valley Bank and Signature Bank – our nation’s 16th and 29th largest banks – failed and came under receivership of the Federal Deposit Insurance Corporation (FDIC).¹ The collapse of these banks brings into focus matters related to the supervision and examination of our nation’s large banks.

In 2019, GAO released a report titled, “*Regulators Improved Supervision of Management Activities but Additional Steps Needed*.”² GAO found that policies and procedures used by examiners responsible for supervising depository institutions generally conformed to leading-risk management practices. However, GAO noted troubling deficiencies—in particular, weaknesses in the communication of supervisory concerns by regulators to depository institutions. According to the GAO, bank regulators failed to appropriately convey the reasons why certain bank practices were deficient, and in the case of one regulator, “the effect of the deficient practice on safety and soundness.”³ GAO concluded that communications made by bank regulators to depository institutions lacked complete information that would allow the boards of directors of banks to monitor the extent to which senior bank management fully addressed the identified deficiencies. Additionally, GAO noted insufficient guidelines for escalating supervisory concerns. According to GAO, “Federal Reserve data for escalation of matters requiring attention to matters requiring immediate attention and enforcement actions were collected in a manner that made it difficult for [GAO] to determine the extent to which escalation occurred.”⁴

¹ *Wall Street’s Biggest Banks Rescue Teetering First Republic*, The New York Times (March 16, 2023) (<https://www.nytimes.com/2023/03/16/business/first-republic-bank-sale.html>); *Regulators Seize Signature Bank in Third-Largest US Bank Failure*, Yahoo (March 12, 2023) (<https://news.yahoo.com/regulators-seize-signature-bank-in-third-largest-us-bank-failure-231404695.html>).

² *Regulators Improved Supervision of Management Activities but Additional Steps Needed*, Government Accountability Office (GAO-19-352) (2019) (<https://www.gao.gov/assets/gao-19-352.pdf>).

³ *Id* at 34.

⁴ *Regulators Improved Supervision of Management Activities but Additional Steps Needed*, Government Accountability Office (GAO-19-352) at 32.

Prior to SVB's failure, regulators reportedly raised significant concerns about the bank's risky practices. According to recent news reports, the Federal Reserve raised risk management concerns, among other things, with SVB as early as 2019⁵ and repeatedly warned the bank of problems over the course of the next four years.⁶ The concerns, however, do not appear to have resulted in any meaningful corrective actions by the CEO, Bank Board, or changed the bank's business or growth trajectory. In fact, SVB grew considerably in size during this timeframe—from a \$70 billion bank in 2019 to more than a \$200 billion bank by the end of 2021.⁷

As the Committee seeks to better understand the collapse of SVB and Signature Bank, it is important to revisit these issues related to the supervision and regulation of banks to determine if the proper scrutiny by regulators and appropriate and timely responses from the regulated entities is occurring. For these reasons, we request GAO conduct an examination of the supervisory practices of regulators to include the following:

- A follow-up review (post 2019 GAO report) to assess communications of supervisory concerns from FDIC, the Federal Reserve, and OCC to a sample of banks, with sampled banks reflecting a range of asset sizes and geographic locations. The review should consider the type of supervisory concern (*e.g.*, matter requiring attention, matter requiring immediate attention, matter requiring board attention); whether the FDIC, the Federal Reserve, or OCC identified reasons for the deficient activity and the effect of such activity on safety and soundness in the communications to bank boards and management; whether the bank took corrective actions and in what form; whether the FDIC, the Federal Reserve, or OCC opined on the effectiveness of the corrective action and cleared the supervisory concern; and whether the regulator escalated the matter by means of informal or formal enforcement actions. The review should also consider differences in supervisory communications and outcomes based on bank asset size or other characteristics.
- A review of communications of supervisory findings from the Federal Reserve and the FDIC to each of Silicon Valley Bank and Signature Bank and responses from management of the banks.

Thank you for your attention to this matter. Should you have any questions about this request, please do not hesitate to contact Committee staff at 202-224-7391.

Sincerely,

⁵ *Fed Raised Concerns about SVB's Risk Management in 2019*, The Wall Street Journal (March 19, 2023) (<https://www.wsj.com/articles/fed-raised-concerns-about-svbs-risk-management-in-2019-4a1d802c>).

⁶ *Before Collapse of Silicon Valley Bank, the Fed Spotted Big Problems*, The New York Times (March 19, 2023) (<https://www.nytimes.com/2023/03/19/business/economy/fed-silicon-valley-bank.html>).

⁷ *Fed Raised Concerns about SVB's Risk Management in 2019*, The Wall Street Journal (March 19, 2023) (<https://www.wsj.com/articles/fed-raised-concerns-about-svbs-risk-management-in-2019-4a1d802c>).

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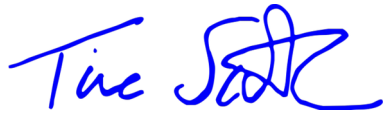
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