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United States Senate
COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

February 25, 2026

The Honorable Michelle Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

The Honorable Jonathan Gould
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street SW
Washington, D.C. 20219

The Honorable Travis Hill
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Dear Vice Chair Bowman, Comptroller Gould, and Chairman Hill:

We write to encourage the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (together, the “federal banking agencies” or the “agencies”) to promptly adopt a coordinated, formal framework to adjust and index the regulatory thresholds used to determine the categorization of large banking organizations for application of enhanced prudential standards and capital and liquidity requirements. We appreciate that Vice Chair Bowman has already indicated interest in making these reforms¹ and that Chairman Hill has recognized the importance of indexing through the FDIC’s recent rulemaking on indexing regulatory thresholds.²

In 2019, when the agencies finalized the prudential tailoring framework following the enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act, they expressly stated their intention, consistent with their statutory mandate, to periodically adjust thresholds set in nominal dollar terms to reflect macroeconomic growth and industry-wide changes.³ Recent statements from agency and Congressional leadership continue to recognize the need to update

¹ Michelle Bowman, “Modernizing Supervision and Regulation: 2025 and the Path Ahead,” January 7, 2026, <https://www.federalreserve.gov/newsevents/speech/bowman20260107a.htm>.

² FDIC, “Final Rule Adjusting and Indexing Certain Regulatory Thresholds,” November 25, 2025, <https://www.fdic.gov/news/financial-institution-letters/2025/final-rule-adjusting-and-indexing-certain-regulatory>.

³ The 2019 tailoring rule states, “The agencies acknowledge the thresholds should be reevaluated over time to ensure they appropriately reflect growth on a macroeconomic and industry-wide basis, as well as to continue to support the objectives of this rule. The agencies plan to accomplish this by periodically reviewing the thresholds and proposing changes through the notice and comment process...” OCC, Federal Reserve, FDIC, “Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements,” November 1, 2019, <https://www.federalregister.gov/documents/2019/11/01/2019-23800/changes-to-applicability-thresholds-for-regulatory-capital-and-liquidity-requirements>.

and index the thresholds in order to prevent these categories from becoming over-inclusive today and to ensure they remain relevant to their purpose going forward.⁴ However, notwithstanding 49 percent growth in nominal gross domestic product since 2019, the relevant thresholds remain unchanged.

As a result, numerous banking organizations are approaching or crossing regulatory thresholds not because they have become materially more complex, risky, or systemically important, but simply because of inflation and overall economic growth. This dynamic undermines the risk-based purpose of prudential regulatory tailoring and erodes the distinction among regulatory categories that was designed to align supervisory portfolios. These enhanced prudential regulatory requirements no longer appropriately account for differences in size, complexity, risk profile, and systemic footprint.

In addition to undermining the core principles of tailoring, the failure to update thresholds also produces unnecessary and destabilizing cliff effects. Static nominal thresholds can abruptly trigger significant new capital, liquidity, and supervisory requirements that are largely disconnected from a firm's underlying risk profile. These effects increase compliance costs, exacerbate supervisory burdens, distort incentives, and can constrain banks' ability to support credit availability and economic growth without corresponding prudential benefits.

Static thresholds also impose artificial constraints that encourage banking organizations to actively manage their activities and balance sheets in order to avoid the imposition of additional, and disproportionate, regulatory burden. In practice, this may result in banking organizations being incentivized to restrict credit provisioning and check the natural pace of growth that accompanies the critical role that banks play in facilitating the free-flowing movement of high-quality credit into the economy.

Indexing prudential regulatory thresholds to increases in nominal GDP would help preserve their intended scope and proportionality. Nominal GDP is a particularly appropriate metric for thresholds that determine the application of enhanced prudential standards, as it captures both inflation and real economic growth and better reflects a bank's size relative to the broader economy. By contrast, inflation-only indexing addresses only part of the problem and can materially understate the passive expansion of bank balance sheets and financial activity over time.

The erosion of tailoring thresholds is not theoretical. For example, had the asset-size and risk-based indicator thresholds embedded in the 2019 tailoring rules been indexed to nominal GDP, the \$700 billion threshold would be approximately \$1 trillion today. Absent such adjustments, firms are actively trending towards migrating into more stringent prudential categories even though their risk profile relative to the banking system as a whole has not meaningfully changed. This outcome is inconsistent with the statutory objectives of risk-based differentiation and proportional regulation.

⁴ For example, the House Financial Services Committee has passed legislation (H.R. 6553) to index the prudential tailoring thresholds and provide for automatic future adjustments.

Importantly, threshold indexing should include both an immediate, one-time “catch-up” adjustment and a regulatory mechanism for automatic, future adjustments. The catch-up adjustment is a critical first step to reset the thresholds to a 2026 baseline that accounts for growth in the system since the thresholds were established in 2019. Going forward, automatic indexing is equally vital because reliance on ad hoc, discretionary rulemakings to address threshold erosion has proven insufficient and results in uncertainty, delay, and regulatory inertia. Embedding automatic indexing directly into the regulatory framework would improve the predictability and durability of tailoring and reduce the need for repeated notice-and-comment rulemakings to address what should fundamentally be a mechanical process. This appropriate “catch-up” and predictability would allow banking organizations to shed artificial constraints and grow at a natural pace alongside nominal GDP, thereby providing a positive feedback loop for consumers, businesses, and in the end, the economy writ large.

Because many of the most consequential prudential regulatory thresholds are jointly administered, interagency coordination is essential. The federal banking agencies should act together to ensure consistent application of prudential standards and reinforce the credibility of the tailoring framework across the regulatory system. We respectfully urge the federal banking agencies to prioritize implementation of a formal, coordinated framework for updating and indexing the prudential regulatory thresholds as soon as practicable.

Indexing prudential thresholds would be consistent with the objectives of the Economic Growth, Regulatory Relief, and Consumer Protection Act by ensuring that regulatory requirements remain appropriately tailored over time. It would also support a banking system that is resilient and well-capitalized, while preserving its ability to meet the credit needs of households, businesses, and local communities.

Thank you for your attention to this important issue. We look forward to continued engagement on matters related to prudential regulation, financial stability, and economic growth.

Sincerely,



Tim Scott
Chairman



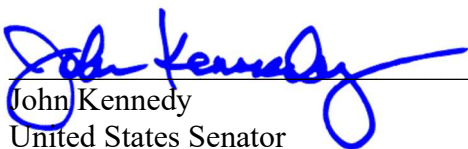
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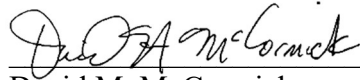
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