To the Board of Governors of the Federal Reserve System,

I am a graduate student at the University of Massachusetts Amherst, pursuing a master's in Public Policy and Administration. I also have bachelor's degrees in Economics and Political Science. I am writing to make a public comment on the proposed rule filed under Docket No. R-1724 and RIN 7100-AF95 or "Amendments to the Capital Planning and Stress Testing Requirements for Large Bank Holding Companies, Intermediate Holding Companies, and Saving and Loan Holding Companies." The Great Recession of 2008-2009 molded my formative years and was the backdrop of education in economics. As a result, I have misgivings about the de-regulatory action of the "Economic Growth, Regulatory Relief and Consumer Protection Act" which has seemingly spurred this rule change.

Before I lay out my concerns, I want to express support on the aspects I support. Overall, given the mandate put forth by Congress in 2018, I think this rule is well structured and has moderately accessible language. There is more jargon than someone outside the banking and regulation community can fully understand, but the broad strokes are manageable to grasp. While I disapprove of the elimination of the Dodd-Frank Act Stress Test (DFAST) for institutions between $50 million and $100 million and every other year for these Category IV institutions, I do approve that banks are still required to send their monthly, quarterly, and annual capital planning documentation. I also favor allowing Category IV banks to opt-into odd year DFASTs.

Regarding question 8, as asked in the rule proposal, I feel the timeline offered is straightforward and gives plenty of notice for both the Fed and the banks. I would additionally encourage the Fed to incentivize Category IV institutions to opt-into the DFASTs. I am unsure what incentives are at the Fed's disposal to do so, but I passionately believe keeping an eye on these institutions is crucial to the financial sector's long-term stability.

Now we arrive at my areas of concern. In my study of the Great Recession and its causes, it is no secret the overleveraged positions of institutions magnified the calamity's magnitude. Even giving bankers the benefit of the doubt, banks' leveraged position, like Lehman Brothers, was precarious. There was too much debt and risk in the system. And when the relatively small loss of the housing market hit, the whole system buckled. The benefits of leveraged debt lead to big wins when it works, but when coupled with poor risk management or an economic shutdown from a global pandemic, high leverage can be a death sentence. I write this preamble to lay the groundwork of my thinking. I have grave concerns about the wisdom of this slow loosening of financial oversight.

First, loosening regulation is not what the American people want for Wall Street and banking institutions. In October of 2019, Lake Research Partners and Chesapeake Bay Consulting released a poll showing 89% of voters stating financial regulation was important and 62% saying it was very important. 69% favored increased regulation, and only 15% thought there should be less. Dodd-Frank hosts an 81% approval rating, and nearly half of voters (49%) view Wall Street as a continued threat[1]. The American people rely upon the CFPB, the SEC, and the Federal Reserve to keep us safe from Wall Street's proven propensity to take on too much

[1] Lake "New Poll Shows Strong Early-State Support for Wall Street Reform."

risk. And while DFAST does not bar institutions from taking on excessive risk, it is supposed to keep the banks honest about having the equity to support taking those risks.

Second, I am grateful the pandemic and devastating economic collapse has not yet triggered a financial crisis as of this writing. While I doubt anyone a year ago would have thought it prudent to prepare institutions for a global pandemic, I hope the culture of being more risk-averse and not seeking a reckless return on equity (ROE) has come from the implementation of these stress tests making banking institutions and by extension all of us safer. Frank Partnoy, in his piece for the Atlantic this summer, brought up the use of CLOs or collateralized loan obligations and the threat the pandemic has created by potentially replicating the disaster the CDO's for mortgages brought in 2008[2]. By its nature, risk and the future are uncertain, but continuing to push these stress tests and prepare our banks against fallout is essential. I will button this paragraph with a comment from Ed Young of Moody's in his op-ed for American Banker, saying, "Any threats of constraining economic growth have seemed to pale in comparison with the potential value stress testing provides to help avert another devastating financial crisis."[3]

Finally, I am unconvinced by reasoning that led to this de-regulatory action by Congress. To again cite Ed Young,

> The opposition, in favor of deregulation, said that DFAST was a factor constraining lending, and therefore limiting the recovery for individuals and small businesses. But that point is questionable given the consistent loan growth and financial performance of many regional and midsize banks. In addition, regardless of any regulatory requirement, banks should be doing their own stress testing as part of their risk management program.[4]

Do I believe institutions like Citizens Bank, Morgan Stanley, Northern Trust, American Express, Capital One, and Discover[5] are being held back and need to switch to a every other year DFAST schedule? And banks like Santander and Comercia Bank[6] needed to be exempted from it? Frankly, no. Would the collapse of any one of these institutions cripple the global economy like Bear Sterns or Lehman Brothers did? Again, no, probably not (speaking primarily of those smaller than Category IV). But they can hurt local economies. Banks are the hearts of the economy and are what keep cash flow pumping.

The proposed rule change states Category IV institutions would no longer be required to submit "FR Y-14A Schedule A—Summary, Schedule B—Scenario, Schedule F—Business Plan Changes, and Appendix A—Supporting Documentation"[7] annually. This action will save banks an estimated 13,868 hours annually or 385 hours per institution[8] (per my reading of the proposal). But what remains unclear is the benefit the public can expect to gain from this saving in labor hours. With the benefits unclear and the people very clearly in favor of regulation, I question the wisdom of Congress' action in 2018, prompting this change.

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[2] Partnoy, "The Looming Bank Collapse"

[3] Young, "With Easing of Stress Tests, Bank Risk Teams Have to Step Up."

[4] Young, "With Easing of Stress Tests, Bank Risk Teams Have to Step Up."

[5] "Large Commercial Banks"

[6] "Large Commercial Banks"

[7] Amendments to Capital Planning

[8] Amendments to Capital Planning

Ultimately, I support the Federal Reserve's role and beseech the Board of Governors to find ways to keep the public trust and protect us from undue risk. Incentivize resilient capital planning and continued participation in DFASTs and keep an eye on financial instruments like CLOs and the heightened risk they carry with the pandemic still raging. Please continue to act in the spirit of Dodd-Frank, as much as the new law permits. As an overwhelming majority of the American people support strict financial regulation. I sincerely question the logic of Congress's actions and hope the lessons of 2008 have not faded from memory.

Sincerely,

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