Scheduled for delivery at:
10:00 a.m. EST
November 20, 2024

Statement by

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Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

November 20, 2024

Chairman McHenry, Ranking Member Waters, and other members of the Committee, thank you for the opportunity to testify on the Federal Reserve's supervisory and regulatory activities. Accompanying my testimony is the Federal Reserve's semiannual *Supervision and Regulation Report*. Today, I will discuss current conditions in the banking sector, and our recent supervisory and regulatory activities.

Banking Conditions

Overall, the banking system remains sound and resilient. Banks continue to report capital and liquidity ratios above minimum regulatory levels, and asset quality generally remains sound. Bank lending has continued to grow, albeit at a modest pace that reflects decreased demand and tighter lending standards than we have seen since early last year.

Capital ratios have increased this year, building on the capital increases from the year before and leaving the system better positioned to weather potential losses. This is supported by this year's stress test results, which showed that large banks have sufficient capital to meet their minimum capital ratios and continue their operations under a highly stressful scenario.

Liquidity conditions overall are stable. Notably, deposits and liquid assets on bank balance sheets remained steady in the first half of the year. Additionally, the share of uninsured deposits in the system continued to decline, falling to a level last seen in 2019.

While the system as a whole is resilient, we are carefully monitoring the continued rise in delinquency rates among certain commercial real estate loans—such as those backed by offices, especially in major cities, and, more recently, those backed by multifamily housing. Delinquency rates for certain consumer loans are also elevated. In response to rising delinquencies, banks have increased loan loss provisions. Cybersecurity risk also continues to be a supervisory priority. The Federal Reserve's supervisory activities in this area promote

financial institutions' ability to protect against cyber incidents, safeguard critical infrastructure, and address emerging technology risks.

Supervision

Federal Reserve supervisors continue to work diligently to assess all bank risk-management practices to be prepared for both expected and unexpected stresses.

We continue to make progress on improving the speed, force, and agility of supervision to align better with the risks, size, and complexity of supervised banks, as appropriate. This is necessary to ensure that banks and supervisors are managing the types of risks highlighted by last year's stress in the banking system. Supervisors must be prepared to take timely action as risks build up; deploy supervisory tools and escalation effectively; account for changes in market, economic, and financial conditions in their examination priorities and supervisory conclusions; and identify new and different patterns of risks.

We have made progress on these goals. First, we are working to ensure that supervision intensifies at the right pace as a bank grows in size and complexity. Second, we are modifying supervisory processes so that once issues are identified, they are addressed more quickly by both banks and supervisors. Third, we are finding ways to better incorporate forward-looking risk analysis into supervision.

Regulation

Moving to regulation, as you know, last summer, the Board sought comment on two proposed rules that would modify risk-based capital requirements for large banks: the Basel III Endgame proposal and the proposal to adjust the capital surcharge for the largest and most complex banks. We asked for and received a great number of comments on all aspects of the

proposals and, earlier this year, I laid out potential adjustments to these proposals based on those comments.

Last year, the bank regulatory agencies also invited comment on a proposal to require large banks to issue and maintain a minimum amount of long-term debt. We received feedback from commenters on potential adjustments to the proposal, which are under consideration. And, as I have mentioned in previous speeches, we have been considering ways to improve liquidity resilience and improve banks' ability to respond to funding shocks.

These initiatives have been joint efforts among the Federal Reserve, FDIC, and OCC, and we look forward to that continued collaboration next year. We will continue to seek an approach that helps to ensure financial system resilience and supports the flow of credit to households and businesses through the economic cycle.

Thank you. I am happy to take your questions.