United States Senate

WASHINGTON, DC 20510

January 25, 2024

The Honorable Michael S. Barr
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 20429

Mr. Michael J. Hsu
Acting Comptroller of the Currency
The Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Comptroller Hsu:

We are writing regarding the proposal to revise capital requirements for large U.S. banks, known as Basel III Endgame, and its impact on small businesses. More than thirty-three million small businesses employ over half of the American workforce, accounting for two out of every three jobs added in the past twenty-five years. We remain committed to ensuring that small business owners and entrepreneurs have the support to operate and grow their businesses, a critical component to the success of the American economy and an economic driver in many of our local communities.

Many American households and businesses of all sizes are still recovering from the economic pressures of the pandemic, making access to affordable credit an urgent priority for the health of the economy. According to the National Federation of Independent Business survey, eighty percent of small business owners cited high interest rates as their main concern in accessing financing. Moreover, a New York Fed Survey of Consumer Expectations indicated that the ability to obtain credit is harder now than it was a year ago rose to nearly sixty percent, the highest level in more than a decade. For many small businesses in particular, accessing the necessary capital to grow and scale their business has never been more difficult. Interest rates have jumped at a record pace to a 22-year high, lending has tightened in the Federal Reserve's ongoing effort to curb inflation and reduce demand, and rising geopolitical tensions have caused increased risk and economic uncertainty.

While we recognize the Federal Reserve's role in overseeing the stability of the U.S. financial system and safeguarding from undue risks, we are concerned about the proposed Basel III Endgame's impact on small businesses and their ability to access affordable and reliable credit in an already tightened credit environment. Many banks already consider small businesses to be bigger risks. Increasing capital requirements for banks pose undue consequences that can lead to further borrowing costs or limit the access to capital for small businesses, households, and consumers that rely on lending services. In a higher interest rate and credit tightening environment, we believe it is essential to weigh the costs and availability of credit impacted by this proposal, particularly for those that need it most.

The challenge in accessing capital is more stark among minority small business owners, who have historically lagged behind their peers in obtaining credit. According to findings from a Federal Reserve Small Business Credit Survey, minority-owned businesses are half as likely as their counterpart to receive all of the financing they sought and overall less likely to be approved for loans and lines of credit across banks and non-bank lenders. This proposal could make it even harder for underserved and minority-owned businesses to access lending services in an already difficult market. Imposing higher capital requirements may add to pre-existing disparities by leading banks to further limit lending in areas perceived riskier, who too often include small businesses and households in historically underserved communities.

The proposal could also inadvertently hinder small businesses by making it more expensive for private companies to access credit, hire, and grow. It is estimated that more than ninety-nine percent of U.S. businesses are privately held. This provision could indirectly create a disadvantage against private companies by proposing that banks treat businesses that are not listed on a national exchange, but might otherwise be deemed investment-grade, as less creditworthy than publicly traded companies. This would make it more difficult for private firms – including small businesses and mom-and-pop stores – to access financing compared to public companies. In effect, this approach would impede business entrepreneurs by favoring publicly listed companies that already fund themselves through the public capital markets.

Federal Reserve officials have noted they need to see more signs of easing price pressures before taking steps to end monetary tightening to temper inflation. With no clear end to higher borrowing costs for the American consumer, it is even more critical that the banking agencies fully assess the impact of their proposals on costs to consumers and small businesses.

Given the federal resources and investments made after the pandemic in an effort to boost and support entrepreneurs and small businesses, especially in underserved and minority communities, we must ensure a proposal such as increasing capital requirements does not undermine this progress.

While financial stability is essential, banking regulators need to make certain that proposed reforms ensure that there are no adverse impacts to our economy, consumers, and small business owners. We look forward to our continued work together to ensure the banking system is resilient, safe, equitable, and benefits all communities.

Sincerely,

Gary C. Peters
United States Senator

John Hickenlooper
United States Senator

Thomas R. Carper
United States Senator

Debbie Stabenow
United States Senator

Jacky Rosen
United States Senator