

The Honorable French Hill
Chairman
House Committee on Financial Services
2129 Rayburn House Office Building
Washington DC, 20515

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
2129 Rayburn House Office Building
Washington DC, 20515

March 2, 2026

Re: AFR opposes deregulatory bills in March 4, 2026 House Committee on Financial Services markup.

Dear Chairman Hill and Ranking Member Waters:

Americans for Financial Reform (AFR)¹ is writing to oppose the three bills (H.R. 4171, H.R. 7127, and H.R. 6955) described below that will be under consideration in the March 4, 2026 markup. Two of these bills would expand opaque, risky, lightly-regulated capital markets and off-exchange trading while preempting state blue sky laws—inviting more scams and fewer real remedies for small investors, senior citizens, and families saving for retirements. The third bill, a dangerous package of bank deregulation, would undermine core bank safeguards and supervision, pushing risk into the shadows and making the next public money-financed bailout more likely. Additionally, advancing further deregulatory legislation is particularly worrisome at a time when financial regulatory agencies are under political attack, pursuing industry-friendly agendas, starved of resources, and there is effectively no oversight for financial markets.

1. H.R. 4171, the Small Entrepreneurs Empowerment and Development (SEED) Act.

The SEED Act would create yet another exemption from registration and allow certain issuers to sell up to half a million dollars in securities without providing disclosures to their investors. [Several exemptions](#) already exist within securities laws for smaller issuers to raise capital without registering with the Securities and Exchange Commission. There is no evidence that there is a market need requiring Congress to create an additional safe harbor to permit unregistered securities offerings and sales, including through general solicitation, regardless of investor sophistication or financial wherewithal. This bill also preempts state securities regulators' ability to protect investors and consumers by stripping away state registration and notice filings. State regulators rely on these tools to know who is selling securities inside their borders. State regulators are essential in identifying scams early and protecting retail investors where federal oversight has lagged. Preempting state regulators' authority leaves more retail investors exposed to scams.

2. H.R. 7127, the Restoring Secondary Trading Market Act.

¹ AFR is a nonpartisan and nonprofit coalition founded by more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups. Formed in the wake of the 2008 crisis, AFR continues to work towards a strong, stable, and ethical financial system. We are committed to eliminating economic and racial inequity in the financial system and fighting for a just and sustainable economy. More at ourfinancialsecurity.org

This bill would preempt a broad set of blue sky laws by barring states from “directly or indirectly” limiting off-exchange secondary trading in an issuer’s securities so long as the issuer posts a defined set of “current information.” That is a solution in search of a problem. As the North American Securities Administrators Association has [noted](#), almost all states already have streamlined processes for compliance with state laws and have pathways such as “manual exemptions” to facilitate secondary market trading. This bill would weaken core frontline anti-fraud protections that require issuers to register and provide basic disclosures and that create clear liability when issuers misrepresent or withhold material facts. Preempting blue sky laws for these off-exchange trades would strip away that accountability and narrow the practical remedies available to investors when private issuers fail to meet their obligations.

3. H.R. 6955, the Main Street Capital Access Act.

This massive deregulatory package treats bank rules as burdens to be minimized rather than what they are: core safeguards that reduce the likelihood and severity of systemic financial risk, bank failures, and bailouts financed with public money—and that protect consumers from predatory practices, redlining, and other forms of racial discrimination in lending. **The ANS for the legislation further worsens the impact of this bill package.**

Sections 201–205 would raise statutory thresholds, expand “tailoring” well beyond genuinely small and simple banks, and hard-wire automatic future threshold increases—meaning fewer firms, fewer activities, and fewer risks would sit inside baseline guardrails even as the system becomes more complex and interconnected. The combined effect is to encourage higher leverage and risk-taking, thinner cushions of safety, and looser prudential standards. It means returning to a pre-2008 pattern where risk migrates out of view, problems build for years at midsize and large institutions, and the public is left holding the bag when things break.

The supervision and governance sections (301–305; 401–404) would tie regulators’ hands by narrowing what examiners can consider, slowing the supervisory cycle, and giving banks more ways to appeal and delay findings. At the same time, the bill would weaken regulatory independence and reduce transparency and accountability tools—making it harder to spot problems early and act before they turn into crises.

Finally, the funding and competition provisions (503; 601; 604; 801) would add new stress points by loosening limits on volatile deposits, accelerating bank-fintech/crypto arrangements, and making it easier to rubber stamp mergers and concentration—while expanding merchant banking ties that blur the line between banking and commerce and increase conflicts of interest and complexity.

Section by section concerns:

Sec. 201. Taking Account of Institutions with Low Operation Risk.

This section would significantly weaken financial regulation by mandating that agencies prioritize reducing compliance costs for financial institutions over protecting consumers and ensuring financial stability. The section would allow even large banks to challenge regulations in court by

claiming undue burden, potentially overturning existing Dodd-Frank rules and hindering future regulatory actions. Regulators already tailor rules based on institution size and risk, which makes this legislation unnecessary and potentially harmful by creating additional legal and procedural barriers to effective oversight.

Sec. 202. Small Bank Holding Company Relief.

This section would double the consolidated asset threshold under the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement from \$3 billion to \$6 billion, posing risks to subsidiary small banks and the financial system. This change would allow a broader range of bank holding companies to operate with higher levels of debt and be exempt from certain capital and leverage requirements, particularly in order to facilitate mergers. The Federal Reserve has long recognized that bank holding companies should “serve as a source of strength for their subsidiary banks.” Allowing parent holding companies to operate with higher levels of debt would undermine that principle and, instead of “a source of strength,” holding companies may even drain the resources of the subsidiary banks in order to service excessive debt. By allowing larger institutions to operate under looser standards, this section could dangerously incentivize increased leverage, reduce bank safety and soundness, and accelerate bank consolidation. Additionally, this threshold has already been eroded over the past decade, raising it from \$500 million to \$1 billion in 2014, and again to \$3 billion in 2018.

Sec. 203. Community Bank Leverage Improvement and Flexibility for Transparency.

This section would decrease resilience and increase the risk that many smaller banks could falter or fail during a period of financial or economic stress. Waves of smaller bank failures can have significant impacts on the Deposit Insurance Fund, pose risks to the stability of the financial system, and significantly harm the economy, as happened during the S&L crisis. The extent to which banks are overleveraged is the single most reliable and largest predictor of bank failure. Reducing the leverage ratio makes it more likely that more banks will founder during economic stress.

Sec. 204. Tailoring and Indexing Enhanced Regulations.

This section would raise asset thresholds for enhanced prudential oversight that would let problems fester unaddressed at large institutions that could have significant systemic implications. The new \$370 billion threshold would be higher than all of the biggest bank failures in U.S. history except one (WaMu was \$307 billion in 2008, which would be \$455 billion today). The last time the threshold was raised, it reduced oversight at Silicon Valley and First Republic banks which subsequently failed (the 2nd and 3rd largest failures in U.S. history).

Sec. 205. Community Bank Regulatory Tailoring.

Under the pretext of relief for community banks, this section would rewrite a wide swath of federal banking, consumer financial protection, and fair lending laws by simultaneously raising three dozen statutory thresholds and then locking in statutory future threshold increases every five years. The practical effect would be to broadly expand the number and size of banks that are excluded from regulatory oversight. The threshold increases would inappropriately reduce compliance under statutes that were designed for genuinely smaller and simpler banking institutions with limited

systemic footprint. The section would reduce the number of institutions and activities subject to baseline guardrails, weaken transparency, increase conflict of interests, and blunt early warning and accountability tools embedded in the Federal Deposit Insurance Corporation (FDIC) framework. At a time of overlapping risks, this kind of across-the-board threshold inflation is likely to lead to supervisory and regulatory gaps and obscure risk from view until it is too late. The result would be a banking system that is more opaque and less resilient when conditions worsen—increasing financial fragility and the probability that losses will need to be socialized through emergency interventions or outright bailouts.

This section would also raise the Volcker Rule’s community bank exclusion from \$10 billion to \$15 billion in total consolidated assets, substantially expanding the set of publicly-insured banking organizations that can operate outside the rule’s proprietary trading and covered fund restrictions. The practical effect would be to weaken the post-crisis firewall that is supposed to keep commercial banking separate from speculative trading and risky private funds exposures. This section would free two dozen banks—with more than \$300 billion in combined total consolidated assets—from Volcker rule constraints, creating additional room for regulatory arbitrage well beyond genuinely small, simple institutions.

This section would also weaken Home Mortgage Disclosure Act (HMDA) coverage and Community Reinvestment Act (CRA) applicability, undermining fair lending accountability and weakening critical tools that help detect and deter redlining and other forms of racial discrimination in mortgage and small business lending

Sec. 301. Halting Uncertain Methods and Practices in Supervision.

This section would undermine effective bank supervision by lengthening exam cycles and restricting the CAMELS rating system to only “objective” criteria, sidelining important qualitative factors like management quality and reputational risk. These factors are essential in identifying and deterring harmful practices, such as predatory lending, money laundering, and risky environmental exposures. While not easily quantifiable, sound management and public confidence have repeatedly proven vital to bank stability, as evidenced by failures like Riggs Bank, SVB, and Credit Suisse. The proposed changes would not eliminate risk but would instead conceal real risks from regulators, making supervision more mechanical and increasing the likelihood of future financial crises.

Sec. 302. Fair Audits and Inspections for Regulators’ Exams.

This section would significantly weaken bank supervision by allowing banks to appeal any supervisory determination to a new external “Office of Independent Examination Review,” which would conduct a de novo review without deference to the original findings. This additional appeals process, layered atop existing mechanisms, would enable banks, especially large banks, to challenge numerous supervisory findings, thereby impeding effective oversight. Such changes would undermine the post-2008 financial crisis regulatory framework, increasing systemic risks and exposing the public to potential abuses. Robust supervision is necessary to maintain financial stability and protect consumers and this section undermines it.

Sec. 305. Financial Integrity and Regulation Management.

This section would undermine effective bank supervision by prohibiting regulators from considering reputational risk—a critical factor in assessing a bank’s safety and soundness. Reputational damage has historically contributed to instability in major banks. By eliminating this consideration, the FIRM Act would hinder regulators’ ability to identify and mitigate risks, potentially increasing the incidence of money laundering, financial fraud and exploitation, national security threats, and bank failures. Please also [see this letter](#) signed by 25 public interest organizations opposing the FIRM Act (H.R. 2702).

Sec. 401. FDIC Board Accountability.

This section would alter the criteria to serve on the FDIC, reduce the consideration of consumer protection and enforcement of consumer protection and consideration of regulatory compliance, and erode the authority of the Consumer Financial Protection Bureau’s Director at the FDIC.

Sec. 402. Stop Agency Fiat Enforcement of Guidance.

This section would directly undermine the independence of the financial regulators. Congress established our federal financial regulators to be independent, and intended these regulators to have discrete regulatory oversight without direct influence or control from the President or any part of the Executive Branch, including the OMB. By subjugating the financial regulators to the OMB oversight and approval, Congress would be gutting the independence of these regulators, eliminating any ability for these agencies’ actions to be considered impartial, and would be undermining the foundations of our financial system, imperiling our economic health. AFR and 30 civil rights, labor, community, consumer protection, and economic justice advocates [previously wrote](#) to Congress to express grave concern about the attacks on independent financial regulatory agencies. This legislation seeks to codify those harms and must be opposed.

Sec. 403. Regulatory Efficiency, Verification, Itemization, and Enhanced Workflow.

This section would increase the frequency of the unnecessary regulatory lookbacks as well as a cumulative assessment of so-called regulatory burden, without any assessment of the benefits of safeguards to financial stability and consumers.

Sec. 404. American Financial Institution Regulatory Sovereignty and Transparency.

This section would hamstring U.S. banking regulators participation in global financial regulatory forums that are critical to preventing overseas financial crises from unduly impacting U.S. financial markets and institutions. This is a thinly-veiled effort to circumscribe the U.S. banking regulators from working towards shared financial stability regulatory approaches that could safeguard global financial markets from cross-border financial contagions that could threaten the stability and resilience of U.S. financial institutions

Sec. 503. Community Bank Deposit Access.

This section would allow smaller banks to amass up to 20 percent of their liabilities in custodial deposits and exempt them from brokered deposit restrictions and allow larger banks that are well capitalized or receive a waiver do so as well. This could create significant risks to safety and

soundness as well as financial stability. Further, the measure seems designed to supercharge bank-fintech partnerships and bank-crypto arrangements that could create significant risk management and regulatory compliance problems.

Sec. 601. Bank Competition Modernization.

This section would entirely eliminate merger review for any combination under \$10 billion which would be especially damaging for smaller towns and rural communities. This would make it possible for banks to merge to monopoly in smaller, more rural communities without *any* assessment of whether the concentration in small markets would raise prices, reduce quality, and/or reduce access to banking services. These anticompetitive problems will be more acute for those with limited transportation and for services that are more commonly received at community banks, like small business loans and farm loans.

Sec. 604. Bank Failure Prevention.

This section would weaken oversight of bank mergers by imposing a strict 90-day deadline for regulators to approve or deny applications, regardless of whether the application is complete or all necessary information has been provided. This would limit regulators' ability to consider input from affected stakeholders and properly evaluate the risks of consolidation. Bank merger scrutiny needs to become more robust, and this section would move in the opposite direction—further enabling a pattern of rubber-stamping mergers, increasing costs for depositors, customers, and small businesses as well as heightening systemic risk.

Sec. 801. Merchant Banking Modernization.

This section would extend the alliance between the megabanks and merchant banking that can create anticompetitive problems and complex combinations of banking and commerce, as happened when JPMorgan was [charged with manipulating aluminum prices](#) through its merchant bank affiliates' ownership of an aluminum warehouse. These merchant banking partnerships are more likely to run afoul of the mixing of banking and commerce and really benefit the biggest banks. There is no need to extend this by 50 percent. Moreover, it is deceptive to suggest that banks need merchant banks to make affordable housing and small business investments, because most banks can and do extend commercial credit for these purposes already.

For the reasons above, we urge you to oppose these three dangerous deregulatory bills and protect small investors, retirees, and the integrity and stability of our financial system. Should you have any questions, please contact Oscar Valdés Viera, AFR's private equity and capital markets policy analyst at oscar@ourfinancialsecurity.org.

Sincerely,

Americans for Financial Reform