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Hearing Before the House Financial Institutions Subcommittee Entitled: "Right-Sizing the U.S. Bank Capital Framework: A Return to Tailoring, Economic Growth, and Competitiveness."

Chairman Barr, Ranking Member Foster, and Members of the Subcommittee:

On behalf of the U.S. Chamber of Commerce and the businesses we represent, I appreciate the Subcommittee's leadership in examining how capital requirements can be tailored to promote economic growth, competitiveness, and financial stability. Thank you for the opportunity to testify today on the critical issue of right-sizing the U.S. bank capital framework.

Bank capital requirements are not just a prudential regulatory issue—they are also economic and access-to-credit concerns for constituents, particularly small businesses, who receive a substantial majority of their financing from banks. In fact, CRA-reporting institutions recorded about 9.1 million small-business loans totaling roughly $276.6 billion in 2024, showing the large count and dollar volume of small-business lending reported by banks.[1]

These businesses are the backbone of our economy, and their ability to access affordable credit is essential for growth, job creation, and innovation.

Bank capital is not just one promulgated rule, but includes four major components comprised of the Basel III Rule, G-SIB Surcharge, Stress Tests, and the Supplemental Leverage Ratio. A significant change to any one portion has downstream effects on bank clients, including consumers and businesses of all sizes. We appreciate the work by the Regulators to undertake a holistic review of capital requirements, and we appreciate Congresses continued leadership to ensure they get this right.

The next piece of the puzzle to get right is Basel III.

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[1] https://bankingjournal.aba.com/2025/11/banking-agencies-release-cra-data-on-small-business-small-farm-lending-in-2024/

Previous Bank Capital Proposals Would Increase Costs or Limit Access for Businesses

The previous Basel III Endgame proposal would have substantially raised capital requirements for banks, making credit more expensive and harder to obtain for Main Street businesses. Small and mid-size businesses, which rely heavily on bank financing, would be disproportionately harmed by higher capital costs and reduced lending availability.

For example, the Federal Reserve Banks' 2024 Small Business Credit Survey, which surveyed over 7,600 employer firms, found that a majority seeking external financing applied to banks—the largest single source of external credit. If capital requirements rise, banks are forced to choose between reducing lending or charging higher rates, making financing more expensive for corporations, small businesses, and consumers.

Research consistently links stricter bank capital standards to higher loan costs. A recent Chamber survey of 300 treasurers found that 68% believe net increases in bank capital requirements could hurt their business, while 87% reported negative impacts from financial regulation, and 46% delayed or canceled investments due to regulatory costs.[2]

These concerns are not without merit. According to research from the regulators who promulgate global capital standards, for every percentage point increase in bank capital, there is an associated increase of up to 13 basis points in loan spreads. [3]

A capital increase of 10%-20% layered on top of current requirements would have a significant effect on either loan pricing or availability.

After the proposal was released, the Chamber published a report entitled *"Endgame" for Main Street Lending* [4] on the "gold plated" recommendations and found significant concerns for business financing with little justification or understanding. In addition to the examples noted below, the report contains case studies of how various business lines would be negatively impacted by increased capital requirements.

Three notable examples are:

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[2] https://www.uschamber.com/assets/documents/CCMC_Survey-FinancialChallenges_Fall2023.pdf
[3] https://www.bis.org/publ/bcbs173.pdf
[4] https://www.uschamber.com/assets/documents/Endgame-for-Main-Street-Lending-Basel-III-White-Paper.pdf

1. **Public and Private Companies Treated Differently**

The Proposal introduces a range of risk weights on corporate borrowers; however, the risk weight determination disproportionately affects privately held companies. Specifically, companies that are investment grade[5] and have (or are controlled by a company that has) publicly traded securities would garner a 65% risk weight, while privately held companies would be risk weighted at 100%, all else being equal. Approximately 99% of all U.S. companies are privately held,[6] and the Proposal would penalize these companies relative to their publicly traded competitors.

For example, assume Bank A received a loan application from an investment-grade public company (Borrower A) and a privately held small business (Borrower B). For identical $5 million principal amounts amortized at 10 years, Bank A would likely price the loan to Borrower B at a higher rate, assume 10.5%,[7] than the loan to Borrower A, assume 7%, even if both borrowers have identical risk profiles. Borrower B would be charged a higher rate only because the Proposal mandates an increased capital requirement for that loan. This would result in Borrower B paying approximately 51% more than Borrower A in interest costs over the life of the loan—only because of different regulatory treatment and not because of any real-world difference in risk.

This aspect of the Proposal disincentivizes bank lending to privately held small and medium-sized enterprises. As a result, privately held companies, which are already at a disadvantage given their lack of access in public markets, will be placed at a further disadvantage due to the Proposal.

2. **Lines of Credit**

A foundational product for most financial institutions is lines of credit or credit commitments. These credit products are vital to the operation of small businesses, since they provide flexibility and access to funding on an as-needed basis. This is especially true for businesses that are highly seasonal, such as retail and agriculture. Warehouse lending is a type of credit line extended to non-depository mortgage companies, which, in turn, use it to facilitate providing credit

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[5] 12 C.F.R. 217.2.

[6] https://businessreview.studentorg.berkeley.edu/why-your-favorite-companies-are-privately-held/

[7] Credit RWA for Borrower A equals $3.25 million (i.e., $5 million times 65%) compared with $5 million (i.e., $5 million times 100%) for Borrower B. Thus, the rate differential in this example approximates interest rates based on the approximate return on risk-adjusted capital using Borrower A as the base. The 7% interest rate for Borrower A was randomly selected

to home buyers. Warehouse lines are typically revolving lines of credit or repo-style transactions.

Assume Bank A has underwritten an inventory line of credit (e.g., non-depository mortgage lender, auto dealer, or agricultural equipment dealer) totaling $100 million, with the current amount drawn totaling $50 million. The credit risk-weighted asset (RWA) calculation in the Proposal would treat the funded portion differently from the unfunded portion. Under the Proposal, the funded portion (i.e., $50 million) would be subject to a 110% risk weight, totaling $55 million RWA. The unfunded portion (i.e., $50 million) would likely be subject to a 50% risk weight, totaling $25 million RWA. This differs from the current rules, under which the funded portion would be subject to a 100% risk weight (i.e., "Corporate") and the unfunded portion would be subject to a 20% risk weight (assuming 1-year maturity). So, under the Proposal, the credit RWA for this transaction would be $80 million, as opposed to $60 million under the current rules, or a 33% increase.

The increase in the risk weight (i.e., from 20% to 50%) on the unfunded portion is likely to cause banks to reduce commitment amounts to their borrowers, removing a key source of capital and liquidity from the largest consumer lending market in the country. But non-depository mortgage lenders are not the only ones that might be adversely affected by the Proposal. There are broad implications for all businesses and consumers that take out lines of credit.

The increased capital requirements for these credit facilities are likely to raise interest rates and other credit costs for the borrower. This could reduce profitability for businesses— including being the difference between staying operational and going out of business. These increased costs could also curtail the establishment of new small businesses. Individual consumers who take out lines of credit could also see their borrowing costs increase with the corresponding erosion of their personal financial situations. These broad implications, in aggregate, would ultimately harm the overall economy and lead to slower economic growth.

3. Risk Mitigation/Hedging

Derivative markets are critical for hedging price risks in the agricultural supply chain. Agricultural producers (e.g., farmers and ranchers) use derivatives to ensure they can cover their costs of production, while companies that process agricultural products into food and other products use derivatives to protect their profit margins from a steep increase in input costs. The business offering derivatives for hedging is already an expensive business, and the changes to the market risk capital requirements could make this business even more expensive.

Take for example Food Producer A, who processes grain into food products and sells to grocery chains. Food Producer A uses derivatives to manage market volatility, such as weather or geopolitical risk. To compensate for the increased capital requirements related to market RWA, Bank A increases its costs associated with its derivative products. Food Producer A determines that it is no longer beneficial or cost effective to use derivatives, assuming the risk and reflecting an unhedged position. Unexpectedly, Russia invades Ukraine, and the cost of grain increases significantly. Being unhedged, Food Producer A now must pay much more for the grain that is needed to produce the final product. Food Producer A's costs go up, resulting in higher prices for the grocery chain customer, who then also passes these costs to its customers. The result is increased costs throughout the supply chain, ultimately affecting the individual consumer and impairing future economic growth.

It is hard to imagine that a risk-mitigation product – the purpose of which is to lower risk for both the farmer and the bank - would be more expensive and less readily available.

Capital Requirements Must Be Based on Robust Economic Analysis

Capital requirements are a critical tool for ensuring financial stability, but they are not applied to banks in a vacuum. Increases have significant impacts on individuals and businesses. That is why capital requirement increases must be informed by rigorous economic analysis that considers their broader impact on lending and economic growth.

The previous Basel III Endgame proposal saw regulators formulating a rule and then looking for data to support it. Only 17 of the proposal's 1,087 pages were dedicated to economic analysis. Furthermore, the regulators said they would publish a separate Quantitative Impact Study – analysis that typically is released along with a proposal - but failed to do so. This approach was out of order as demonstrated by many bipartisan letters to the regulators.[8][9][10] The new rule must be set to manage the true risks to banks and the financial system, rather than imposing unnecessary burdens that harm economic growth.

The U.S. banking system is already well-capitalized and resilient, as demonstrated by both regulator stress testing and real-life examples such as the early stages of the COVID 19 shutdown. In 2023, the year the Basel III proposal was released, stress tests revealed that financial institutions demonstrated resilience, enabling them to endure a sharp economic downturn and sustain lending to households and businesses.[11] And last week, the Federal Reserve published a report that stated, "As of the second quarter, over 99 percent of all banks were well capitalized. Aggregate Common Equity Tier 1 risk-based capital ratios were about 13 percent for both large and small banks…" [12] And according to the FDIC Quarterly Report, published on December 1st, the institutions they regulate had an aggregate Common equity tier 1 capital ratio of 14.21%. [13]

Finally, there is some proof in the pudding that banks are more than well-capitalized. FDIC data shows that bank failures since 2020 have been very limited, with only 11 institutions failing between 2020 and 2024, equating to an **annual average bank failure rate of .052%.**[14]

Over the same five-year period the total amount of banks in the United States declined by roughly 3% per year, while 45 new bank charters were granted.

Year	Banks	Failures	Failure Rate	YOY Bank Change	New Charters
2020	4379	4	0.09%	N/A	7
2021	4238	0	0.00%	-3.33%	9
2022	4136	0	0.00%	-2.47%	14
2023	4036	5	0.12%	-2.48%	9
2024	3926	2	0.05%	-2.80%	6

Source: FDIC

[8] https://punchbowl.news/wp-content/uploads/FILE_5283.pdf
[9] https://www.regulations.gov/comment/OCC-2023-0008-0211
[10] https://www.uschamber.com/finance/u-s-chamber-of-commerce-comments-on-federal-reserves-quantitative-impact-study-on-basel-iii-endgame-rule
[11] https://www.federalreserve.gov/publications/files/2023-dfast-results-20230628.pdf
[12] https://www.federalreserve.gov/publications/files/202512-supervision-and-regulation-report.pdf
[13] https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-third-quarter-2025-pdf.pdf
[14] https://www.fdic.gov/resources/resolutions/bank-failures/in-brief/index

The Chamber supports well capitalized and regulated banks. However, unnecessary capital increases could harm economic growth by restricting credit availability and raising borrowing costs on businesses of all sizes.

Capital Requirements Should be Tailored

Congress has explicitly required, on a bipartisan basis, that bank regulators tailor their regulations based on bank size and other factors. While regulators have made some progress in tailoring regulations for banks in categories I through IV, the thresholds for these categories have not been updated in over six years.

When the Federal Reserve finalized tailoring its rule in 2019, it acknowledged the need to periodically review and update these thresholds to reflect macroeconomic and industry-wide growth.[15] However, despite this promise, the thresholds have not been revisited.

Now is the time for regulators to update these thresholds. Doing so will ensure that capital requirements are appropriately calibrated to the size and risk profile of individual institutions, rather than imposing a one-size-fits-all approach that disproportionately burdens smaller and mid-sized banks.

Recent Positive Actions

The Chamber appreciates the recent work of the Prudential Regulators to address these concerns, including:

1. Finalization of the rule to update Supplementary Leverage Ratio[16],
2. Disclosure of the Federal Reserve's Stress Testing models and scenarios,[17] and
3. The joint regulatory commitment to review regulatory thresholds.[18]

As mentioned earlier, the four pillars of capital must be considered and adjusted together as they are all pieces that comprise our banking system's capital framework. We are encouraged that the Prudential regulators are taking this holistic approach, and

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[15] https://www.federalregister.gov/d/2019-23800/p-182
[16] https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us
[17] https://www.federalregister.gov/documents/2025/11/18/2025-20211/enhanced-transparency-and-public-accountability-of-the-supervisory-stress-test-models-and-scenarios
[18] https://www.federalreserve.gov/newsevents/testimony/bowman20251202a.htm

the Chamber will continue to engage on these and other forthcoming rulemakings to ensure this thoughtful work continues.

Conclusion

In conclusion, the U.S. Chamber of Commerce urges policymakers to adopt a balanced and tailored approach to bank capital requirements. This approach should:

1. **Calibrate any final rule to preserve affordable lending, market-making liquidity, and the competitiveness of the U.S. banking system.**
2. **Base capital requirements on robust economic analysis that considers the impact on lending and economic growth.**
3. **Update and tailor capital requirements to reflect the size and risk profile of individual institutions.**

By right sizing the U.S. bank capital framework, we can ensure a resilient and nimble financial system that supports economic growth, job creation, and innovation.

Thank you for the opportunity to testify today. I look forward to answering your questions and working with the Subcommittee to advance these important goals.

Sincerely,

Mike Flood
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U.S. Chamber of Commerce