Reform the Fed: Prevent Big Bank Executives from Serving on Federal Reserve Boards

Co-sponsor the Federal Reserve Independence Act

Dear Colleague:

There are many lessons to be learned with respect to the failure of Silicon Valley Bank (SVB) and Signature Bank.

Short term, we must repeal Title IV of the disastrous 2018 bank deregulation bill that led to the collapse of SVB. We must enact stronger regulations to ensure the safety and soundness of our financial system. The Justice Department must conduct a thorough investigation to find out if insider trading laws were broken as a result of executives selling SVB stock just days before this bank collapsed. We must claw back bonuses that were handed out to SVB executives in the days leading up to its failure. Over the long-term, we must break up too big to fail banks to prevent another collapse on Wall Street like we experienced in 2008.

Further, here is one modest step we should take immediately: Banning bank executives from serving on the 12 Regional Federal Reserve Banks. I think it would come as a shock to most Americans to find out that Gregory Becker, the CEO of Silicon Valley Bank, who successfully lobbied for the deregulation of his financial institution was allowed to serve as a director of the same body in charge of supervising his bank: the San Francisco Federal Reserve. Two weeks before his bank collapsed, Mr. Becker sold over $3.5 million of Silicon Valley Bank stock while he was a still a director of the San Francisco Fed. That may make sense to someone. It does not make sense to me.

Allowing bank CEOs to serve as Federal Reserve directors and hand-pick its members and staff is a clear example of the fox guarding the henhouse that must be prohibited.

Therefore, I hope you will join me in co-sponsoring the Federal Reserve Independence Act. This legislation would prohibit financial industry executives from sitting on the 12 regional Federal Reserve boards of directors. This legislation would also prevent Federal Reserve employees and board members from owning any stock or investing in any institution that the central bank is in charge of regulating.

Gregory Becker may be the poster child for why we need this legislation, but he is not alone. Incredibly, two-thirds of the directors of these boards are hand-picked by the same bankers that the Federal Reserve is in charge of regulating.

Today, five top executives of financial institutions with over $150 billion in assets currently serve as directors of Federal Reserve banks. For example, the CEO of State Street (a financial institution with nearly $300 billion in assets) currently serves as a director of the Boston Federal Reserve. The CEO of M&T Bank (a financial institution with over $200 billion in assets) currently serves as a director of the New York Fed. The CFO of Ally Bank which has assets of over $180 billion is currently a director of the Richmond Fed. And the CEO of Northern Trust with assets of more than $150 billion currently serves on the Chicago Fed.

A Government Accountability Office (GAO) study released in 2011 found that allowing members of the banking industry to both elect and serve on the Federal Reserve's board of directors creates "an appearance of a conflict of interest" and poses "reputational risks" to the Federal Reserve System.

According to GAO records, during the financial crisis, the Federal Reserve provided $391 billion in total financial assistance to JP Morgan Chase when its CEO (Jamie Dimon) sat on the New York Fed board of directors. Mr. Dimon was among at least 18 directors of Federal Reserve banks that received $4 trillion in near-zero-interest Fed loans during the 2008 financial crisis, according to the GAO. JPMorgan received this financial assistance at the same time it was used by the Fed as a clearinghouse for emergency lending programs. In March of 2008, the Fed provided JPMorgan with $29 billion in financing to acquire Bear Stearns. The Fed also provided JPMorgan Chase with an 18-month exemption from risk-based leverage and capital requirements. And while Mr. Dimon was on the New York Fed's board, he convinced the Federal Reserve to take risky mortgage-related assets off of Bear Stearns balance sheet before JP Morgan Chase acquired the troubled investment bank.

Another high-profile conflict involved Stephen Friedman, the former chairman of the New York Fed's board of directors. Late in 2008, the New York Fed approved an application from Goldman Sachs to become a bank holding company giving it access to cheap loans from the Federal Reserve. During that period, Friedman also sat on the Goldman Sachs board. He also owned Goldman stock, something that was prohibited by Federal Reserve conflict of interest regulations. Although it was not publicly disclosed at the time, Friedman received a waiver from the Fed's conflict of interest rules in late 2008. Unbeknownst to the Fed, Friedman continued to purchase shares in Goldman from November 2008 through January of 2009, according to the GAO.

The CEOs of the largest banks in America should not be allowed to serve as directors of the main agency in this country in charge of regulating these financial institutions. The Fed has got to become a more democratic institution that is responsive to the needs of the middle class, not just CEOs of some of the largest financial institutions in America. It is time to end these serious conflicts of interest.

If you would like to co-sponsor this legislation, please contact Richard Phillips on my staff at Richard_Phillips@help.senate.gov.

Sincerely,

Bernie Sanders

United States Senator