



June 18, 2026

Benjamin W. McDonough

Secretary

Docket No. 1889 and RIN 7100-AH22; No. R-1887 and RIN 7100-AH20; and No. R-1888, and RIN 7100-AH21.

Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Adam Cohen

Chief Counsel

Attention: Comment Processing - Docket ID OCC-2026-0265 and OCC-2026-0034

Office of the Comptroller of the Currency

400 7th Street, SW, Suite 3E-218

Washington, DC 20219

Jennifer M. Jones

Deputy Executive Secretary

Attention: Comments/Legal OES RIN 3064-AF29 and 3064-AG23

Federal Deposit Insurance Corporation

550 17th Street NW

Washington, DC 20429

***Re: (1) Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15). (2) Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations. (3) Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets***

Dear Secretary McDonough, Chief Counsel Cohen, and Deputy Executive Secretary Jones:

Americans for Financial Reform Education Fund (AFREF) strongly opposes the federal bank regulatory agencies' proposals to weaken the resilience of the financial system and make the economy more vulnerable to future crises while allowing big banks to return more money to wealthy shareholders. AFREF is a nonpartisan and nonprofit coalition founded by more than 200 civil rights, consumer, labor, investor, faith-based, and civic and community groups and is dedicated to advocating for policies that shape a financial sector that serves workers, communities and the real economy, and provides a foundation for advancing economic and racial justice.

The bank regulators are proposing to substantially erode the loss-absorbing capacity of the banking system which amounts to a drastic overhaul of the longstanding capital framework. This deregulatory package was proposed at a most inappropriate and perilous moment. Financial fragility

is building across the system. Banks face growing exposure to nonbank finance, private credit is facing a crisis of confidence, crypto firms are being pushed deeper into the banking system, and the bubble from inflated AI-related valuations and leverage is threatening to pop.

As those risks mount, the proposed rules would dismantle the most basic cushion of safety designed to allow banks to withstand shocks, protect depositors, and keep lending through stress instead of transmitting losses across the broader economy. This proposal must be considered in light of the broader range of deregulation at federal banking agencies. The total impact of the deregulatory effort is more dangerous than the sum of its deregulatory parts.

As noted in Governor Barr’s dissent, the proposed weakening of the capital standards, when combined with the proposed stress test changes, would lower common equity tier 1 capital requirements for the largest banks by 4.8 percent; when combined with the recent enhanced supplementary leverage ratio changes, the reduction in tier 1 requirements for global systemically important banks (G-SIBs) would decrease by 6 percent, or roughly \$60 billion.<sup>1</sup>

That is far more than the “modestly decrease” or “modestly reduce” characterization in the proposals press release.<sup>2</sup> It is a significant reduction in the buffers designed to keep bank distress from becoming an economy-wide crisis and it increases the likelihood of public-money bailouts in the event of a crisis. As the agencies noted (but dismissed) in the G-SIB surcharge proposal, “the academic and policy literature ... indicate that the potential reduction in loss-absorbing capacity may increase risks to safety and soundness and financial stability, as well as associated social costs.”<sup>3</sup>

One of the proposals would also recalculate the G-SIB surcharge resulting in a reduction of capital safety cushions for too-big-to-fail banks by 3.8 percent, or about \$33 billion.<sup>4</sup> The large bank proposal would be a sharp departure downward from the internationally-agreed Basel III standards in numerous ways, including by rejecting a mandatory floor on risk-weighted assets—i.e., the output floor—that would set a minimum capital requirement so that banks cannot use their own internal risk models and assumptions to reduce required capital below a reasonable standardized baseline. The proposals would also undermine the capital computations for securitizations such as on the very same derivatives, credit default swaps, and residential mortgage backed securities products that brought down the world economy in 2008.

One of the core lessons of the global financial crisis was that, left to their own devices, bank executives can make complex trading positions, securitizations, derivatives, and internally modeled risks look manageable right up until the moment of failure. The capital framework should not

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<sup>1</sup> Board of Governors of the Federal Reserve System. “[Statement on Bank Capital Proposals by Governor Michael S. Barr](#).” Joint Press Release. March 19, 2026 .

<sup>2</sup> Federal Deposit Insurance Corporation. Federal Reserve Board. Office of the Comptroller of the Currency. “[Agencies request comment on proposals to modernize the regulatory capital framework and maintain the strength of the banking system](#).” Joint Press Release. March 19, 2026.

<sup>3</sup> [91 Fed. Reg. 59](#) at 14940.

<sup>4</sup> Board of Governors of the Federal Reserve System. “[Statement on Bank Capital Proposals by Governor Michael S. Barr](#).” Joint Press Release. March 19, 2026 .

depend on banks' optimism about their ability to measure their own risks. It should require robust buffers for the possibility that models are wrong, correlations rise, asset values fall together, liquidity disappears, and risks that look separate emerge connected.

The proposals' single set of risk-based requirements—or “single stack”—is also a mistake. Requiring a few of the largest banks in the world—the G-SIBs plus other institutions—with over \$700 billion in assets or significant trading or international activities—to calculate risk-weighted assets under only one approach instead of two, as is currently required, would eliminate the benefits from multiple ways of assessing risk. The largest banks have the resources to calculate capital requirements under more than one approach, and the public has a strong interest in ensuring that capital requirements are not minimized through regulatory-framework arbitrage.

**The proposals increase the likelihood of financial crises with widespread costs.** Economic recessions that follow financial crises are typically deeper, longer, and harder to recover from than ordinary downturns because credit losses, bank failures, falling asset prices, and household and business deleveraging reinforce one another.<sup>5</sup> The large bank failures and financial sector free-fall during and after the 2008 crisis set back the U.S. economy for years, cost millions of jobs, suppressed household earnings for years, erased retirement and household savings, and destroyed homeownership for millions of families. The stock market lost half its value and total household wealth fell by \$17 trillion by 2011.<sup>6</sup> Weakening capital rules now would repeat the same policy mistake: assuming that risks are manageable because conditions appear stable, then discovering too late that the safeguards were too flimsy.

**The weakening of the capital requirements cannot be evaluated in a vacuum.** They are part of a broader deregulatory agenda that is reducing both the resilience of banks and the ability of regulators and the public to evaluate risks clearly. Recent actions and proposals include weakening the enhanced supplementary leverage ratio;<sup>7</sup> changing the Large Financial Institution rating system in ways that make it easier for large firms to retain favorable supervisory status despite serious weaknesses;<sup>8</sup> reducing the role of reputational risk in supervision;<sup>9</sup> weakening oversight of nonbank

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<sup>5</sup> Krishnamurthy, Arvind and Tyler Muir. National Bureau of Economic Research. “[How Credit Cycles across a Financial Crisis](#).” Working Paper No. 23850. September 2020; International Monetary Fund. *World Economic Outlook: Crisis and Recovery*. Chapter 3. “[From Recession to Recovery: How Soon and How Strong?](#)” April 2009.

<sup>6</sup> Financial Crisis Inquiry Commission. “[The Financial Crisis Inquiry Report](#).” January 2011 at xviii; Emmons, William R. and Bryan J. Noeth. Federal Reserve Bank of St. Louis. “[Household financial stability: Who suffered most from the crisis](#).” July 1, 2012; Greenstone, Michael et al. Brookings Institution. “[Unemployment and Earnings Losses: A Look at Long-Term Impacts of the Great Recession on American Workers](#).” November 4, 2011; Adejumo, Vincent. “[African Americans' economic setbacks from the Great Recession are ongoing — and could be repeated](#).” *The Conversation*. February 5, 2019.

<sup>7</sup> See, Americans for Financial Reform Education Fund. “[AFREF Letter Opposing Weakening Bank Capital Requirements That Could Increase the Risk of Financial Crisis](#).” August 26, 2026.

<sup>8</sup> See, Warren, Elizabeth. Ranking Member. Committee on Banking, Housing, and Urban Affairs. [Letter to The Honorable Michelle Bowman](#). September 23, 2025.

<sup>9</sup> See, Americans for Financial Reform Education Fund. [Letter Re: Prohibition on Use of Reputation Risk by Regulators; Department of the Treasury Docket ID OCC-2025-0142; Department of the Treasury RIN 1557-AF34; Federal Deposit Insurance Corporation RIN 3064-AG12](#). December 22, 2025.

financial firms;<sup>10</sup> making stress tests easier to anticipate and game;<sup>11</sup> and opening new bank-charter pathways for crypto, fintech, and Big Tech firms.<sup>12</sup>

Each of these actions is risky on its own. Together, they are far more dangerous than the sum of their parts. Capital rules, leverage requirements, stress testing, supervision, and systemic-risk oversight are meant to work as overlapping and reinforcing safeguards. By weakening several of them at once, regulators are reducing the whole system's margin of error in order to save compliance costs for multibillion-dollar institutions.

**Capital is the bank's own stake in its operations, not a rainy-day fund.** Capital is not cash sitting idle in a vault. It is the bank's own funding, available to absorb losses when risks materialize. Strong capital requirements do not prevent banks from lending; they make banks better able to lend through stress instead of pulling back when households and small businesses most need credit. Stanford University Professor Anat R. Admati succinctly deconstructs the deception on what capital is and is not:

Many believe that bank capital is analogous to cash reserves or a rainy-day fund, and that capital requirements force banks to 'set aside' or 'hold in reserve' idle cash that cannot be used to make loans or other investments. This suggestion is patently false. Capital requirements do not require banks to hold anything; they only concern the source of funding banks use and the extent to which investments are funded by equity.<sup>13</sup>

Capital rules solely concern the source of funds — whether they are from the bank or are borrowed. Arguments that higher equity capital is too costly or will constrain lending are myths.<sup>14</sup> Research from the Bank for International Settlements shows that better-capitalized banks actually have lower funding costs and lend more, not less.<sup>15</sup> Bank capital requirements essentially direct banks to have their own skin in the game and rely less on borrowed funds. As Professors Steven Cecchetti and Kim Schoenholtz noted:

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<sup>10</sup> See, Americans for Financial Reform Education Fund. [Letter to the U.S. Department of the Treasury Re: Docket ID FSOC-2026-0034; Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies](#). May 14, 2026.

<sup>11</sup> See, Better Markets. [Letter to the Board of Governors of the Federal Reserve System Re: Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios; Modifications to the Capital Planning and Stress Capital Buffer Requirement Rule, Enhanced Prudential Standards Rule, and Regulation LL; Docket No. R-1873; RIN 7100-AH05; Document No. 2025-20211; 90 Fed. Reg. 51856 \(Nov. 18, 2025\)](#). February 20, 2026.

<sup>12</sup> See, Americans for Financial Reform Education Fund. [Letter to the Office of the Comptroller of the Currency Re: National Bank Chartering Docket ID No. OCC-2025-0768/RIN-1557-AF47](#). February 11, 2026.

<sup>13</sup> Admati, Anat R. "[The missed opportunity and challenge of capital regulation](#)." National Institute Economic Review. Not.235. February 2016 at R5.

<sup>14</sup> Admati, Anat R. and Martin F. Hellwig. "[The Parade of the Bankers' New Clothes Continues: 44 Flawed Claims Debunked](#)." January 4, 2024.

<sup>15</sup> A BIS study finds that a one-percentage-point increase in equity-to-assets reduces bank funding costs by 4 basis points and increases loan growth by 0.6 percentage points: Gambacorta, Leonardo and Hyun Song Shin. "[Why Bank Capital Matters for Monetary Policy](#)." Bank of International Settlements. BIS Working Papers 558. April 7, 2016.

The primary debate is over regulators' call to raise capital requirements—that is, increase the fraction of banks' funding that comes from shareholders (equity) rather than from depositors or bondholders (borrowing). Bank advocates argue that this equity is somehow idle, so any increase in required capital wastes resources and depresses lending, reducing the ability of households and businesses to finance essential activities.... This is wrong. The truth is that capital is never a wasted resource. It is a source of funds that the bank uses to provide loans. A well-capitalized bank has more resources to supply credit, not fewer.<sup>16</sup>

The agencies should also reject the bank lobby idea that lower capital requirements are necessary to bring lending back into the regulated banking system. This race-to-the-bottom approach is reflected in the proposed rules.<sup>17</sup> But risk does not disappear when it moves between banks and nonbanks. Weakening bank capital requirements in response to shadow banking growth risks creating the worst of both worlds: banks with thinner loss-absorbing buffers and deeper exposures to loose lending and ties to opaque nonbank lenders, private funds, and other intermediaries.

### **Recent private credit developments reinforce the shadow banking is not a model to imitate.**

The proposals explicitly aim to make regulated banks more competitive with shadow banking.<sup>18</sup> But after years of rapid growth, private credit funds are now facing mounting stress with weaker repayment rates, rising defaults, inflated valuations, redemption pressure from investors, and growing reliance on refinancings and asset rollovers to keep capital moving through the system. As private equity funds struggle to sell portfolio companies and return cash to investors, private credit has increasingly been used to sustain the broader private-markets ecosystem through new loans, refinancings, and continuation fund-style transactions.<sup>19</sup> In some cases, underperforming loans are being rolled into new vehicles with new investors, allowing earlier investors to be repaid without waiting for the underlying loans to be repaid or refinanced. These dynamics underscore the fragility of the private credit model, not its superiority.

Private credit is also interconnected with banks through credit lines, subscription facilities, asset-backed structures, derivatives, warehouse financing, securitizations, and exposures to the same

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<sup>16</sup> Cecchetti, Steven and Kim Schoenholtz. "[Ignore the bank lobby, regulators. It's high time for banking reform.](#)" *Washington Post*. January 10, 2024.

<sup>17</sup> E.g., "The proposal may slow or partially reverse the migration of lending activity from the banking sector to the nonbank sector." [91 Fed. Reg. 59](#) at 15391.

<sup>18</sup> "The increased competitiveness brought about by the proposal may slow or even partially reverse the migration of activity to the nonbank sector." [91 Fed. Reg. 59](#) at 15387.

<sup>19</sup> Wirz, Matt. "[Even More Investors Want Out of Private Credit.](#)" *Wall Street Journal Pro*. June 18, 2026; Fishlow, Olivia et al. "[Private Credit Rolls Loans Into New Funds to Repay Investors.](#)" *Bloomberg*. June 5, 2025; Tergesen, Anne and Dylan Tokar. "[Private Credit Is Reeling, But New Rule May Allow It Into 401\(k\)s.](#)" *Wall Street Journal*. March 30, 2026; Wirz, Matt. "[KKR Private-Credit Fund Takes \\$560 Million Loss.](#)" *Wall Street Journal*. May 11, 2026; Rovnick, Naomi. "[Private credit funds slash loan values as borrower stress rises.](#)" May 12, 2026; Sarin, Natasha. "[This Is Starting to Look Like a Slow-Motion Bank Run.](#)" *New York Times*. April 6, 2026.

borrowers.<sup>20</sup> Lowering bank capital requirements while private credit is imploding would increase the probability that nonbank losses ripple through the banking system.

**The agencies should also consider how these capital reductions interact with the rapid growth of AI-related financing.** The Federal Reserve Bank of Chicago has noted that AI has entered bank commercial real estate exposure through data-center financing, and that banks have become increasingly involved in financing AI-adjacent borrowers and data centers.<sup>21</sup> The agencies should consider that banks' already large, correlated, fast-growing exposures to the AI boom deserve stronger safeguards, not weaker ones. If AI-related valuations fall, data-center prospectuses disappoint, or debt-financed projects struggle to refinance, losses could appear across multiple bank and nonbank channels at once. And the capital framework should be designed for that possibility.

**Crypto adds another cautionary dimension.** The banking agencies and other regulators are making it easier for crypto firms and crypto-linked business models to obtain bank charters, access the payments system, and become more deeply embedded in traditional finance. Crypto assets remain volatile, prone to manipulation, and closely associated with scams, hacks, fraud, and abuse. The failures of crypto-linked banks in 2023 showed that crypto exposures can interact with concentrated deposits, interest rate risk, fast-moving withdrawals, and panics. Inviting more crypto risk into the banking system while reducing capital buffers is a dangerous proposition.

## Conclusion

The proposals are likely to free up capital not for productive lending or to lubricate bond markets, but for capital distributions to wealthy shareholders and executives. When regulators lower capital requirements, they make it easier for banks to send that capital out the door through stock buybacks, dividends, and executive compensation. In practice, that means shifting resources away from loss absorption and institutional resilience and toward Wall Street payouts. The benefits would flow narrowly to bank investors and executives, while the costs of a more fragile banking system would be borne by workers, families, businesses, and the broader economy when distress hits.

The agencies should withdraw the proposals so that modernization of the capital framework strengthens the resilience of the banking system. If you have any questions, please contact Oscar Valdés Viera, AFREF Senior Policy Analyst for Private Equity and Capital Markets at [oscar@ourfinancialsecurity.org](mailto:oscar@ourfinancialsecurity.org).

Sincerely,

Americans for Financial Reform Education Fund

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<sup>20</sup> Berrospide, Jose et. al. Board of Governors of the Federal Reserve System. "[Bank Lending to Private Credit: Size, Characteristics, and Financial Stability Implications](#)." FEDS Notes. May 23, 2025; Pandolfo, Jordan. Federal Reserve Bank of Kansas City. "[Banks and Private Credit: Competitors or Partners?](#)" August 6, 2025; Financial Stability Board. "[Report on Vulnerabilities in Private Credit](#)." May 6, 2026.

<sup>21</sup> Cohen, Greg, Cooper Killen, and Simon Lau. Federal Reserve Bank of Chicago. "[Tail Risk for Banks Posed by Investments in Generative Artificial Intelligence](#)." Chicago Fed Insights. February 2026.