Powell Owns This Crisis

Fed chair has a very public record supporting deregulation

We now know that Fed Chair Jerome Powell sought to head off questions about responsibility and accountability around March 12, the day federal regulators resorted to a blanket deposit guarantee to stop the crisis from spreading.

Perhaps that's because Powell has an extensive record supporting deregulation and lighter supervision, even before he was confirmed to head the central bank. "When Trump came into office, Jerome Powell, a Fed governor, was already pushing for the deregulation of banks," one commentator observed. "So Powell has to deal with the consequences of his own policymaking."

At his Senate confirmation hearing on Nov. 28, 2017, Powell made clear his support for weaker oversight, and for S.2155, the partial rollback of Dodd-Frank that had been introduced two weeks earlier but not yet passed. He all but admitted that "tailoring," the provision of the bill that promoted nips and tucks to regulations based on the size and complexity of the bank, was a cover for deregulation. And Powell explicitly promised the Fed would identify and remediate problems like the ones that emerged at Silicon Valley Bank – but he failed to deliver.

"If there are institutions that are currently in that [$100-$250 billion] population or that, over time, become systemically risky or even risky," Powell said on March 1, 2018, "Then we'll have that in place." He added, "we haven't been shy about finding systemic risk under $250 billion."

It's all in the public record. And, as the Fed prepares to release its own report on the Banking Crisis of '23, it all underscores the need for a truly independent investigation of the Fed's actions.

S.2155 stripped away tougher oversight from banks in the $50-$100 billion range, but left the Fed with the discretion to impose tougher oversight on banks in the $100-$250 billion range. By the end of 2020, Silicon Valley bank had over $100 billion in assets; when it failed, that number had reached $209 billion.

But the Powell Fed never acted, an outcome predicted almost precisely by former Fed governor Sarah Bloom Raskin in 2017. She presciently called the idea that the Fed would actually use this discretion "legislative fool's gold" – convenient cover for lawmakers supporting deregulation.

Powell, a former private equity executive, brought an industry mindset to the job. As Sen. Sherrod Brown, now chairman of the Senate Banking Committee, observed in 2017, Powell's schedule as a Fed governor "indicates you were meeting far more frequently with industry than with consumer groups." In fact, Powell met with the CEO of the scandal-ridden bank Wells Fargo more times than all the consumer groups on his schedule combined, Brown noted.

As a governor in August 2017, Powell – eyeing the Fed chair, on a short list for the job, but not yet nominated – also supported two plans cooked up by Trump-appointed bank regulators who were already in place to restrain bank supervisors.

In one document, regulators dramatically restrained the use of documents known as “Matters Requiring Attention” (MRAs) and the more urgent “Matters Requiring Immediate Attention” (MIRAs) by directing they go only to bank executives, not to boards. Such warnings would later pile up at Silicon Valley Bank.

After becoming chair in 2018, Powell also supported the Trump regulators’ so-called “guidance on guidance” later that year, which also tied the hands of bank examiners. Now, they could no longer issue “guidance” documents unless they cited a specific law or regulation that a specific activity violated, effectively stripping them of much discretion.

At his confirmation hearing in 2017, Powell promised he would implement the now-discredited “tailoring” concept which he said would customize post-2008 rules for each bank. Sen. Elizabeth Warren smoked out the truth, namely that it was a cover for deregulation, by simply asking if any rules would become more stringent under “tailoring.”

> Sen. Warren: So of all the rules the Fed has issued during your time there, you’ve been there for five years, on capital, on leverage, on liquidity, on stress tests, you don’t think a single one should be made tougher?
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> Powell: Honestly, senator, I think we’ve – I think they’re tough enough.

And Powell refused to consider the obvious point, namely that the mix of Trump administration appointees – all determined to ease rules on banks – and the political signal sent by the passage of S.2155 represented a mixture of incentives that raised the risks of a financial crisis.

> *Brown*: Between this legislation this committee is set to consider … and all the deregulation in the works by the [Trump] administration and regulators – look whom the president has put on some of these boards and regulators – we are on course to weaken the rules for large regional banks … Are you certain that all these changes aren’t paving the way for the next financial crisis?
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> *Powell*: I’m confident that we’re not. That’s really not the intent, and I don’t see how the kind of things we’re talking about doing would push us in that direction particularly.

Any credible investigation of the Silicon Valley Bank crisis has to reckon directly with Powell’s own record on bank regulation and supervision: his role in supporting passage of S.2155, the warnings he received from opponents of the legislation, other measures he supported, and the empty promises he made about how the Fed would, rest assured, handle any trouble that arose before it became a crisis.