GAO Highlights

Highlights of GAO-25-106771, a report to the Committee on Banking, Housing, and Community Affairs, U.S. Senate

Why GAO Did This Study

Signature Bank and Silicon Valley Bank were closed in March 2023, and FDIC was named as receiver. The failures raised questions about bank supervision, including whether the banking regulators are adequately escalating supervisory concerns to ensure that banks take prompt action.

As part of a series of reports related to these bank failures, GAO was asked to examine the regulators' supervisory practices. Among other objectives, this report examines the processes and policies for escalating supervisory concerns at the Federal Reserve, FDIC, and OCC.

GAO analyzed data on the regulators' supervisory concerns opened from 2018 through 2022 and examination documents for a nongeneralizable sample of 60 institutions representing different asset levels and regions. GAO compared regulators' communications of supervisory concerns against their policies and procedures. GAO also reviewed regulators' guidance and interviewed 109 federal bank examiners and seven subject-matter experts.

What GAO Recommends

GAO is making two recommendations to the Federal Reserve and three to FDIC to strengthen their processes for escalating supervisory concerns. Federal Reserve neither agreed nor disagreed with the recommendations. FDIC generally agreed with two of the recommendations but disagreed with a recommendation that it require rotations for large bank case managers. GAO maintains that the recommendation is valid, as discussed in this report.

View GAO-25-106771. For more information, contact Michael E. Clements, (202) 512-8678, clementsm@gao.gov

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BANK SUPERVISION

Federal Reserve and FDIC Should Address Weaknesses in Their Process for Escalating Supervisory Concerns

What GAO Found

GAO identified weaknesses at the Board of Governors of the Federal Reserve System related to escalation of supervisory concerns.

- **Corporate governance and risk management.** The Federal Reserve's lack of a regulation or enforceable guidelines under section 39 of the Federal Deposit Insurance Act on corporate governance and risk management issues may have contributed to delays in taking more forceful action against Silicon Valley Bank, which failed in March 2023. Such authority may assist the Federal Reserve in taking early regulatory actions against unsafe banking practices before they compromise a bank's capital.
- **Early remediation.** The Federal Reserve has not finalized a rule required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (with an effective date of January 2012). The rule was intended to promote earlier remediation of issues at financial institutions. Federal Reserve officials stated that other rules accomplish much of what the act intended but acknowledged that substantive items from the act remain unimplemented. By implementing the act's requirements, the Federal Reserve could align its supervisory tools with congressional intent that it take early action before an institution's financial condition deteriorates.

GAO also found weaknesses in the Federal Deposit Insurance Corporation's (FDIC) escalation procedures.

- **Centralized tracking.** The absence of a centralized system for tracking supervisory recommendations—that is, communications informing an institution of changes needed in operations or financial condition—limits FDIC's ability to identify emerging risks across the banks it supervises.
- **"Vetting" meetings.** Unlike other regulators, FDIC does not have a formalized process to ensure that large bank examination teams and relevant stakeholders are consulted before making changes or decisions, such as escalation decisions. Examiners from two selected banks cited concerns about managers altering conclusions without consulting the examiners or being unreceptive to divergent views. Procedures, such as vetting meetings, requiring managers to consult with large bank examiners and other stakeholders could ensure decisions are grounded in the evidence gathered during examinations.
- **Rotation requirements.** Unlike the other regulators, FDIC does not require large bank case managers to rotate after a few years at one institution. Case managers play a key role in the examination process. GAO has previously reported that agencies can mitigate threats to independence by implementing policies that rotate staff in key decision-making roles, thereby reducing the impact of any one employee. Implementing rotation requirements could limit close relationships between FDIC large bank case managers and bank management, helping ensure large bank case managers maintain their supervisory independence.

The Office of the Comptroller of the Currency (OCC) has procedures for escalating supervisory concerns to enforcement actions, and GAO found that it generally adheres to these procedures. These procedures include collaborative decision-making processes and documentation of divergent views between examiners and supervisors.