Federal Reserve: Policy Issues in the 119th Congress

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SUMMARY

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The responsibilities of the Federal Reserve (Fed) fall into four main categories: monetary policy, regulation of certain banks and other financial firms, provision and oversight of certain interbank payment systems, and lender of last resort. This report summarizes issues for Congress in each of these areas, as well as issues surrounding independence and congressional oversight.

Monetary policy. The Fed has a statutory mandate of maximum employment and price stability. In normal conditions, the Fed conducts monetary policy by targeting the federal funds rate, a short-term interest rate. The Fed raised short-term interest rates between March 2022 and July 2023 in an effort to reduce inflation, which ran well above the Fed's 2% inflation target from 2021 to 2023. As inflation has fallen, the Fed began reducing interest rates in September 2024—although inflation has continued to exceed 2%.

Following past economic crises, the Fed has made large-scale asset purchases, expanding its balance sheet as an additional monetary policy tool. The balance sheet almost doubled to $8.9 trillion following the COVID-19 pandemic. The Fed then reduced the size of the balance sheet by $2.4 trillion between 2022 and 2025. The balance sheet is now growing again but at a slower pace than when it has been used to respond to crises. The Fed finances its operations primarily with the income earned on these assets and remits its net income to the Treasury. Higher interest rates caused its net income to turn negative for the first time in decades, temporarily halting most remittances to Treasury. An amendment to the Senate's version of the FY2026 National Defense Authorization Act (S. 2296) that would prohibit the Fed from paying interest on bank reserves was not adopted.

Regulation. The Fed regulates bank holding companies, some state-chartered banks, and some U.S. operations of foreign banks. The Fed regulates large bank holding companies under enhanced prudential standards. Under a new vice chair for supervision, the Fed has proposed and finalized regulatory relief for banks through rules, guidance, and revised supervisory practices. These include capital relief for community banks and the largest banks, rescinding climate risk guidance, removing references to reputational risk from guidance, revising the rating system so that fewer large banks are poorly rated, and expanding banks' ability to engage with crypto.

Payments. The Fed operates parts of the wholesale payment system in competition with the private sector while also setting risk-management standards for private wholesale payment system operators. The Fed has been reluctant to give nontraditional payment and crypto firms direct access to its payment system but has proposed offering payment accounts with limited features (sometimes called "skinny master accounts") to such firms. The House has passed H.R. 1919, H.R. 3633, and H.R. 3838 to prohibit the Fed from issuing a central bank digital currency (or "digital dollar"). Under the GENIUS Act (P.L. 119-27), banks under the Fed's jurisdiction may issue payment stablecoins. The Fed also serves on the Stablecoin Certification Review Committee.

Lender of last resort. The Fed was created as a "lender of last resort" to provide liquidity to the banking system during periods of financial instability. The Fed created emergency facilities to support the financial system during the 2007-2009 financial crisis, the COVID-19 pandemic, and bank failures in 2023. Borrowing—and problems with borrowing—by failed banks in 2023 have raised questions about its role as lender of last resort.

Independence. The Fed has significant independence from Congress and the Administration to fulfill its duties, but Congress retains oversight responsibilities. The goals of independence and oversight can be in tension, and Congress has grappled with balancing the two through proposals to increase public disclosure and accountability. President Trump has vocally criticized the Fed's monetary policy decisions and has attempted to reduce the Fed's independence and to remove for cause a governor whom he did not appoint. The President will have the opportunity to select a new chair (subject to Senate confirmation) in 2026, and some observers are concerned that he intends to select a chair who will not act independently.

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Introduction

The Federal Reserve Act of 1913 (12 U.S.C. §§221 et seq.) created the Federal Reserve (Fed) as the nation's central bank. The Fed's responsibilities fall into four main categories: monetary policy, regulation of certain banks and other financial firms, provision and oversight of certain payment systems, and lender of last resort. The Fed has significant independence from Congress and the Administration to fulfill its duties, but Congress retains oversight responsibilities. This report provides an overview of current policy issues in each of those four areas, as well as oversight and independence. Each section provides background, recent Fed or congressional action, and policy questions for Congress.

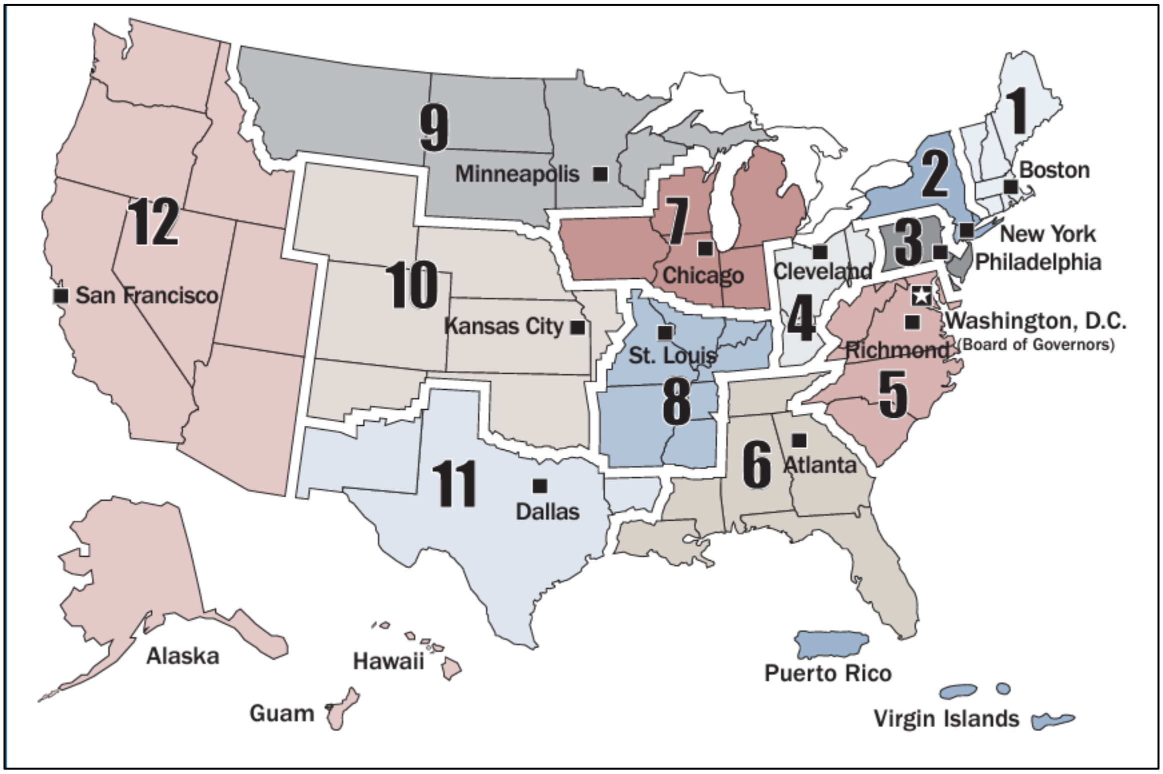
The Fed's powers and mission have evolved since its creation. Its independence gives it latitude to act quickly and decisively. For that reason (and its status as off budget and self-financed), Congress has often expressed interest in expanding the Fed's responsibilities into new public policy areas. However, the Fed's tools are limited. Expanding the Fed's responsibilities into new areas necessarily causes the Fed to grapple with more political trade-offs, which makes it harder to justify its independence in a democratic system. Because its tools are limited, giving the Fed new responsibilities can also dilute its effectiveness.

Organizational Structure of the Fed

The Federal Reserve System is composed of 12 regional Federal Reserve banks overseen by the Board of Governors in Washington, DC. **Figure 1** illustrates the city in which each bank is headquartered and the area of each bank's jurisdiction. The creators of the Fed intended to create a decentralized system to allay concerns that power would be concentrated in New York, the primary financial center. Contradictions between this desire and the duties of the Fed (such as monetary policy), which were more effectively carried out when centralized, led to a series of reforms in the early years to make the system more centralized.[1] Competing desires for a centralized system and a decentralized system are at the root of some policy proposals to change the Fed's structure.

[1] Roger Lowenstein, *America's Bank* (Penguin, 2015).

Figure 1. Federal Reserve Districts



Source: Federal Reserve.

The board is composed of seven governors nominated by the President and confirmed by the Senate. Under Title 12, Section 241, of the *U.S. Code*, the President is required to make selections "with a due regard to a fair representation of financial, agricultural, industrial, and commercial interests" and may not select more than one nominee from any of the 12 Federal Reserve districts. One of the governors must have "primary experience working in or supervising community banks." The President nominates (and the Senate confirms) a chair and two vice chairs from among the governors, one of whom is responsible for supervision of the entities the Fed regulates. The governors serve nonrenewable 14-year terms, but the chair and vice chairs serve renewable four-year terms. There is no limit on the number of board members that can be chosen from one political party (officially, board members do not have any political affiliation), unlike many other federal regulators and independent agencies. Regional bank presidents are chosen by their boards with the approval of the Board of Governors.

Long terms and a full board mean that President Trump may have the opportunity to appoint only two governors during his current term. However, in practice, few governors serve out their full 14-year terms, so vacancies may arise sooner. The President can choose whether to renominate the chair and two vice chairs sooner—Jerome Powell's term as chair ends in 2026, Michelle Bowman's term as vice chair for supervision ends in 2029, and Philip Jefferson's term as vice chair ends in 2027. All three have separate terms as governors that expire after their respective chair/vice chair terms end.

In general, policy is formulated by the Board of Governors and carried out by the regional banks, with one notable exception: Monetary policy is made by the Federal Open Market Committee (FOMC), which is composed of the seven governors, the president of the New York Fed, and four other regional bank presidents. Representation for these four seats rotates among the other 11 regional banks. The FOMC is chaired by the Fed chair.

The Fed's budget is not subject to the congressional appropriation or authorization processes. The Fed is funded by fees paid by financial institutions that use its services and mostly by the income generated by securities it owns. As discussed below,[2] its income typically exceeds its expenses, and it remits most of its net income to the Treasury, where it is added to general revenues. By statute, the Consumer Financial Protection Bureau (CFPB) is funded by a transfer from the Fed in an amount set by the CFPB director. In the 119th Congress, P.L. 119-21 reduced the statutory cap on this transfer.

The Fed's capital consists of stock and a surplus. The surplus is capped at $6.825 billion by law. (Congress reduced the Fed's financial surplus as a budgetary "pay for" in P.L. 114-94, P.L. 115-123, and P.L. 115-174.[3]) Private banks regulated by the Fed must buy stock in the Fed to become *member banks*. Membership is mandatory for federally chartered banks but optional for state-chartered banks. Unlike common stock in a private company, this stock does not confer ownership control. However, it does provide the banks with the right to choose two-thirds of the directors of the boards of the 12 Fed regional banks (of whom one-third are representatives of the banking industry and one-third are representatives of other interests). The stock also pays a dividend set in statute. As amended by P.L. 114-94, the dividend is 6% for banks with less than $10 billion in assets (as of 2015 and adjusted for inflation thereafter)—above market rates in recent decades—and the lower of 6% or the 10-year Treasury yield for banks with more than $10 billion in assets.

In the 119th Congress, the House Financial Services Committee ordered to be reported an amendment in the nature of a substitute to H.R. 6554. The bill would give governors with community bank experience authority to develop community bank regulatory policies in consultation with the vice chair for supervision (if those individuals are not the same—as is the case presently) and testify before the committees of jurisdiction semiannually. The bill defines *community bank* as one with less than $17 billion in assets, with annual adjustments for nominal growth in gross domestic product (GDP).[4]

Congress has debated structural changes to the Fed.[5] Policy issues for Congress going forward could include the following:

- Should the current number and location of Federal Reserve banks, which has not changed since their creation over a hundred years ago, be updated to reflect economic and population shifts since then?
- Should smaller banks receive a dividend fixed in statute, or should their dividend adjust with market interest rates, as is the case for larger banks?
- Should banks have seats on the Federal Reserve banks' boards when they are regulated by the Fed, given the inherent conflict of interest in such an arrangement? Or are current safeguards sufficient?

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[2] See the section titled "Losses on the Fed's Balance Sheet."

[3] The acts that statutorily reduced the Fed's surplus are listed at Board of Governors of the Federal Reserve System, "Federal Reserve Board Announces Reserve Bank Income and Expense Data and Transfers to the Treasury for 2021," press release, January 14, 2022, https://www.federalreserve.gov/newsevents/pressreleases/other20220114a.htm.

[4] The amendment is available at https://docs.house.gov/meetings/BA/BA00/20251216/118780/BILLS-119-HR6554-D000594-Amdt-16.pdf.

[5] In the 118th Congress, the House passed H.R. 4790, which would have, among other things, eliminated the position of vice chair for supervision.

- Should Federal Reserve regional banks conduct research and promote policies outside the scope of the statutory duties of the Federal Reserve System? If not, are new statutory restrictions appropriate?
- Should the geographic diversity requirements for board members be repealed or be interpreted more strictly than they have been in practice? Should professional qualification requirements be more specific, or does diverse experience lead to better policy outcomes?
- Should seats on the board be set aside for other interest groups besides community banks? Is it inappropriate to have any seats set aside for specific interest groups? Should the community bank representative be responsible for community bank regulation?

For more information, see CRS In Focus IF10054, *Introduction to Financial Services: The Federal Reserve*, by Marc Labonte.

Fed Independence and Congressional Oversight

As discussed in the introduction, the Fed has been granted an unusually high degree of independence from Congress and the President.[6] There are some structural characteristics that contribute to the Fed's independence—for example, the Fed is self-funded and not subject to appropriations, and the governors serve long, fixed terms and may be removed only "for cause," a higher standard than the "at will" removal standard that applies to Cabinet members and many other political appointees.[7] But independence also stems from culture and norms, such as nonpartisan decisionmaking based on consensus. Norms are a reflection of history, tradition, and the actions of individuals who have led the institution, and they are not immutable—particularly when leadership changes.[8]

President Trump has taken multiple steps that, if seen through, could reduce the Fed's independence. In February 2025, President Trump issued an executive order (E.O.) "to ensure Presidential supervision and control of the entire executive branch" by reducing the independence of regulatory agencies such as the Fed.[9] The E.O. ordered the Office of Management and Budget (OMB) to establish performance standards and management objectives for independent agencies and review their "obligations for consistency with the President's policies and priorities." The E.O. would also require agencies to submit proposed and final rules to OMB for review and approval prior to issuance. The E.O. included an exception for monetary policy, implying that the Fed could independently conduct monetary policy while its regulatory duties would be under the purview of the President. Because the same leadership is responsible for setting both, it is unclear how this delineation could be effectively maintained in practice.[10]

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[6] In terms of relative independence, the Federal Reserve banks are more independent than the Board of Governors is in the sense that they are subject to fewer of the rules that apply to government agencies.

[7] For more information, see CRS Report R43391, *Independence of Federal Financial Regulators: Structure, Funding, and Other Issues*, by Henry B. Hogue, Marc Labonte, and Baird Webel.

[8] For a history of independence, see Gary Richardson and David W. Wilcox, "How Congress Designed the Federal Reserve to Be Independent of Presidential Control," *Journal of Economic Perspectives*, vol. 39, no. 3 (Summer 2025), pp. 221-238, https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.20251447.

[9] Executive Order 14215, "Ensuring Accountability for All Agencies," 90 *Federal Register* 10447, February 18, 2025, https://www.federalregister.gov/documents/2025/02/24/2025-03063/ensuring-accountability-for-all-agencies.

[10] OMB's database on rules under review does not include any entries for the Fed. (See https://www.reginfo.gov/ (continued...)

Given the Fed's uniquely independent status, it is unclear which, if any, of the recent executive orders the board or the Fed banks are required to comply with. At a press conference on January 29, 2025, Chair Powell said, "We're reviewing the orders and the associated details as they're made available. And, as has been our practice over many administrations, we are working to align our policies with the executive orders as appropriate and consistent with applicable law."[11] The Fed has taken actions consistent at least in part with some, but not all, of the recent executive orders, including a hiring freeze and staff reduction[12]; a return to in-person work[13]; ending diversity, equity, and inclusion initiatives[14]; and climate change.[15]

Breaking with tradition,[16] the President has been publicly vocal in his criticism of the Fed's monetary policy decisions (preferring the Fed to reduce rates more rapidly) and has called for Chair Powell to resign.[17] He has reportedly considered whether cost overruns of a building renovation project would constitute "for cause" grounds for dismissing Powell.[18] On January 9, 2026, the Department of Justice served the Fed with subpoenas threatening a criminal indictment related to Chair Powell's testimony before the Senate Banking Committee in June 2025 on the building renovations. In response, Chair Powell made a statement where he said that

> this unprecedented action should be seen in the broader context of the administration's threats and ongoing pressure.

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public/do/eoPackageMain.) Most of the Fed's regulatory rules are issued jointly with other financial agencies that may also be subject to the executive order's requirement for OMB review.

[11] *Wall Street Journal*, "Transcript: Fed Chief Jerome Powell's Postmeeting Press Conference," January 29, 2025, https://www.wsj.com/articles/transcript-fed-chief-jerome-powells-postmeeting-press-conference-c78cbf5a.

[12] Colby Smith, "Trump's Executive Orders Leave Imprint on the Fed," *New York Times*, February 7, 2025, https://www.nytimes.com/2025/02/07/business/federal-reserve-trump-executive-orders.html; Annmarie Hordern et al., "Fed to Shrink Staff by About 10% Over the Next Couple of Years," *Bloomberg Law News*, June 2, 2025.

[13] The White House, "Return to In-Person Work," January 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/return-to-in-person-work; Craig Torres, "Fed Ends Remote Work Arrangement for Board Staff and Officers," *Bloomberg*, March 26, 2025, https://www.bloomberg.com/news/articles/2025-03-27/fed-ends-remote-work-arrangement-for-board-staff-and-officers.

[14] Executive Order 14151, "Ending Radical and Wasteful Government DEI Programs and Preferencing," 90 *Federal Register* 8339, January 20, 2025, https://www.federalregister.gov/documents/2025/01/29/2025-01953/ending-radical-and-wasteful-government-dei-programs-and-preferencing; Howard Schneider, "Fed Axed Diversity Section From Website Around Time of Trump's Executive Order," Reuters, January 23, 2025, https://www.reuters.com/world/us/fed-axed-diversity-section-website-around-time-trumps-executive-order-2025-01-23/.

[15] Executive Order 14154, "Unleashing American Energy," 90 *Federal Register* 8353, January 20, 2025, https://www.federalregister.gov/documents/2025/01/29/2025-01956/unleashing-american-energy. See the section below titled "Climate Change" for more details.

[16] There are historical examples of chairs not being reappointed when their terms expire (most recently, Janet Yellen in 2018) and an example of a President successfully requesting that a chair resign before his term has ended (Thomas McCabe resigned at the request of Harry Truman after McCabe had successfully asserted the Fed's independence from the Treasury over setting interest rates in 1951) but no examples of Presidents removing chairs against their will before their terms have ended. There is also a historical example of a governor remaining on the board after the President did not reappoint him as chair (Marriner Eccles in 1948). Statute is silent and the courts have not had the opportunity to rule on whether chairs or vice chairs could be removed against their will before their terms expire. See Robert L. Hetzel and Ralph F. Leach, "The Treasury-Fed Accord: A New Narrative Account," Federal Reserve Bank of Richmond *Economic Quarterly*, Winter 2001, https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/economic_quarterly/2001/winter/pdf/hetzel.pdf; Michael C. Jensen, "Marriner S. Eccles Is Dead at 87," *New York Times*, December 20, 1977, https://timesmachine.nytimes.com/timesmachine/1977/12/20/86356088.html?pageNumber=38.

[17] Amanda Macias, "Trump Calls Fed Chair Powell a 'Clown' and Slams Fed Renovation," *FOXBusiness*, November 19, 2025, https://www.foxbusiness.com/politics/fed-meeting-puts-spotlight-back-trumps-rift-chairman-powell.

[18] Natalie Sherman and Bernd Debusmann Jr., "Trump Bickers with Powell over Fed Renovation Costs," *BBC News*, July 25, 2025, https://www.bbc.com/news/articles/c1ljlvg1e7eo.

> This new threat is not about my testimony last June or about the renovation of the Federal Reserve buildings. It is not about Congress's oversight role; the Fed through testimony and other public disclosures made every effort to keep Congress informed about the renovation project. Those are pretexts. The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the President.
>
> This is about whether the Fed will be able to continue to set interest rates based on evidence and economic conditions—or whether instead monetary policy will be directed by political pressure or intimidation.[19]

The President has also taken a number of steps to change the composition of the board. Michael Barr stepped down as vice chair for supervision in January 2025 (before his term had ended) to avoid a potential legal challenge over whether the President could remove him,[20] leading to Governor Michelle Bowman replacing him as vice chair in June. In August 2025, President Trump attempted to dismiss Governor Lisa Cook for cause on the grounds that she purportedly falsified her mortgage application before she was governor. Litigation surrounding that attempt is ongoing.[21] In September 2025, the President nominated and the Senate confirmed Stephen Miran to the Board of Governors. Unusually, Miran testified in his nomination hearing that he would be taking a paid absence from his position as chair of the President's Economic Advisers while he served at the Fed.[22] Since becoming governor, Miran dissented from each interest rate vote in 2025 in favor of reducing rates more aggressively. Some observers are concerned that the President intends to replace Powell at the end of his term in May 2026 (or sooner) with a new chair who will not be independent of the President. For example, President Trump said that a litmus test for his nominee will be whether he or she would immediately lower interest rates.[23]

The Fed's monetary decisions, such as its track record with high inflation from 2021 to 2023, expose it to valid criticism.[24] But economists view central bank independence as leading to better monetary policymaking, because, subject to less short-term political pressure, the central bank can choose policies that are optimal under a longer-term horizon. Many economists believe that this results in lower and more stable inflation, because an independent central bank is more willing to raise interest rates to reduce inflation and less tempted to reduce rates to run the economy hot before an election.[25] The relationship between independence and outcomes in regulation is less clear cut, as regulatory policy inherently faces political trade-offs.

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[19] Chair Jerome H. Powell, *Statement*, January 11, 2026, https://www.federalreserve.gov/newsevents/speech/powell20260111a.htm.

[20] Pete Schroeder, "Fed's Barr to Resign Early from Regulatory Job to Avoid Legal Fight with Trump," Reuters, January 6, 2025. The Federal Reserve Act provides "for cause" removal protections to Fed governors but is silent on the grounds for removal in their leadership capacity as chair or vice chair beyond granting the positions fixed terms.

[21] Andrew Chung, "US Supreme Court to Hear Trump's Bid to Fire Fed's Lisa Cook on January 21," Reuters, November 12, 2025, https://www.reuters.com/world/us-supreme-court-hear-trumps-bid-fire-feds-cook-january-21-2025-11-12/.

[22] *CQ Congressional Transcripts*, "Senate Banking, Housing and Urban Affairs Committee Holds Hearing on Pending Nominations," September 4, 2025, https://plus.cq.com/doc/congressionaltranscripts-8313987?1.

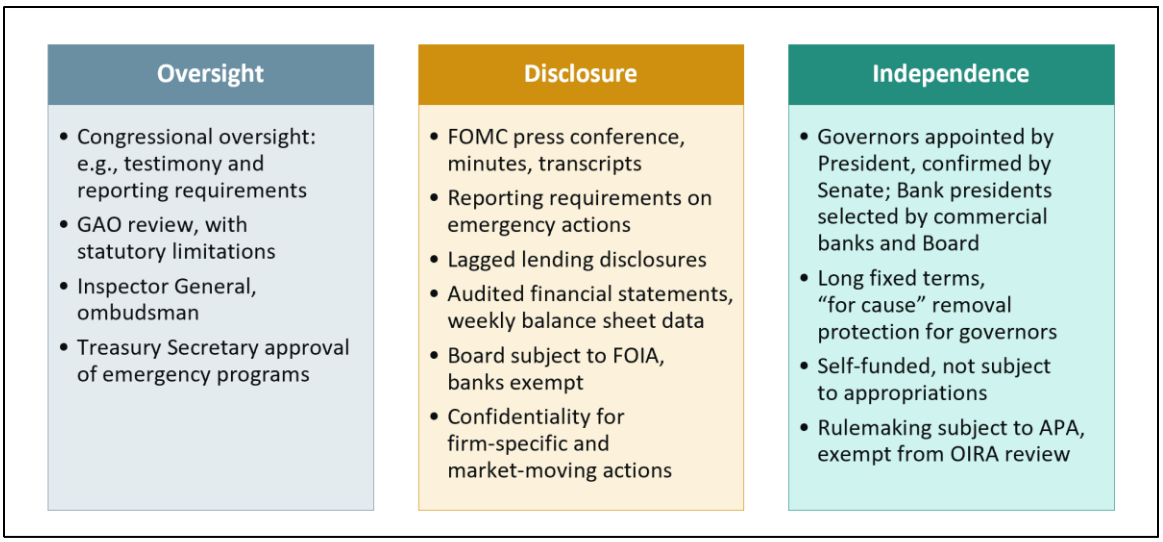
[23] *Politico*, "Full Transcript: POLITICO's Interview with Donald Trump," December 9, 2025, https://www.politico.com/news/2025/12/09/donald-trump-full-interview-transcript-00681693.

[24] See the section below titled "Reducing Interest Rates After a High Inflation Episode."

[25] See, for example, Kristalina Georgieva, "Strengthen Central Bank Independence to Protect the World Economy," International Monetary Fund, March 21, 2024, https://www.imf.org/en/Blogs/Articles/2024/03/21/strengthen-central-bank-independence-to-protect-the-world-economy. The economic argument for independence is not based on the notion that technocratic, nonpolitical experts are better qualified to make good decisions. That may or may not be true, but one can also point to many monetary policy decisions the Fed has made historically that proved to be suboptimal (continued...)

The trade-off to a more independent Fed is less congressional and executive input into and oversight of its actions. Likewise, a potential consequence of closer oversight is that it could reduce the Fed's political independence. The challenge for Congress is to strike the right balance between a desire for the Fed to be responsive to Congress and a desire for the Fed's decisions to be immune from short-term political calculations. Critics of the Fed have long argued for more oversight, transparency, and disclosure. Criticism intensified following the extensive assistance the Fed provided to financial firms during the 2007-2009 financial crisis, the failure of Silicon Valley Bank in 2023 (the third-largest bank failure in U.S. history), and trading scandals involving several Fed presidents and governors, including Governor Adriana Kugler in 2025.[26] However, some critics downplay the degree of Fed oversight and disclosure that already takes place. Some studies rank the Fed as one of the more transparent central banks in the world.[27] Examples of Fed oversight, disclosure, and independence are listed in **Figure 2**.

Figure 2. Examples of Fed Oversight, Disclosure, and Independence



Source: CRS.

Notes: GAO = Government Accountability Office, FOIA = Freedom of Information Act, APA = Administrative Procedures Act, OIRA = Office of Information and Regulatory Affairs.

Although oversight and disclosure are often lumped together, they are separate issues. Oversight entails independent evaluation of the Fed; disclosure is an issue of what internal information the Fed releases to the public. Disclosure helps Congress and the public better understand the Fed's actions. Up to a point, this makes monetary and regulatory policy more effective, but too much

after the fact. Instead, the economic argument is based on the different incentives that policymakers face when they are shielded from short-term political factors.

[26] U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Chairman Scott Statement on the Need for Federal Reserve Reform Following New Ethics Violations Report," press release, November 15, 2025, https://www.banking.senate.gov/newsroom/majority/chairman-scott-statement-on-the-need-for-federal-reserve-reform-following-new-ethics-violations-report.

[27] N. Nergiz Dincer and Barry Eichengreen, "Central Bank Transparency and Independence," *International Journal of Central Banking*, March 2014. This study finds an increase in Fed transparency between 1998 and 2010. Christopher Crowe and Ellen Meade, "Central Bank Independence and Transparency," *European Journal of Political Economy*, vol. 24, no. 4 (December 2008), p. 763. This study finds a slight decline in Fed transparency between 1998 and 2006. It appears that the authors rate the Fed as less transparent in 2006 than in 1998 because the Fed discontinued its release of money growth targets between those dates.

disclosure could make both less effective because they rely on confidential, market-moving information.

Notable legislative activity has occurred in the 119th Congress in two committees. The Senate Homeland Security Committee held hearings on S. 2327, which would remove statutory restrictions on Government Accountability Office (GAO) audits of the Fed and require a GAO audit. On June 6, 2025, Chairman Tim Scott released legislative text for provisions that the Senate Banking Committee proposed for the Senate's version of the FY2025 reconciliation bill.[28] It included a provision to set the pay of board employees who do not work on monetary policy at 70% of Federal Deposit Insurance Corporation (FDIC) employee pay. It was not included in the version of the bill that became P.L. 119-21.

Policy issues for Congress going forward could include the following:

- What is the right balance between Fed independence and oversight and accountability?
- Have existing statutory restrictions interfered with GAO's ability to evaluate the Fed on issues of congressional interest?
- Has disclosure of lending records since the 2007-2009 financial crisis created any stigma that has reduced the effectiveness of Fed lending programs? Has it buttressed public confidence that Fed lending programs do not result in favoritism or conflicts of interest? Would greater congressional access to private lending records improve oversight or risk undermining a bank's financial health through improper public release?
- Should more federal statutes applying to the board and other government agencies (such as the Freedom of Information Act) be applied to Federal Reserve banks, or should they continue to be exempted? Do these exemptions effectively place the banks beyond the reach of congressional oversight?
- Should Congress be kept better informed about banks' supervisory problems, or would this risk undermining a bank's financial condition through improper public release? Does Congress have sufficient aggregate information about bank supervision to support its oversight role?
- Does the 2021 trading scandal involving Federal Reserve bank presidents indicate that more congressional oversight is needed?[29] Does the Fed's 2022 rules banning trading by leadership obviate the need for legislation to address that scandal?[30] Is Governor Kugler's resignation in 2025 a sign that the new rules are working or that the rules should be enhanced?

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[28] U.S. Senate Committee on Banking, Housing, and Urban Affairs, "Scott Releases Banking Committee Provisions for the One Big Beautiful Bill," press release, June 6, 2025, https://www.banking.senate.gov/newsroom/majority/scott-releases-banking-committee-provisions-for-the-one-big-beautiful-bill.

[29] For background, see Brian Cheung, "A Timeline of the Federal Reserve's Trading Scandal," *Yahoo!news*, January 10, 2022, https://news.yahoo.com/a-timeline-of-the-federal-reserves-trading-scandal-104415556.html.

[30] In the 117th Congress, Senate Banking Committee Chair Sherrod Brown introduced S. 3076 to prohibit financial trading by Fed leadership. In February 2022, the FOMC adopted a new policy prohibiting trading by leadership. See FOMC, *Investment and Trading Policy for FOMC Officials*, February 17, 2022, https://www.federalreserve.gov/monetarypolicy/files/FOMC_InvestmentPolicy.pdf. The policy was extended to additional employees in 2024. See FOMC, "Federal Open Market Committee Announces Updates That Further Enhance Its Policy on Investment and Trading," press release, January 31, 2024, https://www.federalreserve.gov/newsevents/pressreleases/monetary20240131c.htm.

- Should the Fed comply with recent executive orders affecting the federal government? How would doing so affect its independence?
- How should the Senate evaluate the independence of President Trump's nominees to the Fed, including the new chair in 2026?
- Should Congress strengthen or weaken the Fed's statutory independence?

For more information, see CRS Report R42079, *Federal Reserve: Oversight and Disclosure Issues*, by Marc Labonte.

Monetary Policy

Monetary policy refers to the Fed's influence over interest rates and the money supply to alter economic activity. Congress has delegated monetary policy to the Fed but conducts oversight to ensure that the Fed meets its statutory mandate from 1977 of "maximum employment, stable prices, and moderate long-term interest rates" (12 U.S.C. §225a). The first two goals are referred to as the dual mandate. Since 2012, the Fed has defined *stable prices* as 2% inflation, measured as the annual percentage change in the Personal Consumption Expenditures (PCE) price index.

Monetary Misconceptions

There are many common misconceptions surrounding the Fed and monetary policy, some involving obsolete practices. This text box highlights a few, with the misconception in bold:

- **The Fed conducts monetary policy by buying and selling Treasury securities.** This is the classic textbook explanation of how the Fed sets the federal funds rate (FFR), but this method has not been used since 2008. The Fed's new ample reserves framework makes "open market operations" ineffective. Now the Fed targets the FFR by setting the interest rates it controls (see **Figure 3**) and buys Treasury (and other) securities when it wants to expand the size of its balance sheet. Even before 2008, the Fed mainly used repurchase agreements (repos) instead of outright transactions to set the FFR.
- **The Fed sets all interest rates.** The vast majority of interest rates in the economy are market rates determined by supply and demand. That includes the Fed's target of monetary policy, the FFR. The Fed does not set the FFR—rather, it uses its tools to keep the FFR within the Fed's target range of 0.25 percentage points. The Fed does set a few interest rates it controls directly, however: the interest on bank reserves held at the Fed, the discount rate charged at the discount window, and the borrowing and lending rates levied at its repo facilities.
- **The discount window charges a penalty rate.** It is often said that this is done to dissuade banks from using the discount window excessively. This was true from 2003 to 2020, but since 2020 the Fed has set the discount rate at the top of the federal funds range. (The effective FFR is typically closer to the middle of the range, which is 0.25 percentage points wide.) It is now more concerned with banks not using the discount window enough than using it excessively, and it has adopted a "no questions asked" policy toward borrowers.
- **The Fed uses reserve requirements to influence monetary policy and prudential regulation.** Reserve requirements were permanently set to zero in 2020. Once the Fed moved to an abundant reserve framework, reserve requirements were unnecessary. Even before that, the Fed did not change reserve requirements as a monetary policy tool because it was considered too blunt a tool.[31]
- **The Fed conducts monetary policy by targeting the money supply.** The Fed targets interest rates rather than the money supply. It cannot control both simultaneously. The Fed considers money demand to be too erratic for the money supply to be a useful policy target.

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[31] Their removal is related to the shift to the "abundant reserves" monetary framework discussed below. See Federal Reserve, "Federal Reserve Actions to Support the Flow of Credit to Households and Businesses," press release, March 15, 2020, https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm. According to the Fed, "Currently, the Board has no plans to re-impose reserve requirements. However, the Board may adjust reserve requirement ratios in the future if conditions warrant." Federal Reserve, "Reserves Administration Frequently Asked Questions," https://www.frbservices.org/resources/central-bank/faq/reserve-account-admin-app.html.

- **Banks need to join the Federal Reserve System to use the discount window or hold master accounts at the Fed.** Since 1980, all insured depository institutions can borrow from the discount window and hold master accounts.
- **The dollar is backed by gold.** The Fed does not own gold—the New York Fed safeguards the gold holdings of central banks, governments, and official international organizations that choose to store their gold there. The federal government's gold holdings are small compared to the currency in circulation or the federal debt. The federal government abandoned a true gold standard in 1933.
- **The government prints money to finance the deficit (or) the government cannot default on the debt because the Fed will monetize deficits.** Legally, the Treasury cannot issue money—only the Fed can—and the Fed cannot purchase newly issued debt directly from the federal government. The federal debt is financed by the government issuing Treasury securities and selling them to private investors. The Fed is a large investor in Treasury securities (acquired on the secondary market) and is currently reducing its holdings. In a scenario where private investors became unwilling to finance future deficits, the Fed could choose to be the buyer of last resort of federal debt on the open market, but it might choose not to because it would be inconsistent with its statutory mandate of price stability. The government cannot compel the Fed to purchase debt.

This report discusses these issues in more detail.

As mentioned above, the FOMC sets monetary policy. FOMC meetings are regularly scheduled every six weeks, but the chair sometimes calls unscheduled meetings. After each of these meetings, the FOMC releases a statement that announces any changes to monetary policy, the rationale for the current monetary stance, and the future outlook.

In normal economic conditions, the Fed's primary instrument for setting monetary policy is the FFR, the overnight interest rate in the federal funds market—a private market where banks lend to each other. The Fed sets a target range for the FFR that is 0.25 percentage points wide and uses its tools to keep the actual FFR within that range. When the Fed wants to stimulate the economy, it makes policy more expansionary by reducing interest rates. When it wants to make policy more contractionary or tighter, it raises rates. In principle, there is a neutral interest rate that is neither expansionary not contractionary, although it is difficult to estimate what the neutral rate is in practice, and it seems to change over time.[32] The Fed aims to make monetary policy expansionary, contractionary, or neutral based on how employment and inflation are performing compared to its statutory goals: Expansionary policy can boost employment but risks spurring inflation, while contractionary policy can constrain inflation but risks decreasing employment, as explained below.

Changes in the FFR target lead to changes in interest rates throughout the economy, although these changes are mostly less than one to one. Changes in interest rates affect overall economic activity by changing the demand for interest-sensitive spending (goods and services that are bought on credit). The main categories of interest-sensitive spending are business physical capital investment (e.g., plant and equipment), consumer durables (e.g., automobiles, appliances), and residential investment (mainly, new housing construction). All else equal, higher interest rates reduce interest-sensitive spending, and lower interest rates increase interest-sensitive spending.

Interest rates also influence the demand for exports and imports by affecting the value of the dollar. All else equal, higher interest rates increase net foreign capital inflows as U.S. assets become more attractive relative to foreign assets. To purchase U.S. assets, foreigners must first purchase U.S. dollars, pushing up the value of the dollar. When the value of the dollar rises, the price of foreign imports declines relative to U.S. import-competing goods, and U.S. exports become more expensive relative to foreign goods. As a result, net exports (exports less imports)

[32] See CRS Insight IN11056, *Low Interest Rates, Part 2: Implications for the Federal Reserve*, by Marc Labonte.

decrease. When interest rates fall, all of these factors work in reverse, and net exports increase, all else equal.

Business investment, consumer durables, residential investment, and net exports are all components of GDP. Thus, if expansionary monetary policy causes interest-sensitive spending to rise, it increases GDP in the short run. This increases employment as more workers are hired to meet increased demand for goods and services. An increase in spending also puts upward pressure on inflation.[33] Contractionary monetary policy has the opposite effect on GDP, employment, and inflation. Most economists believe that although monetary policy can permanently change the inflation rate, it cannot permanently change the level or growth rate of GDP, because long-run GDP is determined by the economy's productive capacity (e.g., the size of the labor force and capital stock). If monetary policy pushes demand above what the economy can produce, then inflation should eventually rise to restore equilibrium. When setting monetary policy, the Fed must take into account the lags between a change in policy and economic conditions so that rate changes can be made preemptively.

The Fed generally tries to avoid policy surprises, and FOMC members regularly communicate their views on the future direction of monetary policy to the public.[34] The Fed describes its monetary policy plans as "data dependent," meaning plans would be altered if actual employment or inflation deviate from its forecast. Data is volatile, however, and true data dependence in a policy setting would lead to sudden shifts in policy. In practice, the Fed likes to avoid surprises as much as possible, so large-scale shifts in course are relatively infrequent.

Besides monetary policy, fiscal policy (statutory changes in spending and revenue levels) is the other primary tool for the federal government to affect macroeconomic conditions.[35] In addition to affecting employment and inflation, both monetary policy and fiscal policy affect interest rates but in opposite directions. Expansionary monetary policy reduces interest rates, whereas expansionary fiscal policy increases the supply of debt that must be financed by private investors, thereby increasing interest rates, all else equal. As a practical matter, monetary policy can be adjusted far more frequently and finely than fiscal policy can. Whereas Congress is responding to numerous policy considerations when setting fiscal policy, monetary policy is trying to achieve only two goals—price stability and maximum employment. For these reasons, economists view monetary policy as the primary macroeconomic stabilization tool. Given the Fed's independence, fiscal and monetary policy can potentially work together (e.g., both expansionary) or at odds with each other (e.g., one is expansionary and the other is contractionary) at any given time.

For more information, see CRS In Focus IF11751, *Introduction to U.S. Economy: Monetary Policy*, by Marc Labonte.

The Post-Financial Crisis Monetary Policy Framework

Following the 2007-2009 financial crisis, the Fed changed how it conducted monetary policy. The Fed now maintains the FFR target primarily by setting the interest rate it pays banks on reserves held at the Fed (interest on reserves, or IOR) and by using reverse repos to drain liquidity from

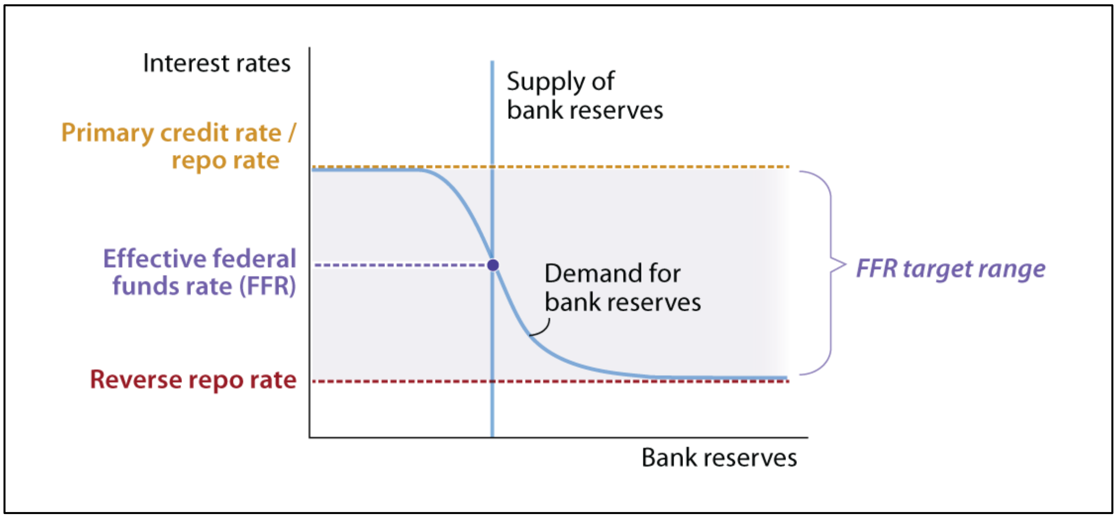
[33] The Fed targets interest rates instead of money supply growth because the relationship between money supply growth and inflation is unpredictable. The current target range is reported at Federal Reserve, "Policy Tools," https://www.federalreserve.gov/monetarypolicy/openmarket.htm.

[34] The Fed imposes "blackout" rules to prevent officials from publicly discussing potentially market-moving topics close to FOMC meetings.

[35] See CRS In Focus IF11253, *Introduction to U.S. Economy: Fiscal Policy*, by Lida R. Weinstock.

the financial system. It received statutory authority to pay interest on reserves in 2008.[36] In 2014, the Fed created a standing reverse repo facility to help put a floor under the FFR. Financial market participants earn interest by lending excess cash to the Fed at the reverse repo facility. The Fed sets the IOR and the rate offered on its repos and reverse repos directly, unlike the FFR. The IOR and repo rate anchor the FFR, as shown in **Figure 3**, because banks will generally deploy their surplus reserves to earn whichever rate is most attractive.[37] Currently, the top of the target range is set equal to the rate for borrowing from the Fed through the discount window (called the primary credit rate) and its standing repo operations, and the bottom of the range is equal to the rate for lending to the Fed through the overnight reverse repo facility. This keeps the FFR within the target range. The IOR is currently set slightly below the top of the range.

Figure 3. Illustration of Supply and Demand for Bank Reserves and the Federal Funds Rate



Source: CRS.

Note: See text for details.

Before the crisis, monetary policy was conducted differently. The Fed did not have authority to pay interest on bank reserves until 2008, so it could not target the FFR by setting the IOR.[38] Instead, the Fed directly intervened in the federal funds market through open market operations that added or removed reserves from the federal funds market. Open market operations could be conducted by buying or selling Treasury securities but were typically conducted through repos. The Fed's counterparties in open market operations (called primary dealers) are major participants in the Treasury market. When the Fed buys Treasury securities or lends in the repo

[36] Repos are economically equivalent to short-term collateralized loans. Depending on whether viewed from the perspective of the borrower or lender, they are referred to as repos or reverse repos, respectively. For a primer on repos, see CRS In Focus IF11383, *Repurchase Agreements (Repos): A Primer*, by Marc Labonte.

[37] The IOR might be expected to set a floor on the FFR, but in practice the actual FFR has typically been slightly lower than the IOR. This discrepancy has been ascribed to the fact that some participants in the federal funds market—such as Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—do not earn interest on reserves held at the Fed. See Gara Afonso et al., "Who's Lending in the Fed Funds Market," Federal Reserve Bank of New York, December 2, 2013, http://libertystreeteconomics.newyorkfed.org/2013/12/whos-lending-in-the-fed-funds-market.html#.VDWOgxYXOmo.

[38] The authority (12 U.S.C. §461(b)) for the Fed to pay IOR was originally granted in the Financial Services Regulatory Relief Act of 2006, beginning in 2011. The start date was made immediate in the Emergency Economic Stabilization Act of 2008 (P.L. 110-343).

market, it increases bank reserves, putting downward pressure on the FFR. Selling securities or borrowing in the repo market (which the Fed calls a reverse repo) has the opposite effect. The Fed did not create any expectation that repo market participants could rely on it to provide needed liquidity or remove excess liquidity from the market. (As noted above, the Fed still purchases Treasury securities and uses repos and reverse repos, but it no longer does so to target the FFR.)

Before the crisis, the Fed could target the FFR through direct intervention in the federal funds market because reserves were scarce—banks held only enough reserves to slightly exceed the reserve requirements set by the Fed. Now, banks hold trillions of dollars of reserves despite the fact that the Fed eliminated reserve requirements in 2020. The overall level of reserves is the result of Fed actions—primarily quantitative easing (QE), discussed below—that have increased the Fed's balance sheet and are not a choice of banks. Thus, it is represented by a vertical line in **Figure 3**. After the Fed ended QE in 2014, it decided to maintain abundant reserves (sometimes referred to as the *abundant reserves* framework) instead of fully shrinking its balance sheet and returning to its pre-crisis *scarce reserves* monetary framework. With reserves so abundant, adding or removing reserves could not raise the FFR above zero in the absence of IOR and a standing (i.e., on-demand) reverse repo facility.

During the 2007-2009 financial crisis and the COVID-19 pandemic, the Fed made very large amounts of repo funding available on an ad hoc basis to ensure that markets stayed liquid. In 2021, the Fed added the Standing Repo Facility—where primary dealers and banks could borrow repo financing from the Fed on demand—to make it easier to keep the FFR from exceeding its target as it shrinks its balance sheet. But the facility also shifted the assurance that Fed repo funding would be available in times of need from an ad hoc to a permanent basis. In 2025, the Fed renamed the Standing Repo Facility to be Standing Repo Operations (SROs)—perhaps in an attempt to reduce stigma associated with its use—but did not change the terms of the program. The repo and reverse repo facilities, which fundamentally altered the functioning of a private lending market (by creating a permanent Fed backstop in the market), were created using existing authority without congressional approval or notice-and-comment rulemaking.

Reducing Interest Rates After a High Inflation Episode

In response to the historically large and sudden contraction in economic activity caused by the onset of the COVID-19 pandemic, the Fed provided monetary stimulus that was matched in magnitude only by the stimulus provided during the 2007-2009 financial crisis. This stimulus included nontraditional actions such as reducing the FFR to the zero lower bound, purchasing trillions of dollars of securities,[39] and providing billions of dollars of credit to the financial sector.[40]

This stimulus safeguarded against the risk that the contraction in economic activity would be prolonged. In hindsight, economic activity rebounded relatively quickly, and high inflation turned out to be the larger concern. After decades of low inflation, inflation has been above the Fed's 2% target since March 2021. PCE inflation (measured as the 12-month change) peaked above 7% in June 2022, its highest level in decades. Several factors contributed to the rise in inflation. On the supply side, these included supply chain disruptions and high commodity prices following the

[39] See the section below titled "The Fed's Balance Sheet After QE and QT."

[40] See the section below titled "Pandemic LOLR Actions."

Russian invasion of Ukraine. On the demand side, these included strong consumer demand, in part because of the fiscal and monetary stimulus put in place during the pandemic.[41]

Mainstream economists view the ability to effectively reduce inflation to lay primarily with the Fed. In the words of Fed Chair Jerome Powell, "The first lesson [from the history of inflation] is that central banks can and should take responsibility for delivering low and stable inflation."[42] Despite higher inflation since 2021, the Fed left zero interest rates in place until March 2022, because Fed leadership assumed that the initial increase in inflation in 2021 was transitory and due to the ongoing threat of the pandemic. Decades of sustained low—at times, undesirably low—inflation may have led the Fed to underestimate the threat of high inflation. By the time stimulus began to be withdrawn, inflation had become high, widespread, and deeply embedded.

Beginning in March 2022, the primary focus of monetary policy shifted to reducing high inflation, which required contractionary monetary policy. The Fed raised rates repeatedly following each FOMC meeting from March 2022 to July 2023—by as much as 0.75 percentage points following some meetings—and began a gradual reduction of the balance sheet in June 2022.[43] By July 2023, rates were at their highest levels since 2007.

Since its peak, inflation has rapidly declined and employment growth has moderated (perhaps to a more sustainable growth rate) without a "hard landing."[44] The combination of improving supply chains, lower energy prices, and tighter monetary policy brought inflation down much closer to the Fed's 2% target, but it has remained slightly above the target to date.

In 2024, in response to a few lower monthly inflation readings, the Fed reduced rates three times between September and December 2024 with the goal of bringing interest rates down to a more neutral level that would neither stimulate nor contract economic activity. The Fed then left the FFR unchanged until September 2025, largely to wait and see how the economy would respond to the increase in tariffs implemented by President Trump in 2025, which were potentially large changes as initially announced but have been repeatedly modified.[45] Tariffs feed through to consumer price inflation to the extent that producers pass on the cost of tariffs to consumers by raising retail prices. This effect would potentially call for higher interest rates to curb inflation—but the Fed has assumed that any increase in inflation from tariffs would be temporary, in which case (in its view) interest rates did not need to be increased in response. Tariffs can also potentially disrupt economic activity in the short run, potentially curbing employment growth. This effect would call for lower interest rates.

By September 2025, the Fed deemed that it could start cutting rates again to achieve (in its view) a more neutral policy stance. It made rate cuts at the three final FOMC meetings of 2025. (The final two rate cuts were made under greater uncertainty because of data availability issues and the potential for economic disruptions caused by the government shutdown.)

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[41] See CRS Report R47273, *Inflation in the U.S. Economy: Causes and Policy Options*, by Marc Labonte and Lida R. Weinstock.

[42] Chair Jerome H. Powell, "Monetary Policy and Price Stability," speech, August 26, 2022, https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm.

[43] The Fed can mitigate inflationary pressures by raising interest rates or reducing the size of its balance sheet, and different combinations of the two will yield the same economic outcomes. In practice, it has based its inflation reduction strategy on raising interest rates and has not based its balance sheet reduction plans on the inflation rate.

[44] GDP growth was strong in the second and third quarters of 2024, however, so it is unclear whether the slowdown in employment growth is demand-driven.

[45] Testimony of Federal Reserve Chair Jerome H. Powell, "Semiannual Monetary Policy Report to the Congress," U.S. Congress, House Committee on Financial Services, June 24, 2025, https://www.federalreserve.gov/newsevents/testimony/powell20250624a.htm.

The FOMC justified cutting rates on the basis that "downside risks to employment rose in recent months,"[46] which risked tipping the economy into recession if job growth further deteriorated. Monthly job growth was below average from May to September 2025, and the unemployment rate has risen by one percentage point since mid-2023 and about half a percentage point since the beginning of 2025—although October and November 2025 data were not available at the time because of the shutdown.[47] On the other hand, the unemployment rate is still relatively low by historical standards, and the "break even" job growth figure needed to prevent unemployment from rising is estimated to have declined in 2025 due to the decline in immigration and the aging of the labor force.[48] For example, research from the Federal Reserve Bank of Dallas estimates that the break-even rate has fallen from 250,000 jobs per month in mid-2023 to 30,000 in 2025.[49] Thus, the employment slowdown may not be primarily caused by cyclical weakness, raising questions about the primary justification for cutting rates.

The Fed decided to cut rates although (both headline and core) PCE inflation over the past 12 months has remained above 2% in each month since 2021. Inflation fell until April 2024, but since then both headline and core inflation were above 2% and below 3% each month, showing no downward trend—although October and November 2025 data were not available at the time because of the shutdown.

The December rate cut was only the third in the past 10 years to feature three dissenting votes, which Chair Powell portrayed as reflective of the conflicting data. Powell acknowledged that the Fed faced risks to both its full employment mandate and its price stability mandate when it chose to reduce rates in 2025 and that holding rates constant in December based on the price stability mandate could also have been justified.[50] In Powell's view, inflation had not returned to 2% in 2025 largely because of the tariffs, but he expected that it would once the tariffs' effects on prices fell out of the data in the second half of 2026.[51] Therefore, in his view, "in recent months, the balance of risks has shifted" to employment risks relative to price stability risks.[52] On the other hand, the longer that inflation remains above target, the more entrenched higher inflationary expectations could become among the general public. The Fed's decisions to cut rates since 2024 even though inflation has continually exceeded its target since 2021 may decrease the credibility of its target and its commitment to achieving it in the public's eyes, thereby increasing inflation expectations. Some economists have expressed concerns that the "last mile" of inflation reduction will be the hardest.[53] The Fed always has the option to raise rates if inflation remains above

[46] Federal Reserve, "Federal Reserve Issues FOMC Statement," press release, December 10, 2025, https://www.federalreserve.gov/newsevents/pressreleases/monetary20251210a.htm.

[47] Unemployment, jobs, and CPI data is produced by the Bureau of Labor Statistics (BLS). President Trump removed the BLS Commissioner, a position which has traditionally been filled by a nonpolitical expert and has not been replaced before their term expired, in August 2025. On social media, he reportedly stated that he removed her for releasing "rigged" job figures to "make the Republicans, and ME, look bad." See Natalie Sherman, "Trump Fires Lead Official On Economic Data As Tariffs Cause Market Drop," *BBC*, August 2, 2025, https://www.bbc.com/news/articles/cvg3xrrzdr0o.

[48] The recent sharp decline in net migration could also affect inflation, but its effect is more ambiguous because it affects both supply and demand.

[49] Anton Cheremukhin, "Break-Even Employment Declined After Immigration Changes," *Dallas Fed Economics*, October 9, 2025, https://www.dallasfed.org/research/economics/2025/1009.

[50] Federal Reserve, "Transcript of Chair Powell's Press Conference," December 10, 2025, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20251210.pdf.

[51] Federal Reserve, "Transcript of Chair Powell's Press Conference," December 10, 2025.

[52] Federal Reserve, "Transcript of Chair Powell's Press Conference," December 10, 2025.

[53] See Steven B. Kamin and John M. Roberts, "How Will the Interaction of Wages and Prices Play Out in the Last Mile of Disinflation?," American Enterprise Institute, July 2024, https://www.aei.org/wp-content/uploads/2024/07/Kamin-
(continued...)

target, but it might be reluctant to do so, because it tries to avoid frequent and sudden reversals in policy. Therefore, moving to a neutral monetary policy before inflation returns to target runs the risks of inflation remaining above target for a more extended period.

The other main risk in moving monetary policy to what Powell described as "within a range of plausible estimates of neutral"[54] stems from the fact that there is considerable uncertainty surrounding what interest rate is consistent with a neutral policy.[55] The neutral interest rate is not directly observable—it is conceptual and can only be estimated using an economic model. Thus, the estimate is only as good as the model and its assumptions. Current rates are roughly neutral according to one well-known model tracked by the New York Fed,[56] but that model also estimates a large decline in the neutral rate following the 2008 financial crisis compared to the preceding period going back continuously as far as first estimated in 1961. A key question moving forward is whether the historically low-interest rate environment that the economy was in from the financial crisis through the pandemic has persisted or whether the higher interest rates that have prevailed since inflation rose are indicative of a return to higher neutral rates than in the 2008-2020 period. If the neutral rate is higher than estimated and more comparable to the pre-2008 period, then current policy is stimulative rather than neutral, which would be expected to increase inflation further above target and to lower unemployment.

Working against the Fed's more stimulative policy since September 2024 is the fact that long-term rates—such as 30-year fixed mortgage rates and 10-year Treasury yields—have shown no downward trend in response to lower short-term rates. Much private consumption and investment spending is more sensitive to long-term rates than short-terms rates. This development underscores the limits of the Fed's influence over economic activity.

Policy issues for Congress going forward could include the following:

- Will with lower rates prevent the Fed from successfully restoring price stability? Has the Fed appropriately prioritized the return to price stability? Is the Fed correct that the tariffs' effects on inflation are temporary and therefore interest rates do not need to be raised to offset their inflationary effects? Can rate cuts reverse the slowdown in job growth?
- Are high long-term rates undermining the Fed's attempt to provide monetary stimulus through low short-term rates? What can Congress do for U.S. businesses and households that are negatively affected by higher interest rates? Would actions to assist them make it harder to achieve price stability?
- Could price stability be restored more quickly if monetary tightening is accompanied by tighter fiscal policy? Would tighter fiscal policy lead to higher unemployment or help reduce long-term interest rates, complementing lower short-term rates?

Roberts-Prices-and-Wages-WP.pdf; and Randal J. Verbrugge, "Inflation's Last Half Mile: Higher for Longer?," Federal Reserve Bank of Cleveland, May 30, 2024, https://www.clevelandfed.org/publications/economic-commentary/2024/ec-202409-inflations-last-half-mile.

[54] Federal Reserve, "Transcript of Chair Powell's Press Conference," December 10, 2025.

[55] Based on the FOMC's economic projections, assuming a 2% inflation rate, in real terms, FOMC officials believe the neutral rate is somewhere between 0.5% and 2%. At the current inflation rate, the FFR in December 2025 was near the bottom of that range. See Federal Reserve, *Summary of Economic Projections*, December 10, 2025, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20251210.pdf.

[56] Estimates are available at https://www.newyorkfed.org/research/policy/rstar.

- Has the Fed's decision to reduce interest rates as the President has demanded undermined its perceived independence? If so, will that make it more likely that lower interest rates will result in higher inflation?

For more information, see CRS Insight IN12635, *Federal Reserve Cuts Interest Rates in Late 2025*, by Marc Labonte.

The Fed's Balance Sheet After QE and QT

The Fed's balance sheet can be described in standard accounting terms. Like any company, the Fed holds assets on its balance sheet that are equally matched by the sum of its liabilities and capital. The Fed's assets are primarily Treasury securities and mortgage-backed securities (MBS) acquired through open market operations.[57] Its assets also include discount window loans, loans and assets held by its other emergency facilities, and repos lent to the private sector through its SROs. Its liabilities are primarily currency, reverse repos borrowed from the private sector, bank reserves held in master accounts at the Fed, and balances that Treasury holds at the Fed.[58] When the Fed purchases assets or makes loans, its balance sheet gets larger, which is matched predominantly by growth in two of its liabilities—reverse repos and bank reserves.

Twice in its history—during the 2007-2009 financial crisis and the COVID-19 pandemic—the Fed has lowered the FFR target range to 0%-0.25% (called the zero lower bound) in response to unusually severe economic disruptions. Because the zero lower bound prevented the Fed from providing as much conventional stimulus as desired to mitigate these crises, it turned to unconventional monetary policy tools in an effort to reduce longer-term interest rates. Under this policy (popularly called quantitative easing, or QE), it purchased trillions of dollars of primarily Treasury securities and MBS in an effort to directly lower their yield. As a result, the Fed's balance sheet grew significantly in three rounds of purchases from 2008 to 2014 and then again when it made purchases from 2020 to 2022 (see **Table 1**).[59] The Fed's balance sheet expanded from $4.7 trillion in March 2020 to $7 trillion in May 2020 to a high of almost $9 trillion in May 2022. At that point, nearly $5.8 trillion of its assets were held in Treasury securities and $2.7 trillion in MBS, and about $3.4 trillion of its liabilities were held in bank reserves and $2.2 trillion in reverse repos. At its peak, the balance sheet was around 10 times larger than it was before 2009.

Table 1. Federal Reserve Balance Sheet Trends

Trillions of Dollars, 2008-2025

Event (Dates)	End Size	Change
Financial Crisis (9/08-12/08)	$2.2	+$1.3
QE1 (3/09-5/10)	$2.3	+$0.4

[57] Except in emergencies, the Fed is allowed to purchase only a limited range of securities, including securities issued or guaranteed by the government or government agencies (12 U.S.C. §355). The Fed considers MBS guaranteed by government-sponsored enterprises to qualify. Congress has placed no limit on the amounts of eligible securities it may purchase.

[58] Reserves are assets held as liquid balances (in cash or at the Fed), as opposed to funds invested in loans or securities.

[59] The balance sheet also increases when the Fed provides credit to banks and other financial market participants, which are assets on the balance sheet. In both crises, this played a significant role in the initial increase in the balance sheet, but credit outstanding fell quickly as financial conditions normalized. For more details on the balance sheet, see Federal Reserve, "Credit and Liquidity Programs and the Balance Sheet: Recent Balance Sheet Trends," https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm.

Event (Dates)	End Size	Change
QE2 (11/10-7/11)	$2.9	+$0.6
QE3 (10/12-10/14)	$4.5	+$1.7
Roll Off (9/17-8/19)	$3.8	-$0.7
Repo Turmoil (9/19-2/20)	$4.2	+$0.4
COVID-19 Response (3/20-3/22)	$8.9	+$4.8
QT (6/22-12/25)	$6.5	-$2.4

Source: CRS calculations based on Federal Reserve data.

Note: In dates not shown in chart, the balance sheet was neither growing nor shrinking.

The goals of QE were to reduce long-term interest rates and provide additional liquidity to the financial system. QE reduced long-term interest rates by driving down yields on the securities the Fed was purchasing, which led to lower interest rates throughout the economy.[60] (Following the financial crisis, the Fed concentrated its purchases in long-term securities. Following the pandemic, the Fed purchased securities across the maturity spectrum so that the disproportionate effect on long-term rates would be diminished.) The reduction in yields on MBS translated to lower mortgage rates, stimulating housing demand. QE increased liquidity by increasing bank reserves.

As part of its efforts to tighten monetary policy, the Fed began to taper its asset purchases (i.e., it reduced the growth rate of the balance sheet) in November 2021 and ended its purchases (i.e., it kept the size of the balance sheet steady) in March 2022. In statements in January and May 2022, the Fed laid out its long-term goals for the balance sheet.[61] In the long run, the Fed intends to hold primarily Treasury securities, eventually eliminating its MBS holdings. It intends to permanently maintain a large balance sheet, which is consistent with its "ample reserves" framework[62] for monetary policy, and "intends to slow and then stop the decline in the size of the balance sheet when reserve balances are somewhat above the level it judges to be consistent with ample reserves."[63] When complete, this is sometimes referred to as an *ample reserves framework*, as opposed to the pre-crisis *scarce reserves framework* or post-crisis *abundant reserves framework*.

The Fed began to reduce the size of its balance sheet in June 2022, popularly called quantitative tightening (QT). This reduction was passive—the Fed did not sell any securities. Instead, the Fed did not replace maturing assets with new asset purchases up to a monthly cap.[64] Gradually, the Fed reduced the rate at which the balance sheet was shrinking until it decided to end QT on December 1, 2025, amid signs that bank reserves were less plentiful.[65] At that point, the balance sheet was $6.5 trillion, with $4.2 trillion in Treasury securities and $2.1 trillion in MBS. Although some natural growth in the balance sheet would be expected, as the economy was growing and prices were rising, QT reversed only about half of the balance sheet growth that occurred since

[60] When the price of a debt security rises, its effective yield falls. New debt can then be sold at the prevailing lower yield.

[61] Federal Reserve, "FOMC Communications Related to Policy Normalization," https://www.federalreserve.gov/monetarypolicy/policy-normalization.htm.

[62] See the section above titled "The Post-Financial Crisis Monetary Policy Framework."

[63] Federal Reserve, "FOMC Communications Related to Policy Normalization."

[64] Treasury redemptions hit the monthly cap, but MBS redemptions were typically lower as households held on to mortgages with low fixed rates.

[65] Roberto Perli, "Money Market Conditions and the Federal Reserve's Balance Sheet," speech, Federal Reserve Bank of New York, November 12, 2025, https://www.newyorkfed.org/newsevents/speeches/2025/per251112.

the pandemic. Bank reserves were also more than $1 trillion higher than immediately before the pandemic balance sheet expansion.

Moving forward, the Fed plans to roll over all maturing Treasury securities and MBS into new Treasury securities, causing its holdings of MBS to gradually decline.[66] It also plans to buy and sell Treasury securities to match fluctuations in demand for bank reserves in order to keep bank reserves ample.[67] Although demand fluctuates based on seasonal factors, such as tax payments, over time the Fed expects demand for reserves to grow because of factors such as inflation and economic growth. Therefore, the balance sheet is expected to grow over time, with an increase in Treasury securities of $40 billion in the first month. Although not intended to be stimulative, the initial "reserve management purchases," if continued at that pace, are relatively large—larger than the Fed's tapered purchases right before QE ended in 2022, for example. For liabilities, the Fed held $2.9 trillion in bank reserves, $0.3 trillion in reverse repos (largely by foreign official institutions), $2.4 trillion in currency, and $0.9 trillion in the Treasury General Account. Reverse repos by the private sector grew rapidly during the post-pandemic balance sheet expansion and then fell below $10 billion outstanding by the time QT ended, and it remains to be seen whether the Fed's repo and reverse repo facilities will see heavy use now that the balance sheet has leveled off.[68]

In the 119th Congress, the Senate Homeland Security Committee held hearings on S. 2113, which would repeal the Fed's authority to pay interest on bank reserves held at the Fed. Similar language was offered as an amendment (S.Amdt. 3761 to S.Amdt. 3748) to the Senate's version of the FY2026 National Defense Authorization Act (S. 2296). The amendment was not adopted.

Policy issues for Congress going forward could include the following:

- Did the Fed's large purchases of Treasury securities compromise its independence by making it more susceptible to subordinating monetary policy in order to provide low-cost financing of the federal debt? Do the Fed's holdings (and its effect on Treasury yields) make policies that increase the federal debt more attractive to Congress and the Administration?
- Does QE contribute to asset bubbles that have negative implications for financial stability and wealth inequality? If so, do these costs outweigh the benefits of providing more stimulus during crises?
- To avoid disruptions to Treasury and repo markets, as occurred in the fall of 2019, did the Fed err on the side of leaving the balance sheet unnecessarily large when it ended QT in December 2025?
- Should the Fed ensure that financial institutions do not regularly engage in heavy use of Fed repos and reverse repos to avoid a permanently outsized presence in

[66] Because the MBS held by the Fed are backed mostly by mortgages with interest rates that are lower than current market rates, borrowers have not been repaying or refinancing those mortgages at a high pace, causing MBS roll-offs to be low in most months. The Fed reported roll-offs relative to the caps in Federal Reserve Bank of New York, *Open Market Operations During 2022*, April 2023, https://www.newyorkfed.org/medialibrary/media/markets/omo/omo2022-pdf. For technical reasons, the actual reduction in the balance sheet does not match these caps from month to month. For an explanation, see Federal Reserve Bank of New York, "The 'How and When' of the Fed's Balance Sheet Runoff," September 8, 2022, https://medium.com/new-york-fed/the-how-and-when-of-the-feds-balance-sheet-runoff-3c37787fa948.

[67] Federal Reserve Bank of New York, "Statement Regarding Reserve Management Purchases Operations," press release, December 10, 2025, https://www.newyorkfed.org/markets/opolicy/operating_policy_251210a.

[68] Borrowing from the repo facility over time will depend in part on how large of a balance sheet the Fed maintains. A relatively larger balance sheet will create more liquidity, reducing demand for repo borrowing.

private repo markets? Or is stigma associated with repo borrowing from the Fed preventing SROs from becoming an effective market stabilization tool?

- Did the Fed's MBS purchases contribute to making house prices rise out of reach for first-time buyers? Is the Fed's withdrawal from the MBS market happening at an appropriate pace, or should the Fed consider gradually selling its MBS holdings? Should Congress consider limiting the types of securities, such as MBS and agency debt, that the Fed is authorized to purchase?
- Is it possible or desirable for Congress to limit the Fed's future use of QE?
- Should Congress remove the tools that enable the Fed to maintain a large balance sheet and operate monetary policy with ample reserves, such as IOR?

For more information, see CRS In Focus IF12147, *The Federal Reserve's Balance Sheet*, by Marc Labonte.

Losses on the Fed's Balance Sheet

The Fed earns income on its loans, repos, and securities holdings, which, along with fees it charges, finance its expenses. Its expenses include operating expenses and the interest paid on bank reserves and reverse repos, two of its main liabilities. The difference between income and expenses is called net income, which is similar to profits. Net income is used first to pay statutorily required dividends to shareholders, with the remainder transferred to the Treasury (called remittances), where they are added to the federal government's general revenues.[69] Because remittances cannot be used to finance additional federal spending, they effectively make the budget deficit and federal debt smaller than they would otherwise be.

The Fed's balance sheet consists mostly of longer-term assets and very short-term liabilities. Typically, longer-term assets have higher yields than short-term liabilities do, so net income is positive. However, beginning in September 2022, the Fed's interest expenses exceeded its interest income, causing net income to be negative and remittances to temporarily fall to near zero. Net income became negative because interest rates rose sharply in 2022. As a result, the interest rate the Fed paid on bank reserves and reverse repos became higher than the yield on securities it acquired when interest rates were much lower. As discussed above, the Fed acquired large holdings of low-yielding securities through QE during the pandemic.[70] Interest expenses rose from $5.7 billion in 2021 to $102.4 billion in 2022 to a peak of $281.1 billion in 2023.

Remittances had not been zero since 1934.[71] From 2023 to the third quarter of 2025, they were unusually low.[72] The yield on the Fed's assets will eventually exceed the yield on its liabilities again—either because the Fed will reduce interest rates on its liabilities enough or because low-yielding assets on the Fed's balance sheet will eventually mature and be replaced by higher

[69] If the Fed's surplus were below its statutory cap, net income could also be used to increase it, but this scenario is unlikely.

[70] For example, at the end of 2024, 85% of its MBS holdings had coupon rates of 3% or lower. Data available at https://www.newyorkfed.org/data-and-statistics/data-visualization/system-open-market-account-portfolio.

[71] In some years, remittances were statutorily required. In years with no statutory requirement, remittances were the result of positive net income.

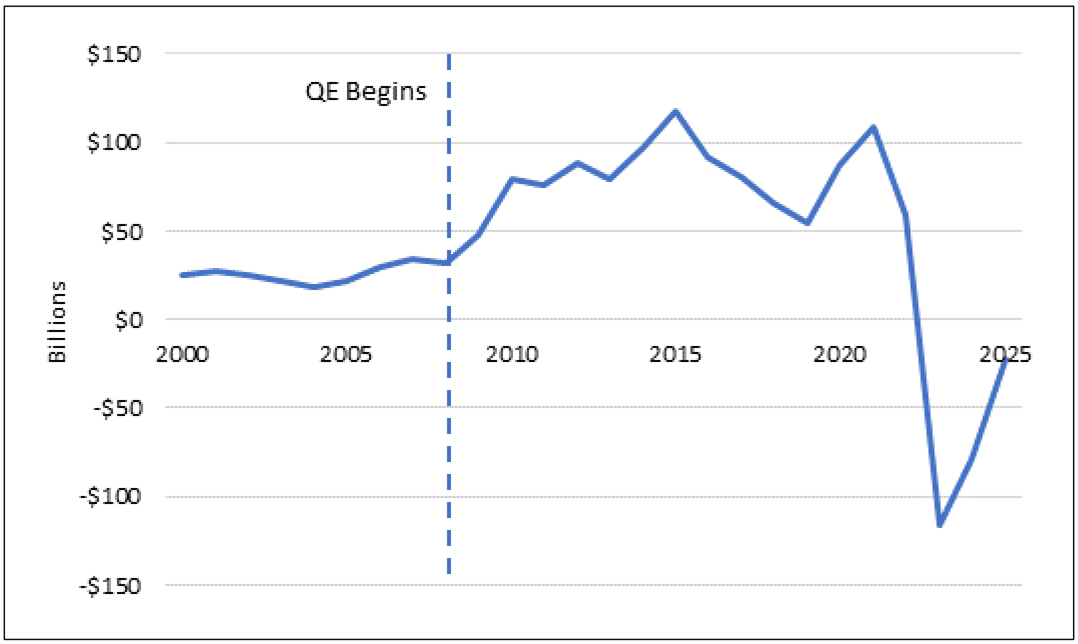
[72] Net income and remittances for each of the 12 Federal Reserve banks are calculated individually. Because not all 12 banks had negative net income throughout 2023 and 2024, a small balance was remitted to Treasury.

yielding assets.[73] At that point, net income will become positive again. Net income remained negative until late in 2025, when the federal funds rate was reduced.[74]

Although Fed losses have reduced federal revenues since September 2022, cumulative federal revenues over time have still been larger than they would have been if the Fed had not expanded its balance sheet, which led to unusually large remittances from 2009 to 2022 (see **Figure 4**). Beginning in 2009, its net income and remittances increased significantly as a result of its balance sheet growth caused by QE and low short-term interest rates on its liabilities. Between 2009 and 2022, annual remittances were between $47 billion and $117 billion each year. Before 2009, the largest annual remittance ever was $35 billion. Moreover, this considers only the direct effect of QE on the federal budget. If QE returned the economy to full employment faster, that also had a positive indirect effect on the federal budget.

Figure 4. Fed Net Remittances to Treasury

2000-2025



Sources: Federal Reserve, *Annual Report—2024*, Table G.10, https://www.federalreserve.gov/publications/2024-ar-statistical-tables.htm; Federal Reserve, *Federal Reserve Banks Combined Quarterly Financial Reports (Unaudited)*, 2025:Q3, Table 18, https://www.federalreserve.gov/aboutthefed/files/quarterly-report-20251121.pdf.

Notes: Negative remittances from 2023 to 2025 represent actual remittances plus negative net income. They do not represent a draw from Treasury; they represent future net income that Treasury will not receive. Data for

[73] The Fed does not mark its balance sheet holdings to market, so unrealized losses on assets do not reduce net income or remittances. So long as the Fed continues to hold its securities to maturity, as planned, the Fed will not realize any losses through sales of these securities, and the chance that these securities will suffer losses upon maturity is negligible.

[74] By statute, the CFPB is funded through a transfer from the Fed, and there has been disagreement about whether the Fed can make that transfer while it has negative net income. The Fed has made all requested transfers since it began running losses, but the Office of Legal Counsel argued in November 2025 that the law only allowed transfers to be made out of net income. In a broader case about the CFPB, the courts rejected this argument and required the CFPB to request a transfer from the Fed. See U.S. Department of Justice, Office of Legal Counsel, *Memorandum for Russell Vought*, November 7, 2025, https://www.justice.gov/olc/media/1417326/dl; Ebrima Santos Sanneh, "Judge Blocks Effort to Allow CFPB Funding to Run Out," *American Banker*, December 30, 2025, https://www.americanbanker.com/news/judge-blocks-effort-to-allow-cfpb-funding-to-run-out.

2025 are for the first nine months. Although the combined net income of the Federal Reserve banks was negative from 2023 to 2025, some banks had positive net income, which resulted in small remittances to Treasury.

Partly because of the statutory limit on its surplus, the Fed holds very little capital relative to its liabilities, and losses since September 2022 have been an order of magnitude larger than its entire surplus. But unlike a private company, the Fed does not reduce its capital, become insolvent, or require a capital infusion to maintain solvency in response to losses. Instead, under its accounting conventions, it registers the losses as a "deferred asset" or negative liability on its balance sheet.[75] At the end of the third quarter of 2025, the deferred asset was $243 billion. Positive net income in future years would be directed to eliminating this deferred asset before remittances to Treasury resume. In May 2025, the Congressional Budget Office projected that remittances would resume in FY2030.[76]

Private companies hold capital to prevent losses from causing insolvency. But unlike with a private company, the Fed's recent losses—which exceed its capital—have not affected its ability to honor its liabilities, and its creditors cannot compel it to declare bankruptcy. The Fed is not a profit-maximizing institution—its remittances are a byproduct of monetary policy, not the metric to judge the success of monetary policy. Losses are a sign not of mismanagement but that its interest-bearing liabilities had higher yields than its interest-bearing assets did. Losses since 2022 have not reduced the confidence of market participants and do not seem to have affected the Fed's political independence. If the Fed based monetary policy on concerns about its profits and losses, this would detract from achieving its statutory mandate of maximum employment and stable prices.

Policy issues for Congress going forward could include the following:

- Should the Fed reconsider how it conducts QE to reduce the possibility that future episodes of balance sheet expansion would ultimately result in losses (e.g., by purchasing short-term instead of long-term securities)?
- To reduce the possibility of future losses, should the Fed revert to the scarce reserves operating framework in place before 2008 so that it does not need to pay interest on reserves and reverse repos in order to target interest rates?[77]
- Should the Fed use conventional accounting standards that would increase transparency surrounding its financial condition but would require it to accumulate more capital (through reduced remittances) to absorb potential losses? Or would conventional accounting standards be inappropriate given its unique financial status?
- Should the CFPB have its own funding source or continue to be funded through transfers from the Fed? Does the Fed's temporary shift from a profit-making entity to a loss-making entity change the rationale for its financing of the CFPB's

[75] In the Fed's quarterly financial statements, the losses are presented as a deferred asset on the asset side of the balance sheet. In the weekly balance sheet H.4.1 data release, they are presented as a negative liability (labeled "earnings remittances due to the U.S. Treasury") on the liability side of the balance sheet. The deferred asset increases by combined losses of the Federal Reserve banks that are running losses and does not net out the positive net income from Federal Reserve banks that are not running losses. The positive net income is remitted to Treasury at the time it accrues.

[76] Congressional Budget Office, *Reconciliation Recommendations of the House Committee on Financial Services*, May 7, 2025, https://www.cbo.gov/publication/61379.

[77] If the Fed reverted to its pre-financial-crisis framework for conducting monetary policy, average profits would be lower, but losses would also be less likely.

operations? Should Congress clarify whether the CFPB can be funded when the Fed has negative net income or allow the legal process to play out?

- Should Congress raise the statutory limit on the Fed's surplus to increase the Fed's capital stock if it is concerned about losses? Alternatively, should Congress eliminate the surplus entirely to avoid further use of the surplus as a "pay for" for unrelated policy changes?[78]

Mandate Reform and Monetary Policy Strategy

2025 Monetary Policy Strategy Update

Until 2012, the Fed did not have an inflation target, meaning it did not provide public guidance on how it interpreted its statutory mandate numerically. Since 2012, the FOMC has explained how it interprets its mandate in its *Statement on Longer-Run Goals*. It defines *stable prices* as 2% inflation, measured as the annual percentage change in the PCE price index. It does not set a corresponding maximum employment target, because, in the Fed's view, maximum employment "is not directly measurable and changes over time owing largely to nonmonetary factors that affect the structure and dynamics of the labor market." The Fed aims to meet its target on average over time, offsetting periods of inflation below 2% with periods above 2%.

After a review, the FOMC announced revisions to its *Statement on Longer-Run Goals and Monetary Policy Strategy* on August 27, 2020.[79] The 2020 statement provided more detail on how monetary policy would react to the problems that interest rates had fallen to the zero lower bound in two consecutive recessions and inflation had fallen below its 2% target for most of the period from the financial crisis through 2020. It emphasized changes in strategy to make this less likely in the future, including advocating periods of above-target inflation to follow periods of below-target inflation (sometimes called "flexible average inflation targeting") and—assuming inflation is low—pledging to lower rates when unemployment is high but not to raise rates when unemployment is low. The latter approach was unorthodox but compatible with the tendency for inflation to be low regardless of whether unemployment was low or high from the financial crisis through 2020. Because inflation was above target instead of below target since 2021, critics argue that the 2020 revisions are no longer relevant and have instead become counterproductive.[80] For example, with its emphasis on not raising rates when unemployment is high, the 2020 revisions

[78] Previous efforts by Congress to prohibit the use of the surplus as a budgetary pay-for have failed because current Congresses cannot tie the hands of future Congresses. For example, a scorekeeping rule adopted in H.Con.Res. 290 in the 106th Congress prohibited the scoring of such Fed surplus transfers as a budgetary offset in the Senate. Although this rule was not repealed, surplus transfers have since been used as offsets.

[79] A description of the review is at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications.htm. The 2020 statement is at https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm. For more information, see CRS Insight IN11499, *The Federal Reserve's Revised Monetary Policy Strategy Statement*, by Marc Labonte.

[80] One study estimated that, as a result of the strategy shift, the Fed delayed raising the FFR from zero by two quarters and that inflation was 0.3 percentage points higher than it would otherwise be at its peak. Andrew Hodge et al., "U.S. and Euro Area Monetary and Fiscal Interactions During the Pandemic: A Structural Analysis," International Monetary Fund, November 11, 2022, https://www.imf.org/en/Publications/WP/Issues/2022/11/11/U-S-524029; Gauti B. Eggertsson and Don Kohn, "The Inflation Surge of the 2020s: The Role of Monetary Policy," Brookings Institution, August 2023, https://www.brookings.edu/wp-content/uploads/2023/07/WP87-Eggertsson-Kohn_7.25.pdf.

may have contributed to the Fed's decision to keep the FFR at zero until inflation had reached nearly 7%.[81]

The Fed conducted a new review in 2025 and updated its *Statement on Longer-Run Goals and Monetary Policy Strategy*.[82] The review did not reconsider the 2% inflation target, but it reversed many of the changes to the statement made in 2020. Specifically, it eliminated the strategy that the Fed would pursue high makeup inflation following inflation being too low and the emphasis on policy not responding to low unemployment unless inflation is high. Describing the latest review, Powell said that "a key objective has been to make sure that our framework is suitable across a broad range of economic conditions. At the same time, the framework needs to evolve with changes in the structure of the economy and our understanding of those changes."[83] With these changes, the statement reverted to being more a guide to the broad principles underpinning the Fed's monetary policy decisions and less a detailed explanation of how monetary policy would respond in specific scenarios. Although this provides less specific guidance to outside observers, it may be more robust across a range of potential outcomes.

Dual Mandate

The Fed's dual mandate provides the Fed with discretion on how to interpret the terms *maximum employment* and *stable prices* and how to achieve those goals. It contains no repercussions if the goals are missed—as they are whenever the economy enters a recession, as it did most recently in 2020, or when inflation is above target, as it has been since 2021. In practice, the mandate may be better thought of as a forward-looking guide (i.e., how monetary policy should react when economic outcomes differ from mandated goals) than a backward-looking benchmark (i.e., what the consequences are for the Fed when it misses its mandated goals). Unexpected events such as the pandemic and the war in Ukraine temporarily caused inflation and employment to deviate from the mandate, but the mandate guides how the Fed should respond when it does while providing the Fed maximum discretion to decide how to respond.

There is a long-standing debate among economists about what type of central bank mandate and what monetary policy strategies lead to the best economic outcomes.[84] The Fed had been successful at delivering consistently low and stable inflation over the past three decades—until 2021. Whether its policies or external forces are to blame for intermittent periods where maximum employment was not achieved during that time is debatable, but the Fed does not seem better or worse than its international peers at avoiding recessions. Some commentators believe that a sole goal of price stability would be more effective than the dual mandate at achieving low inflation and macroeconomic stability on the grounds that the Fed has no influence over employment in the long run.[85] Others believe that full employment should get more weight and

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[81] Anna Cieslak et al., "Did I Make Myself Clear? The Fed and the Market in the Post-2020 Framework Period," Brookings Institution, June 10, 2024, https://www.brookings.edu/wp-content/uploads/2024/05/Cieslak-McMahon-Pang-_conference-draft.pdf. See also Brookings Institution, "An Agenda for the Federal Reserve's Review of Its Monetary Policy Framework," June 14, 2024, https://www.brookings.edu/events/an-agenda-for-the-federal-reserves-review-of-monetary-policy-framework/.

[82] Federal Reserve, *2025 Statement on Longer-Run Goals and Monetary Policy Strategy*, August 22, 2025, https://www.federalreserve.gov/monetarypolicy/monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy-2025.htm.

[83] Chair Jerome H. Powell, "Monetary Policy and the Fed's Framework Review," speech, August 22, 2025, https://www.federalreserve.gov/newsevents/speech/powell20250822a.htm.

[84] See CRS Report R41656, *Changing the Federal Reserve's Mandate: An Economic Analysis*, by Marc Labonte.

[85] Thomas Hogan and Alexander William Salter, "The Fed Needs a Single Mandate," *The Hill*, July 30, 2022, https://thehill.com/opinion/finance/3580777-the-fed-needs-a-single-mandate/.

price stability less.[86] The Fed under the past few chairs has argued—and many economists agree—that the economy has been well served by a dual mandate that balances both parts of the mandate evenly. In any case, international comparisons suggest that central banks are likely to react to changes in both unemployment and inflation regardless of whether they have single or dual mandates.

Inflation Target

Independent of their mandate types, most central banks have adopted some sort of numerical inflation target or goal, although there is little consistency in how central banks react when actual inflation deviates from the target. Some economists believe that the Fed's 2% target is too low, while others believe it is too high. Some economists believe that a nominal GDP target or some form of price level targeting would work better than an inflation target. (A pure price level target, unlike the Fed's inflation target, would require a period of deflation to reverse price rises that occur during periods of high inflation.) Those targets would be more complicated, which could reduce public comprehension of Fed policy and the likelihood that they would be met. Other economists argue that discretionary monetary policy should be replaced or reduced by a focus on monetary policy rules[87]—that is, mathematical formulas that prescribe how interest rates should be set based on a limited number of economic variables, such as the output gap and inflation. Rules reduce arbitrary decisionmaking by removing emotion and instincts from policymaking, but opponents of these types of proposals believe that the need to nimbly react to unexpected shocks such as the financial crisis or the pandemic makes such proposals irrelevant or counterproductive in real-world policymaking. If these types of changes are desirable, the Fed could pursue them internally, or Congress could impose them through legislation.

Policy issues for Congress going forward could include the following:

- Should the current mandate be maintained because it has generally resulted in effective policymaking under diverse conditions? Would a change to the mandate strengthen or weaken congressional oversight?
- Has the recent period of high inflation strengthened the case for a single mandate of price stability? Does public displeasure with high inflation suggest that the Fed should put greater weight on maintaining price stability, even if it comes at the expense of maximum employment?
- Conversely, does the Fed overweight its price stability mandate compared to its maximum employment mandate? If so, what changes could more appropriately balance the two?
- Should financial stability be added to the Fed's statutory mandate, or is the Fed already sufficiently focused on financial stability?
- Is the 2% inflation target the best way to achieve the Fed's price stability mandate? Should the 2025 strategy review have reconsidered whether 2% is the best target? Should the Fed clarify how much inflation can deviate from its target and still be acceptable (e.g., 1%-3%)? Would another measure—such as a nominal GDP target, a price level target, or a policy rule—be more effective, or

[86] Fed Up, "A Full-Employment Economy, A Federal Reserve That Works for Working People," April 2021, https://fedupcampaign.org/wp-content/uploads/2021/06/A-Full-Employment-Economy-A-Fed-that-Works-for-Working-People.pdf.

[87] Sometimes monetary policy rules are called Taylor rules after the creator of an early rule, economist John Taylor. See CRS In Focus IF10207, *Monetary Policy and the Taylor Rule*, by Marc Labonte.

would those measures needlessly complicate monetary policymaking and reduce public understanding of the Fed's intentions?

Bank Regulation

The Fed regulates bank holding companies (BHCs) and thrift holding companies—parent companies that own most large and small depositories—to try to ensure that they do not pose safety and soundness risks to their depositories and for other regulatory requirements.[88] The Fed is also the primary prudential regulator of state-chartered banks that have elected to become members of the Federal Reserve System and most types of U.S. operations of foreign banking organizations. The Fed approves applications from banks under its jurisdiction, including merger applications and applications to form new banks.

The Fed has rulemaking, supervisory, and enforcement authorities to carry out its regulatory responsibilities, and many policy issues involve recent and forthcoming actions using those authorities. Often in concert with the other banking regulators,[89] it promulgates rules and guidance that apply to banks and examines depository firms under its supervision to ensure that those rules are being followed and that those firms are conducting business prudently. The Fed's supervisory authority includes consumer protection compliance for banks under its jurisdiction that have $10 billion or less in assets.[90]

The Fed has also historically had a focus on maintaining financial stability, which the Dodd-Frank Act made the primary responsibility of the Financial Stability Oversight Council (FSOC), with certain new duties assigned to the Fed.[91] For example, under the Dodd-Frank Act the Fed regulates large BHCs and systemically important financial institutions for systemic risk, as discussed in the next section. The Fed coordinates policy with other regulators on FSOC and through the Federal Financial Institutions Examination Council. The Fed also participates in intergovernmental fora, such as the Financial Stability Board and the Basel Committee on Banking Supervision (BCBS, an international forum to devise regulatory standards), alongside other U.S. agencies.

[88] The Fed was assigned regulatory responsibility for thrift holding companies as a result of the Dodd-Frank Act, which eliminated the Office of Thrift Supervision as the regulator of thrifts. Currently, the Fed regulates five thrift holding companies that own insurance subsidiaries. For more information on BHCs, see CRS Report R48291, *Bank Holding Companies: Background and Issues for Congress*, by Marc Labonte.

[89] The federal banking regulatory system is charter based. Federally chartered (national) commercial banks are regulated by the Office of the Comptroller of the Currency (OCC), and state-chartered commercial banks that do not join the Federal Reserve System are regulated by the Federal Deposit Insurance Corporation (FDIC). National banks are required to become members of the Fed, and state banks have the option of becoming members, but the Fed is the primary regulator of only the latter. A BHC is regulated by the Fed at the holding company level, and its banking subsidiaries can be regulated by the Fed, FDIC, or OCC, depending on the subsidiaries' charters. For more information, see CRS Report R44918, *Who Regulates Whom? An Overview of the U.S. Financial Regulatory Framework*, by Marc Labonte.

[90] The Dodd-Frank Act transferred the Fed's authority to promulgate consumer protection rules to the CFPB, but the Fed retained supervisory responsibilities for banks under its jurisdiction that have $10 billion or less in assets. Although the CFPB was created as a bureau of the Fed, the Fed has no authority to select CFPB's leadership or employees or to set or modify CFPB policy. The CFPB's budget is financed by a transfer from the Fed. The amount is set in statute and cannot be altered by the Fed. For more information, see CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*, by Cheryl R. Cooper and David H. Carpenter.

[91] FSOC is a council of regulators, including the Fed, headed by the Treasury Secretary. See CRS Report R48739, *Financial Stability Oversight Council: Policy Issues in the 119th Congress*, by Marc Labonte.

There are a number of ongoing regulatory issues of interest to Congress covered in the following sections. There are also joint regulatory initiatives with other federal financial regulators that are beyond the scope of this report.

Regulatory Relief

Regulatory relief for banks has been the focus of regulatory and supervisory initiatives since Michelle Bowman became vice chair for supervision in June 2025. She has stressed the importance of tailoring regulations to take into account the regulatory burden on banks of various types and sizes.[92] Her priorities are consistent with those of President Trump and the chairs of the committees of jurisdiction in the 119th Congress.[93] They are also consistent with the priorities of the heads of the FDIC and the Office of the Comptroller of the Currency (OCC)—who were also selected by President Trump—resulting in several joint rulemaking among the three agencies.

Regulatory relief is intended to reduce the regulatory burden on banks. To the extent that markets are competitive, these cost savings may be passed on to consumers. However, regulatory relief may also reduce the benefits and effectiveness of the affected regulations. Regulations are intended to help achieve the goals of bank policy, which include ensuring the safety and soundness of the banking system, financial stability, preventing illicit activity, and consumer protection. Removing regulations could be detrimental to achieving these goals. Policymakers debate the proper balance between the benefits and costs of regulatory relief.

The Fed under Vice Chair Bowman has pursued regulatory relief through new rulemakings and guidance, the recission of rulemakings and guidance issued under former Vice Chair Barr (or before), and supervisory changes.

New rulemakings include:

- a final rule reducing the enhanced supplementary leverage ratio (for detail, see "Large Bank Issues" below);
- proposed rules enhancing stress test transparency for large banks (see "Large Bank Issues" below); and
- a joint proposal to permanently reduce the community bank leverage ratio to 8% and allow a longer grace period (four quarters instead of two) when participating banks fall below the minimum requirement so long as they do not fall below 7% and do not use the grace period for more than eight out of 20 quarters.[94]

Rescinded rules or guidance include:

[92] Vice Chair for Supervision Michelle W. Bowman, "Taking a Fresh Look at Supervision and Regulation," speech, June 6, 2025, https://www.federalreserve.gov/newsevents/speech/bowman20250606a.htm.

[93] See White House, "Regulatory Freeze Pending Review," January 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/01/regulatory-freeze-pending-review/; U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, "Scott Announces Banking Committee Priorities for the 119th Congress," press release, January 15, 2025, https://www.banking.senate.gov/newsroom/majority/scott-announces-banking-committee-priorities-for-the-119th-congress; and U.S. Congress, House Committee on Financial Services, "Authorization and Oversight Plan of the Committee on Financial Services," https://docs.house.gov/meetings/BA/BA00/20250122/117834/HMTG-119-BA00-20250122-SD004.pdf.

[94] OCC, Federal Reserve, FDIC, "Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework," 90 *Federal Register* 228, December 1, 2025, https://www.fdic.gov/board/npr-cblr-npr-frn-2025.pdf.

- a joint notice of proposed rulemaking to rescind the 2023 Community Reinvestment Act modernization rulemaking and reinstate the framework that existed prior to the 2023 rulemaking,[95]
- joint climate risk management guidance for large banks (see "Climate Change" below), and
- various guidance that effectively limited banks' involvement in crypto activities (see "Crypto and Banking" below).

Supervisory changes include:

- supervisory guidance that the Fed was removing references to reputational risk from its risk management guidelines,[96]
- supervisory staff cuts at the board (see "Fed Supervision" below),
- changing the Fed's rating system for large financial institutions (see "Fed Supervision" below),
- an internal memorandum directing supervisors to change their approach to supervision (see "Fed Supervision" below), and
- the elimination of a supervisory group dedicated to banks' novel activities (such as financial technology and crypto; see "Crypto and Banking" below).[97]

Vice Chair Bowman has also called for reducing delays in the bank merger approval process.[98] The Fed's (and OCC's) approval of the Discover–Capital One merger to form the eighth-largest U.S. BHC occurred after Barr stepped down as vice chair.

Two other dynamics have also facilitated regulatory relief. First, the bank regulators are in the midst of a statutorily mandated periodic review to "identify outdated or otherwise unnecessary regulatory requirements" with the goal of reducing regulatory burden.[99] This review will likely culminate in rulemaking to provide targeted regulatory relief across a number of bank regulatory requirements.

Second, the Supreme Court's 2024 *Loper* decision overturning the Chevron doctrine ended judicial deference to "reasonable agency interpretations of an ambiguous statute." This decision may lead to more—and possibly more successful—legal challenges by banks to regulations.[100] An

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[95] OCC, Federal Reserve, FDIC, "Community Reinvestment Act Regulations," 90 *Federal Register* 34086, July 18, 2025. A version of the March announcement can be found at https://occ.gov/news-issuances/news-releases/2025/nr-ia-2025-26.html.

[96] Federal Reserve, "Federal Reserve Board Announces That Reputational Risk Will No Longer Be a Component of Examination Programs in Its Supervision of Banks," press release, June 23, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250623a.htm.

[97] Federal Reserve, "Federal Reserve Board Announces It Will Sunset Its Novel Activities Supervision Program and Return to Monitoring Banks' Novel Activities Through the Normal Supervisory Process," press release, August 15, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250815a.htm.

[98] Governor Michelle W. Bowman, "Bank Mergers and Acquisitions, and De Novo Bank Formation: Implications for the Future of the Banking System," speech, April 2, 2024, https://www.federalreserve.gov/newsevents/speech/bowman20240402a.htm.

[99] Section 2222 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (P.L. 104-208, 12 U.S.C. §3311) requires the bank regulators to conduct this review every 10 years. The review culminates with a report to Congress, likely to be released in 2027. The regulators maintain a website tracking this process at https://egrpra.ffiec.gov/.

[100] See CRS Report R48320, *Loper Bright Enterprises v. Raimondo and the Future of Agency Interpretations of Law*, by Benjamin M. Barczewski.

early example of how *Loper* may change the Fed's approach to regulation were two developments at the end of 2024. First, the Fed announced that "due to the evolving legal landscape," it planned to submit future annual large bank stress tests—which have been conducted in various forms without rulemaking since 2009—to the rulemaking process. Second, bank trade groups filed a lawsuit to require the Fed to submit documents related to future stress tests to the rulemaking process and vacate recent stress testing documents that were not subject to the rulemaking process.[101]

Policy issues for Congress going forward could include the following:

- Will regulatory relief increase the number of bank failures, imposing costs on taxpayers via federal deposit insurance? Are the small number of bank failures since 2015 (less than 10 per year) a sign that reforms to safety and soundness regulation after the financial crisis have been effective or a sign that they have been overly restrictive?
- Have unduly burdensome regulations undermined bank competitiveness in core lending markets? Has this increased systemic risk by pushing activity into less regulated nonbank financial institutions?
- Should all regulations be tailored to limit the regulatory burden on small banks? Is ad hoc tailoring on a case-by-case basis optimal, or should Congress formalize or prohibit tailoring?
- If the pace of bank mergers were to increase, would this make the banking system more or less competitive? Should bank regulators reduce the time and burden associated with the merger approval process?
- Should Congress legislate to restore deference to agencies, or does the *Loper* decision properly shift authority from agencies to the courts?

For more information, see CRS In Focus IF10162, *Introduction to Financial Services: "Regulatory Relief"*, by Marc Labonte.

Large Bank Issues

The 2007-2009 financial crisis highlighted the problem of "too big to fail" (TBTF) financial institutions—the concept that the failure of large financial firms could trigger financial instability, which in several cases prompted extraordinary federal assistance to prevent their failure. Title I of the 2010 Dodd-Frank Act (P.L. 111-203) aimed to increase financial stability and end TBTF by creating an enhanced prudential regulatory (EPR) regime administered by the Fed that applies to large banks and to nonbank financial institutions designated by FSOC as systemically important financial institutions. Since enactment, the number of designated nonbank firms has ranged from four to none today.[102]

[101] Federal Reserve, "Due to Evolving Legal Landscape and Changes in the Framework of Administrative Law, Federal Reserve Board Will Soon Seek Public Comment on Significant Changes to Improve Transparency of Bank Stress Tests and Reduce Volatility of Resulting Capital Requirements," press release, December 23, 2024, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20241223a.htm; *Bank Policy Institute v. Board of Governors of the Federal Reserve System*, Case: 2:24-cv-04300-EAS-CMV, Doc #: 1, https://bpi.com/wp-content/uploads/2024/12/BPI-OHChamber-OHBankers-ABA-Chamber-Stress-Testing-Complaint-2024.12.24.pdf.

[102] See CRS Insight IN10982, *After Prudential, Are There Any Systemically Important Nonbanks?*, by Marc Labonte and Baird Webel.

Under this regime, the Fed is required to apply a number of safety and soundness requirements to large banks that are more stringent than those applied to smaller banks and are intended to mitigate systemic risk:

- **Stress tests and capital planning** are designed to ensure that banks hold enough capital to survive a crisis. Stress tests are conducted by both the Fed and the banks.
- **Resolution plans ("living wills")** provide plans to safely wind down failing banks.
- **Liquidity requirements** are designed to ensure that banks are sufficiently liquid if they lose access to funding markets.
- **Counterparty limits** restrict banks' exposure to counterparty default.
- **Risk management** standards require publicly traded companies to have risk committees on their boards and banks to have chief risk officers.
- **Financial stability** requirements provide for regulatory interventions that can be taken only if a bank poses a threat to financial stability.
- **Capital requirements** require large banks to hold more capital than other banks do to potentially absorb unforeseen losses. These include the **supplementary leverage ratio**. The eight banks that have been designated as global systemically important banks (G-SIBs) by the Financial Stability Board must also meet a **G-SIB capital surcharge** and a (higher) **enhanced supplementary leverage ratio (eSLR)**. Stress test results determine how much capital large banks must hold through the **stress capital buffer**.

The Dodd-Frank Act automatically subjected all BHCs and foreign banks operating in the United States with more than $50 billion in assets to EPR. In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174) created a more tiered and tailored EPR regime for banks. It eliminated most EPR requirements for banks with assets between $50 billion and $100 billion, with the exception of risk management requirements. G-SIBs and banks that have more than $250 billion in assets automatically remain subject to all EPR requirements, as modified. Section 401 of P.L. 115-174 gives the Fed discretion to apply most individual EPR provisions to banks with between $100 billion and $250 billion in assets on a case-by-case basis only if the provisions would promote financial stability or the institution's safety and soundness.[103] Under the Fed's 2019 implementing rules, large banks are placed into four categories based on their size and complexity, and progressively more stringent requirements are imposed on them.[104] The rule also applied EPR to foreign banks with large U.S. operations and

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[103] Members of Congress debated whether P.L. 115-174 and the Fed's implementing rule in 2019 contributed to SVB's failure. Because SVB was under $250 billion in assets when it failed, it was never subject to EPR requirements applying to Category III banks. SVB had over $100 billion in assets in 2020, but the Fed phased in compliance with those requirements slowly when a bank crossed the threshold, so SVB was never subject to EPR requirements applying to Category IV banks before it failed. Even if it had been subject to these rules, it is questionable whether most of them would have addressed the specific causes of SVB's failure. For more information, see the section titled "Role of EPR in 2023 Bank Failures" in CRS Report R47876, *Enhanced Prudential Regulation of Large Banks*, by Marc Labonte.

[104] Federal Reserve, "Federal Reserve Board Finalizes Rules That Tailor Its Regulations for Domestic and Foreign Banks to More Closely Match Their Risk Profiles," press release, October 10, 2019, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191010a.htm; Federal Reserve, "Federal Reserve Board Issues Final Rule Modifying the Annual Assessment Fees for Its Supervision and Regulation of Large Financial Companies," press release, November 19, 2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201119a.htm; Federal Reserve, FDIC, and OCC, "Agencies Issue Final Rule to Strengthen Resilience of Large Banks," press release, October 20, (continued...)

large savings and loan (thrift) holding companies that are not predominantly engaged in insurance or nonfinancial activities.[105] Members of Congress debated whether P.L. 115-174 and the Fed's 2019 implementing rule contributed to the failure of Silicon Valley Bank (SVB) in 2023, which was above the pre-2019 asset threshold but below the current threshold.[106]

Earlier proposed rules that face an uncertain fate under new leadership include:

- The federal banking regulators issued a joint proposal to implement the "Basel III Endgame" in July 2023 for banks with $100 billion or more in assets. The proposal would implement the BCBS's 2017 "Endgame" proposal along with certain other changes in response to issues that arose when three large banks failed in 2023. According to the proposal, its purpose is to improve the consistency of capital requirements across banks, better match capital requirements to risk, reduce their complexity, and improve transparency of banks' financial conditions for supervisors and the public. The proposal would also require banks with over $100 billion in assets to include unrealized capital gains and losses on available-for-sale debt securities in calculating their capital levels. Unrealized capital losses were one of the primary causes of SVB's failure in 2023. The proposal would also extend two capital requirements—the supplementary leverage ratio and countercyclical capital buffer—to all banks with over $100 billion in assets.[107] Vice Chair Bowman testified, "Finalizing Basel III is an important act of closure for the banking sector," but she signaled that she intended to make changes from the proposal.[108]
- On the same day, in a separate proposal, the Fed proposed changing how the G-SIB surcharge is calculated to "improve the precision of the G-SIB surcharge and better measure systemic risk."[109]
- In August 2023, the banking regulators proposed subjecting all banks with $100 billion or more in assets to long-term debt requirements and clean holding company requirements to facilitate orderly liquidation in the event of a bank's failure.[110]

2020, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201020b.htm; Federal Reserve and FDIC, "Agencies Finalize Changes to Resolution Plan Requirements; Keeps Requirements for Largest Firms and Reduces Requirements for Smaller Firms," press release, October 28, 2019, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20191028b.htm.

[105] For a summary of the rule, see Federal Reserve, "Requirements for Domestic and Foreign Banking Organizations," https://www.federalreserve.gov/aboutthefed/boardmeetings/files/tailoring-rule-visual-20191010.pdf.

[106] For more information, see CRS Insight IN12129, *Silicon Valley Bank, Signature Bank, and P.L. 115-174: Part 1 (Background and Policy Options)*, by Marc Labonte.

[107] For more information, see CRS Report R47855, *Bank Capital Requirements: Basel III Endgame*, by Marc Labonte and Andrew P. Scott.

[108] *CQ Congressional Transcripts*, "House Financial Services Committee Holds Hearing on Oversight of Prudential Regulators," December 2, 2025, https://plus.cq.com/doc/congressionaltranscripts-8361133?1.

[109] The proposal was published in the *Federal Register* in September 2023. Federal Reserve, "Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)," 88 *Federal Register* 60385, September 1, 2023, https://www.govinfo.gov/content/pkg/FR-2023-09-01/pdf/2023-16896.pdf.

[110] OCC, Federal Reserve, and FDIC, "Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions," 88 *Federal Register* 64524, September 19, 2023, https://www.govinfo.gov/content/pkg/FR-2023-09-19/pdf/2023-19265.pdf. The proposal also makes technical changes to the TLAC rule. For a comparison, see Davis Polk, (continued...)

Recent proposed or final rules—in some cases issued jointly with other bank regulators—that would modify large bank regulatory requirements include[111]:

- In April 2025, the Fed issued a proposed rule modifying the large bank stress test process. It would base capital requirements on the past two years of stress test results, reducing the volatility of their year-to-year capital requirements. It would also give these banks an additional three months to meet the annual capital requirements and reduce data reporting requirements.[112] In October 2025, the Fed issued a proposed rule to make the 2026 bank stress test scenarios, framework, and models subject to notice and comment, with a commitment to seek similar notice and comment in future years.[113]
- In November 2025, the banking agencies rescinded guidance on climate-related financial risk management for banks with over $100 billion in assets.[114]
- In November 2025, the banking agencies issued a joint final rule reducing the eSLR for G-SIBs. At the holding company level, the rule reduces the eSLR from 5% to 3% plus 50% of the G-SIB's Method 1 capital surcharge. For the depository subsidiaries, the rule reduces the eSLR from 6% to no more than 4%.[115] The agencies argue that the rule will "help ensure that the enhanced supplementary leverage ratio standards serve as a backstop to risk-based capital requirements rather than a frequently binding constraint, thus reducing potential disincentives for GSIBs and covered depository institutions to participate in low-risk, low-return activities," such as Treasury market making.[116] Improved market making could make Treasury markets less fragile, which has been a focus of policymakers for several years.[117] But the rule does not directly change the capital treatment of Treasury securities, and lower capital requirements could also make the G-SIBs more likely to fail and cause financial instability.

In the 119th Congress, the House Financial Services Committee ordered to be reported an amendment in the nature of a substitute to H.R. 6553,[118] which would increase the asset thresholds for EPR from $100 billion to $150 billion and from $250 billion to $370 billion with subsequent adjustments every five years based on the growth of nominal GDP. The committee

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"Comparison of the Long-Term Debt Proposal to the Existing TLAC Rule," September 5, 2023, https://www.davispolk.com/sites/default/files/2023-09/comparison-of-LTD-proposal-and-TLAC-rule.pdf.

111 The Fed has also made changes to the supervision of large banks in 2025. See the section titled "LFI Reform."

112 Federal Reserve, "Federal Reserve Board Requests Comment on a Proposal to Reduce the Volatility of the Capital Requirements Stemming from the Board's Annual Stress Test Results," press release, April 17, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250417a.htm.

113 Federal Reserve, "Federal Reserve Board Requests Comment on Proposals to Enhance the Transparency and Public Accountability of Its Annual Stress Test," press release, October 24, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251024a.htm.

114 See the section below titled "Climate Change."

115 Federal Reserve, FDIC, and OCC, "Agencies Issue Final Rule to Modify Certain Regulatory Capital Standards," joint press release, November 25, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251125b.htm. For more information, see CRS In Focus IF13078, *Bank Capital Requirements and Treasury Market Resiliency*, by Marc Labonte.

116 Federal Reserve, FDIC, and OCC, "Agencies Issue Final Rule to Modify Certain Regulatory Capital Standards."

117 For more information, see CRS In Focus IF13078, *Bank Capital Requirements and Treasury Market Resiliency*, by Marc Labonte.

118 Available at https://docs.house.gov/meetings/BA/BA00/20251216/118780/BILLS-119-HR6553-B001282-Amdt-15.pdf.

also ordered to be reported an amendment in the nature of a substitute to H.R. 5270,[119] which would codify stress-test disclosures similar to those that the Fed proposed in 2025.

Policy issues for Congress going forward could include the following:

- Has the Dodd-Frank Act, as amended, effectively mitigated TBTF? Or do large banks pose more systemic risk now than they did at the time of enactment? If so, are complementary or alternative policy approaches needed to address TBTF? How much additional regulation for large banks is consistent with a "level playing field" when TBTF is a factor?
- Did the 2019 changes to EPR better tailor EPR to match the risks posed by large banks? Or did these changes allow additional systemic and taxpayer risk that outweigh the benefit of reduced regulatory burden, especially if the benefits have accrued mainly to the affected banks? Should Congress revisit the scope or applicability of EPR—such as the asset threshold for mandatory application of EPR and the exemption of large banks without holding companies—following the large bank failures of 2023?
- Should annual supervisory stress tests be subject to the rulemaking process? Is there sufficient transparency surrounding these stress tests? Or would greater transparency be akin to giving banks the answers to the exam in advance?
- If one wanted to ensure that risk-weighted capital requirements are binding, should risk-weighted capital requirements be raised, or should leverage requirements such as the eSLR be lowered?
- Is reducing the eSLR the best way to ensure that banks are not disincentivized to hold Treasury securities? Or would a better approach be to exempt Treasury securities from all leverage requirements for all banks? Or are Treasury markets already sufficiently resilient to not merit a reduction in capital requirements?
- Should the Fed repropose the Basel Endgame rule to meet international commitments? Or are existing capital requirements adequately addressing risk at large banks? Should Congress have more input on internationally negotiated regulatory standards?

For more information, see CRS In Focus IF12755, *"Too Big to Fail" Financial Institutions: Policy Issues*, by Marc Labonte; and CRS Report R47876, *Enhanced Prudential Regulation of Large Banks*, by Marc Labonte.

Fed Supervision

When the Fed examines a bank and finds deficiencies in its operations, the Fed can issue a Matter Requiring Attention (MRA), which provides the bank a written explanation of the problems that need to be remedied. If a problem is more serious, the Fed can issue a legally binding Enforcement Action. It can also give the bank a poor rating for one exam component or overall, which can result in greater supervisory scrutiny and remediation. The Fed periodically presents aggregate data only on bank ratings and MRAs. (All supervisory information for individual banks is confidential.) Data in recent years indicate a large number of outstanding MRAs overall. For large banks specifically, there were a significant number of MRAs per bank as well as a large number of banks with poor ratings. However, MRAs and supervisory ratings are subject to

[119] Available at https://docs.house.gov/meetings/BA/BA00/20250916/118626/BILLS-119-HR5270-H001058-Amdt-5.pdf.

examiners' judgment. Looking at "hard" data, over 99% of banks were well capitalized, and there have been fewer than 10 bank failures a year since 2015.[120] On the other hand, SVB, the third-largest failure in history in 2023, was regulated by the Fed. The Fed's post-mortem report found that the problems that caused SVB's failure should have been identified more quickly and dealt with more aggressively by Fed supervisors.[121]

Because of the confidential nature of supervision, it is difficult to know what this means for bank regulatory compliance and the Fed's supervisory vigilance. Does the large number of less-than-satisfactory ratings and outstanding MRAs imply that banks are rife with reckless behavior, endangering financial stability? If they are, why has the Fed not taken stronger actions to ensure the safety and soundness of the financial system? Given that there are thousands of MRAs outstanding each year, why does the Fed report that the "banking system remains sound and resilient"?[122] Or are banks being unreasonably burdened with trivial, rote, and nebulous compliance issues that pose no real risk to safety and soundness? Less-than-satisfactory ratings or outstanding findings are not concentrated in areas directly linked to financial risk, such as capital, credit risk, and liquidity—although the share is not trivial, especially for the G-SIBs.

Policymakers could potentially respond to the large number of reported problems by directing examiners to more aggressively induce banks to address them. Alternatively, the number of reported problems could be reduced by reducing the number of examiners, downgrading enforcement actions to MRAs and MRAs to informal findings, or directing examiners to report fewer problems. Vice Chair Bowman has said, "We should be cautious about the temptation to overemphasize or become distracted by relatively less important procedural and documentation shortcomings."[123]

To date, the Fed has announced three initiatives under her leadership that bear on this issue—supervisory staff cuts, changing the Fed's rating system for large financial institutions (LFIs), and directing supervisors to change their approach to supervision. She has also signaled in testimony that the Fed "is also considering a regulation that would clarify the standards for enforcement actions based on an unsafe or unsound practice, Matters Requiring Attention (MRAs), and other supervisory findings based on threats to safety and soundness" and changes to the management component of examinations, which is viewed as a more subjective component.[124] The Fed also disbanded a novel activities supervisory group in 2025 that is discussed in the section entitled "Cryptocurrency and Banking."

Supervisory Priorities Memorandum

In November 2025, the Fed publicly released an internal memorandum to Fed supervisory staff on Vice Chair Bowman's priorities and principles for bank supervision, described as "broad

[120] This figure includes all banks regulated by the Fed, FDIC, or OCC. Data available at https://www.fdic.gov/resources/resolutions/bank-failures/in-brief/index.

[121] Federal Reserve, "Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank," April 2023, https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf.

[122] Testimony of Vice Chair for Supervision Michelle W. Bowman, "Supervision and Regulation," U.S. Congress, House Committee on Financial Services, December 2, 2025, https://www.federalreserve.gov/newsevents/testimony/bowman20251202a.htm.

[123] Vice Chair for Supervision Michelle W. Bowman, "Taking a Fresh Look at Supervision and Regulation," speech, June 6, 2025, https://www.federalreserve.gov/newsevents/speech/bowman20250606a.htm.

[124] Bowman, "Supervision and Regulation."

changes to the conduct of [Fed] supervision."[125] The memorandum called for staff to focus on a firm's material financial risks and to not be "distracted from this priority by devoting excessive attention to processes, procedures, and documentation." It stated that the Fed would be reversing its current policy of not making nonbinding supervisory observations and suggested making nonbinding observations in lieu of formal MRAs.[126] It directed supervisory staff not to conduct their own examinations of bank subsidiaries that are already examined by other primary state or federal regulators and to rely on state examiners in alternate years for state member banks where the Fed is the primary federal regulator. The memorandum called for expediting the termination of MRAs based on bank self-certification of validation and stated that MRAs should no longer be issued for procedural or documentation shortcomings that do not pose material threats to safety and soundness.

Staff Cuts

In December 2025, Vice Chair Bowman testified that the Fed was planning to reduce staff in the board's Division of Supervision and Regulation by 30%.[127] Reportedly, this would occur in 2026.[128] It is unclear whether this would be in addition to the previously announced 10% reduction (discussed below) or would be relative to pre-reduction staff levels. Supervisory and regulatory policy is crafted by the board, but examiners are located in the Federal Reserve banks. It is unclear whether the banks intend to follow the board's lead on this staff reduction.

LFI Reform

The Fed categorizes financial institutions under its jurisdiction for supervision based on asset size. Under the LFI Supervisory Framework, LFIs[129] receive ratings of *broadly meets expectations*, *conditionally meets expectations*, *deficient-1*, or *deficient-2* in each of three categories (capital, liquidity, and governance and controls). Previously, if an institution received a *deficient-1* or *deficient-2* rating in any category, then it was not considered to be "well managed" overall. Well-managed status has implications for regulation, such as the institution's ability to operate as a financial holding company, which allows for a wider range of permissible activities.[130] In the past five years, at least half of LFIs have not been considered well managed each year. The most frequent reason is a *deficient-1* or *deficient-2* rating in governance and controls.[131]

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[125] Federal Reserve, "Federal Reserve Board Releases Information Regarding Enhancements to Bank Supervision," press release, November 18, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251118a.htm.

[126] Supervisory observations were removed in 2013 to "better focus an organization's board of directors' attention on deficiencies found during the supervision process." Federal Reserve, "SR 13-13 / CA 13-10: Supervisory Considerations for the Communication of Supervisory Findings," June 17, 2013, https://www.federalreserve.gov/supervisionreg/srletters/sr1313.htm.

[127] *CQ Congressional Transcripts*, "House Financial Services Committee Holds Hearing on Oversight of Prudential Regulators."

[128] Dylan Tokar and Nick Timiraos, "Federal Reserve to Reduce Bank Supervision Staff by 30%," *Wall Street Journal*, October 30, 2025, https://www.wsj.com/economy/central-banking/federal-reserve-to-reduce-bank-supervision-staff-by-30-84fcd65f.

[129] U.S. banks with over $100 billion in assets and U.S. intermediate holding companies of foreign banks with over $50 billion in assets are subject to the LFI framework.

[130] See CRS Report R48291, *Bank Holding Companies: Background and Issues for Congress*, by Marc Labonte.

[131] Federal Reserve, *Supervision and Regulation Report*, December 2025, https://www.federalreserve.gov/publications/2025-december-supervision-and-regulation-report.htm.

In November 2025, the Fed issued a final rule revising the LFI framework.[132] The rule modified this framework so that an LFI with a *deficient-1* rating in one category is now considered well managed so long as it receives at least a *conditionally meets expectations* rating in the other categories. The Fed estimates that under the rule, the number of LFIs that would be considered not well managed at the holding company level would fall from 17 to 10 (out of 36 total).[133] The rule removed the presumption that one or more *deficient-1* ratings would result in the institution being subject to informal or formal enforcement actions.

Vice Chair Bowman said, "Bank ratings should reflect overall safety and soundness, not just isolated deficiencies in a single component. These framework changes address this by helping to ensure that overall firm condition is the primary consideration in a bank's rating."[134] In a dissenting vote, Governor Barr stated that the rule "would undermine oversight of the largest 36 banks in the country by allowing poorly managed large banks to be treated as well managed—granting them privileges meant only for strong, healthy institutions. The changes would increase risks to individual banks, the financial system, households and businesses, and the broader economy."[135]

Congressional Oversight

Congress has oversight responsibilities for Fed supervision. Statute gives the bank regulators broad discretion on how to supervise banks. Congress has largely deferred to the Fed on its supervisory practices in the past, reflecting its status as a highly independent, self-funded agency. Oversight is also hindered by the fact that most supervisory information from the bank regulators, such as a bank's rating, is highly confidential, because bank-specific information could be market moving. Yet even aggregate, anonymized information is highly limited.[136] Legislation in the 119th Congress has sought to reduce the regulatory burden associated with bank supervision.

Policy issues for Congress going forward could include the following:

- Has bank supervision in recent years been bogged down by excessive proceduralism and costly requirements that do not meaningfully mitigate material risk? Or will lighter-touch supervision result in more bank failures and more violations of consumer protection and illicit finance policies?
- Can Congress conduct effective oversight of supervision when little information on supervision is publicly disclosed?

For more information, see CRS Report R46648, *Bank Supervision by Federal Regulators: Overview and Policy Issues*, by David W. Perkins.

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[132] Federal Reserve, "Revisions to the Large Financial Institution Rating System and Framework for the Supervision of Insurance Organizations," 90 *Federal Register* 219, November 17, 2025, https://www.govinfo.gov/content/pkg/FR-2025-11-17/pdf/2025-19945.pdf.

[133] Some firms that shifted from not well managed to well managed under the LFI framework may still have subsidiaries that are classified as not well managed under other frameworks. The rule also makes parallel changes to the Insurance Supervisory Framework. The Fed supervises five depository holding companies with at least 25% of their consolidated business in insurance under this framework. The rule would not change the number of institutions that would be considered well managed under the Insurance Supervisory Framework.

[134] Federal Reserve, "Federal Reserve Board Finalizes Changes to Its Supervisory Rating Framework for Large Bank Holding Companies," press release, November 5, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251105a.htm.

[135] Federal Reserve, "Statement on Large Financial Institution Rating Framework by Governor Michael S. Barr," press release, November 5, 2025, https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20251105.htm.

[136] See CRS In Focus IF12454, *Bank Failures and Congressional Oversight*, by Marc Labonte.

Climate Change

The Fed increased its focus on the financial and economic risks posed by climate change in recent years before reversing course in 2025. In 2020, the Fed joined the Network for Greening the Financial System, a group of over 80 central banks and regulators focused on climate-related risks. However, the Fed withdrew from the network in January 2025. In 2021, the Fed created two internal committees related to climate risk. It disbanded those committees in March 2025.[137]

Building on existing regulatory practices,[138] in October 2023, the Fed and other banking regulators issued joint final guidance that provided "a high-level framework for the safe and sound management of exposures to climate-related financial risks" for banks with over $100 billion in assets.[139] In November 2025, the banking regulators rescinded this joint guidance.[140]

In 2023, the six largest banks participated in a Fed-led pilot "climate scenario analysis" to "help identify potential risks and promote risk management practices."[141] This exercise does not have any implications for capital requirements or supervision and therefore is not considered by the Fed to be a stress test. Members of Congress have debated whether large banks should be subject to "climate stress tests." Under a true climate stress test, capital requirements would be based in part on a bank's exposure to climate risk. One challenge to climate stress testing is that time horizons are much longer than in current stress tests and subject to significant uncertainty.

Some argue that climate change has implications for economic and financial stability. For example, a 2021 report from FSOC, of which the Fed is a member, identified climate change as an emerging and increasing threat to financial stability and made a number of recommendations for agency actions, which included the actions taken by the Fed.[142]

Critics argue that due to the gradual nature of climate change, it is unlikely to pose systemic risk, because financial markets will have time to adjust and reprice assets and credit to reflect higher disaster risk.[143] They are also concerned that climate risk policies will unfairly steer credit away from fossil fuel and other energy-intensive industries. They argue that climate change policy is best addressed by Congress and that a focus on climate change distracts the Fed from its mission.

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137 Alastair Marsh, "Fed Disbands Climate Groups Studying Financial Stability Risks," *Bloomberg*, May 28, 2025, https://www.bloomberg.com/news/articles/2025-05-28/fed-disbands-climate-groups-studying-financial-stability-risks.

138 In the past, the Fed has stated that climate risk is covered by its existing supervisory guidance on underwriting, which requires bank management to take into account all relevant risks. Further, it stated that its guidance on managing risk from extreme weather events is well equipped for managing an increase in extreme weather events caused by climate change. See Jerome Powell, letter to the Hon. Brian Schatz, April 18, 2019, https://www.schatz.senate.gov/imo/media/doc/Chair%20Powell%20to%20Sen.%20Schatz%204.18.19.pdf.

139 Federal Reserve, FDIC, and OCC, "Agencies Issue Principles for Climate-Related Financial Risk Management for Large Financial Institutions," joint press release, October 24, 2023, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231024b.htm. In the 118th Congress, the House Financial Services Committee reported H.J.Res. 125, which would have overturned this guidance under the Congressional Review Act.

140 OCC, Federal Reserve, FDIC, "Rescission of Principles for Climate-Related Financial Risk Management for Large Financial Institutions," November 18, 2025, https://www.fdic.gov/federal-register-notice-rescission-principles-climate-related-financial-risk-management-large.pdf.

141 Federal Reserve, "Federal Reserve Board Provides Additional Details on How Its Pilot Climate Scenario Analysis Exercise Will Be Conducted and the Information on Risk Management Practices That Will Be Gathered over the Course of the Exercise," press release, January 17, 2023, https://www.federalreserve.gov/newsevents/pressreleases/other20230117a.htm.

142 FSOC, "Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability," press release, October 21, 2021, https://home.treasury.gov/news/press-releases/jy0426.

143 See, for example, John H. Cochrane, "The Fallacy of Climate Financial Risk," *Project Syndicate*, July 21, 2021, https://www.project-syndicate.org/commentary/climate-financial-risk-fallacy-by-john-h-cochrane-2021-07.

Policy issues for Congress going forward could include the following:

- Should the Fed be doing more to combat climate change? Or should it be doing less on the grounds that climate change is outside the Fed's purview and a distraction from its statutory duties? If Congress wants the Fed to address climate change, should those responsibilities be added through legislation? Are U.S. interests better served inside or outside of the Network for Greening the Financial System?
- Does climate risk expose banks to unmanageable financial risks or the financial system to systemic risk? If so, can those risks be regulated under general safety and soundness rules, or are bespoke climate risk regulations needed?

Cryptocurrency and Banking[144]

Some banks have expressed interest in offering services related to cryptocurrencies and other digital assets (crypto).[145] Participation could take the form of traditional banks providing some types of crypto services or crypto firms seeking bank charters. Examples of areas where (traditional or crypto) banks could seek to engage in crypto-related activities include issuing payment stablecoins, providing custody services, facilitating crypto transactions for customers, making loans using crypto as collateral, and holding crypto on their own balance sheets.[146] In addition, banks can offer traditional banking services, such as loans or deposit accounts, to cryptocurrency firms.

Extreme volatility in crypto values and several high-profile scandals involving collapses in crypto firms, crypto scams, and thefts point to the dangers that crypto could pose for bank safety and soundness and their customers if risks are not properly managed. As leadership has changed and crypto markets have risen and fallen (contributing to the liquidation of two banks with crypto industry exposure, Silvergate and Signature, in 2023),[147] federal bank agencies have changed their positions on the risk-benefit trade-off of crypto. In 2025, the regulatory approach has shifted again.

In the absence of a statutory framework or bespoke rulemaking to regulate crypto, federal bank regulators developed guidance and policy to provide clarity to the banking system on permissible crypto activities over the past decade or so. Approval of crypto activities (like other activities) has been based on two factors: (1) whether the activity legally is permissible[148] and (2) whether it is compatible with the goals of bank regulation (e.g., whether it can be done in a safe and sound manner). This framework gives the bank regulators considerable discretion to approve or deny banks' efforts to engage in various crypto-related activities.

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[144] This section draws on material coauthored with Andrew Scott and Paul Tierno.

[145] For background, see CRS In Focus IF12405, *Introduction to Cryptocurrency*, by Paul Tierno.

[146] The BCBS is in the process of formulating international capital standards for bank exposures to crypto. Typically, U.S. bank regulators have implemented BCBS standards through the domestic rulemaking process. BCBS, *Second Consultation on the Prudential Treatment of Cryptoasset Exposures*, June 2022, https://www.bis.org/bcbs/publ/d533.pdf. See also Federal Reserve, FDIC, and OCC, "Joint Statement on Crypto-Asset Policy Sprint Initiative and Next Steps," November 23, 2021, https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20211123a1.pdf.

[147] See CRS Insight IN12148, *The Role of Cryptocurrency in the Failures of Silvergate, Silicon Valley, and Signature Banks*, by Paul Tierno.

[148] Congress has limited banks' activities related or incidental to the business of banking. Certain nonbank subsidiaries of banks and BHCs can also engage in activities that are financial in nature. For more information, see CRS Report R48291, *Bank Holding Companies: Background and Issues for Congress*, by Marc Labonte.

On January 23, 2025, President Trump issued E.O. 14178, "Strengthening American Leadership in Digital Financial Technology," to "support the responsible growth and use of digital assets, blockchain technology, and related technologies."[149] Since the new Administration took office, each of the federal banking regulatory agencies has updated and rescinded guidance regarding crypto activities. For example, 2022 joint guidance on crypto risks was withdrawn. This guidance stated, among other things, that "the agencies believe that issuing or holding as principal crypto-assets that are issued, stored, or transferred on an open, public, and/or decentralized network, or similar system is highly likely to be inconsistent with safe and sound banking practices."[150] Joint guidance from 2023 on liquidity risks to banks related to deposits from crypto businesses and stablecoin reserves was also withdrawn.[151]

In April 2025, the Fed also rescinded its August 2022 guidance regarding bank involvement in crypto activity, which had stated that banks it regulates could not engage in crypto activities until the activities have been explicitly approved by the Fed and complied with all applicable laws.[152] Following the recission, the Fed no longer expects banks to provide notification before engaging in crypto activities but will continue to monitor the activities through the supervisory process.[153]

The Fed also withdrew guidance from 2023 that (1) "presumptively prohibited" banks from holding most crypto assets as principal (as opposed to holding it on behalf of a customer) and (2) limited banks' ability to issue, hold, or transact in dollar-denominated tokens, such as payment stablecoins, and required they first received approval from the Fed.[154] It is replaced by new guidance that differentiates between the permissible activities of insured and uninsured state member banks. It states that activities are permissible for insured member banks if they are approved for national banks by the OCC or have been approved by the FDIC. For uninsured banks, the guidance states that only Fed approval is required so long as it does not threaten the safety and soundness of the bank or financial stability. The OCC and FDIC have also rescinded guidance and issued new guidance in 2025 that makes it easier for banks (including those regulated by the Fed) to engage in crypto-related activities.[155] For example, the regulators issued

[149] Executive Order 14178, "Strengthening American Leadership in Digital Financial Technology," 90 *Federal Register* 8647, January 31, 2025, https://www.federalregister.gov/documents/2025/01/31/2025-02123/strengthening-american-leadership-in-digital-financial-technology.

[150] Federal Reserve, FDIC, and OCC, "Joint Statement on Crypto-Asset Risks to Banking Organizations," January 3, 2023, https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20250424a1.pdf.

[151] Federal Reserve, FDIC, and OCC, "Joint Statement on Liquidity Risks to Banking Organizations Resulting from Crypto-Asset Market Vulnerabilities," February 23, 2023, https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20250424a2.pdf.

[152] Federal Reserve, "Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations," August 16, 2022.

[153] Federal Reserve, "Federal Reserve Board Announces the Withdrawal of Guidance for Banks Related to Their Crypto-Asset and Dollar Token Activities and Related Changes to Its Expectations for These Activities," press release, April 24, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250424a.htm.

[154] Federal Reserve, "Federal Reserve Board Withdraws 2023 Policy Statement and Issues New Policy Statement Regarding the Treatment of Certain Board-Supervised Banks That Facilitates Responsible Innovation," press release, December 17, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251217a.htm; Federal Reserve, "Federal Reserve Board Announces the Withdrawal of Guidance." The rescinded policy statement is Federal Reserve, "Policy Statement on Section 9(13) of the Federal Reserve Act," 88 *Federal Register* 7848, February 7, 2023, https://www.govinfo.gov/content/pkg/FR-2023-02-07/pdf/2023-02192.pdf.

[155] See, for example, OCC, "OCC Letter Addressing Certain Crypto-Asset Activities," March 7, 2025, https://www.occ.gov/topics/charters-and-licensing/interpretations-and-actions/2025/int1183.pdf; FDIC, "FDIC Clarifies Process for Banks to Engage in Crypto-Related Activities," press release, March 28, 2025, https://www.fdic.gov/news/press-releases/2025/fdic-clarifies-process-banks-engage-crypto-related-activities.

a joint statement on crypto-asset safekeeping in July 2025 that explicitly allows for banks to "provide safekeeping for crypto-assets in a fiduciary or a nonfiduciary capacity."[156]

In August 2023, the Fed created a Novel Activities Supervision Program as a dedicated group to supervise banks' technology-driven partnerships, crypto activities, use of distributed ledger technology, and provision of banking services to crypto and financial technology (fintech) firms. The group supervised banks alongside its existing supervisory team. The group was disbanded in 2025.[157]

Policy issues surrounding crypto firms applying for access to Fed master accounts is discussed in the section below titled "Access to Master Accounts." Policy issues surrounding stablecoins are discussed below in the section titled "Payment Stablecoins."

Congress has debated whether to create a broader regulatory framework for crypto, including provisions addressing the relationship between banking and crypto. In the 119th Congress, the House passed H.R. 3633 to create a regulatory framework for crypto. Section 301 would permit banks to engage in a variety of activities involving digital assets (with the exception of nonfungible assets).[158] The section would effectively add 13 broad categories of crypto-related activities, as well as all powers incidental to those activities, to the statutory list of activities that banks can engage in without seeking permission or prior approval from their regulators. These include custodial services, payment services, underwriting, market making, brokerage services, trading derivatives based on digital assets, using digital assets as collateral for loans, and owning digital assets in relation to these various activities. (Regulators could also approve other activities at their discretion.) The section allows a number of analogous activities that currently are not legally permitted inside the bank (but are allowed in separate subsidiaries), such as those associated with underwriting, market making, and dealing securities. Thus, the bill would allow a broader range of digital asset activities than traditional securities market activities to take place within a bank.

Policy issues for Congress going forward could include the following:

- Are some crypto activities inherently too risky for banks or BHCs to participate in, as evidenced by the failures of banks with crypto exposure in 2023? Do crypto activities pose more risk to consumers and financial stability if they are inside or outside of the banking system?
- Are limits on traditional bank services provided to the crypto industry needed from a safety and soundness perspective, or would they unfairly discriminate against the crypto industry?
- Are crypto activities part of or incidental to the business of banking, as statutorily prescribed under the "permissible activity" framework? Should Congress make it explicit that they are or are not permissible activities? Should Congress preempt regulatory action to ensure that banks may or may not participate in certain

[156] FDIC, Federal Reserve, and OCC, "Agencies Issue Joint Statement on Risk-Management Considerations for Crypto-Asset Safekeeping," joint press release, July 14, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250714a.htm.

[157] Federal Reserve, "Federal Reserve Board Announces It Will Sunset Its Novel Activities Supervision Program and Return to Monitoring Banks' Novel Activities Through the Normal Supervisory Process," press release, August 15, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250815a.htm.

[158] The section also allows banks to use digital assets or distributed ledgers to carry out already-approved financial activities.

aspects of crypto markets? Is a legislative framework needed to prevent inconsistency in regulatory treatment across leadership?

Payments

Because banks and select other institutions maintain master accounts at the Fed to hold their reserves, those accounts are used to facilitate interbank payments. To that end, the Fed operates the following interbank payment settlement systems for those institutions:

- The Automated Clearing House (ACH) for credit and debit transfers, such as direct deposits and direct debits
- Check clearing
- The Fedwire Funds Service for gross settlement of large value payments
- The Fedwire Securities Service for settlement of government and government agency securities
- The National Settlement Service for multilateral payment settlement among the largest payment market participants
- FedNow, a real-time settlement system that allows banks to offer real-time retail payments, which launched in July 2023[159]

The Fed offers intraday credit to participants in its payment services to help them avoid settlement failure. It also acts as the federal government's fiscal agent: Federal receipts and payments flow through Treasury's accounts at the Fed.

The Fed also sets risk management standards for its own and private sector wholesale payment systems, which in some cases directly compete with the Fed's payment systems.[160] For example, the Electronic Payments Network also operates an ACH network that is interoperable with the Fed's ACH. However, the Fed does not have plenary authority to regulate all aspects of payments, and payment system participants that are not banks are not all under its (or the other federal bank regulators') jurisdiction.[161] Title VIII of the Dodd-Frank Act subjects payment systems designated as systemically important financial market utilities by FSOC to enhanced supervision by the Fed.[162] Since 2012, the Fed has regulated two such systems: the Clearing House Payments Company and CLS Bank International. The Fed—in some cases, jointly—also regulates how banks make funds available to depositors. Under the "Durbin Amendment" (Regulation II), the Fed caps debit interchange fees on large banks.[163]

Current payment systems issues of potential interest to Congress are discussed below.

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[159] For more information, see CRS Insight IN12207, *Federal Reserve Launches FedNow*, by Marc Labonte.

[160] Federal Reserve, *Policy on Payment System Risk*, March 19, 2021, https://www.federalreserve.gov/paymentsystems/files/psr_policy.pdf.

[161] Lael Brainard, "The Digitalization of Payments and Currency: Some Issues for Consideration," Federal Reserve, speech at the Symposium on the Future of Payments, Stanford Graduate School of Business, Stanford, CA, February 5, 2020.

[162] Title VIII assigns payment, clearing, and settlement systems a primary regulator, which can be the Fed, the Securities and Exchange Commission, or the Commodity Futures Trading Commission, depending on the type of system.

[163] In 2023, the Fed issued a proposed rule to lower those fees. See Federal Reserve, "Federal Reserve Board Requests Comment on a Proposal to Lower the Maximum Interchange Fee That a Large Debit Card Issuer Can Receive for a Debit Card Transaction," press release, October 25, 2023, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231025a.htm.

Access to Master Accounts

An increase in nontraditional applicants, such as fintech and crypto firms, have led to greater scrutiny on who should be granted master accounts.[164] The Fed has been slow to approve nontraditional applications. The Fed's master account approval policy is intended to limit risk to the Fed, payment system, and broader financial system. Although the Fed is the gatekeeper for who may access its payment system, operation of the payment system does not provide it with regulatory jurisdiction over the firms with access, and the Fed has no regulatory jurisdiction over banks except for state-member banks.[165]

Some nonbank fintech firms specializing in payments or crypto services have sought bank charters in order to enjoy some of the associated benefits, such as access to a Fed master account. Some crypto firms have received trust charters or other special purpose charters from the OCC or state bank regulators, most notably a special purpose depository institution (SPDI) charter from the state of Wyoming.[166] In December 2025, the OCC conditionally approved national (non-depository) trust bank charters to five firms offering crypto services, including Paxos and the firms offering Circle and Ripple.[167] Generally, banks that do not accept insured deposits are not subject to all of the same regulations as are banks that accept deposits and would not have a primary federal regulator unless they are federally chartered or are members of the Federal Reserve System (member banks).

The Fed issued final guidance in August 2022 through the notice-and-comment process explaining how it would evaluate master account applications.[168] Applicants that are federally insured depository institutions (Tier 1 applicants) receive the least scrutiny, institutions that are not federally insured but are subject to prudential supervision by federal banking agencies or have holding companies that are supervised by the Fed (Tier 2) receive more scrutiny, and eligible institutions that are not federally insured and do not have holding companies supervised by the Fed but have state or federal charters (Tier 3) receive the most scrutiny.

In the 117th Congress, Title LVIII, Subtitle F, of the National Defense and Authorization Act for FY2023 (P.L. 117-263) required the Fed to publicly disclose institutions (excluding official institutions) that have requested, been rejected for, or been granted master accounts. The Fed maintains a public database to comply with this law.[169] From December 2022 to December 2025, only one Tier 2 or Tier 3 applicant has received a master account.[170] Several Tier 3 applicants have withdrawn their applications or been rejected, and several have pending applications—in one case since 2018. A few applicants are crypto firms. Among crypto firms, Custodia's application was rejected, at least four crypto firms (Anchorage, Commercium Financial, Kraken

164 For more information, see CRS Insight IN12031, *Federal Reserve: Master Accounts and the Payment System*, by Marc Labonte.

165 State-chartered institutions, including those with nontraditional charters, have the option to apply to become state member banks, in which case the Fed would become their primary federal regulator. OCC-chartered banks are automatically member banks, but the Fed is not their primary regulator.

166 For more information, see CRS Report R47014, *An Analysis of Bank Charters and Selected Policy Issues*, by Andrew P. Scott.

167 OCC, *OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications*, News Release 2025-125, December 12, 2025, https://occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125.html.

168 Federal Reserve, "Guidelines for Evaluating Account and Services Requests," 87 *Federal Register* 51099, August 19, 2022.

169 The database is available at https://www.federalreserve.gov/paymentsystems/master-account-and-services-database-about.htm.

170 The one approved bank, Numisa Bank, does not operate in crypto markets. Dozens of banks without federal deposit insurance have master accounts that pre-date 2022. They are mostly foreign banks or state credit unions.

Financial, and Protego) have applications currently pending, and two (Bankwyse and Paxos) have withdrawn their applications.[171]

Custodia, a Wyoming SPDI focused on crypto, has sued the Fed for rejecting its membership and master account application.[172] Custodia lost its case in district court but appealed the case to the Court of Appeals in 2024.[173] The district court found that the Fed has discretion to reject master account applicants:

> [U]nless the Federal Reserve Banks possess discretion to deny or reject a master account application, state chartering laws would be the only layer of insulation for the U.S. financial system. And in that scenario, one can readily foresee a "race to the bottom" among states and politicians to attract business by reducing state chartering burdens through lax legislation, allowing minimally regulated institutions to gain ready access to the central bank's balance sheet and Federal Reserve services. As [the Federal Reserve Bank of Kansas City] accurately notes, "The Wyoming Division of Banking … has many purposes and aims, but protecting the *national* financial system and implementing *national* monetary policy are not among them…. States lack not only the mission but also the resources to protect national interests."[174]

In December 2025, the Fed issued a request for information on a proposed limited payment master account, which Fed Governor Christopher Waller has called a "skinny" master account.[175] The skinny account would grant a holder direct access to Fed-run payment systems, whereas now payments flow through bank partners. This could reduce costs and expedite payment settlement for accountholders. The new account would not pay interest and would not provide access to the Fed's cash, check, or ACH services. It is unclear why an applicant would prefer an account that did not pay interest unless it was easier to qualify for than a traditional master account. The Fed suggested the limited accounts could feature streamlined approval compared to the lengthy application process that nontraditional applicants have experienced with master accounts. The proposal would not seek to modify or expand legal eligibility for master accounts.

Some of the risk posed by granting nontraditional firms access to master accounts is unavoidable, but some of this risk can be reduced by changing the features of the master account. For example, the Fed proposes that a skinny account would face a balance limit and would not get discount window access or be offered intraday credit from the Fed for overdrafts. In his dissenting vote, Governor Barr stated that the proposal did not sufficiently address how the Fed would protect

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[171] CRS search of Fed master accounts database at https://www.federalreserve.gov/paymentsystems/master-account-and-services-database-access-requests.htm. An early application by Commercium Financial was also withdrawn.

[172] Federal Reserve, "Custodia Bank, Inc. Cheyenne, Wyoming, Order Denying Application for Membership," January 27, 2023, https://www.federalreserve.gov/newsevents/pressreleases/files/orders20230324a1.pdf. Kyle Campbell, "Custodia Amends Fed Lawsuit, Alleges 'Coordinated Effort' to Deny Master Account," *American Banker*, February 17, 2023, https://www.americanbanker.com/news/custodia-amends-fed-lawsuit-alleges-coordinated-effort-to-deny-master-account.

[173] The case can be found at https://www.courtlistener.com/docket/68486662/custodia-bank-v-federal-reserve-board-of-governors/.

[174] United States District Court District of Wyoming Custodia Bank, Inc., Plaintiff, v. Federal Reserve Board of Governors, and Federal Reserve Bank of Kansas City, Case No. 22-Cv-125-Sws, March 29, 2024, https://storage.courtlistener.com/recap/gov.uscourts.wyd.61107/gov.uscourts.wyd.61107.317.0.pdf.

[175] Federal Reserve, "Federal Reserve Board Requests Public Input on 'Payment Account,' Which Eligible Financial Institutions Could Use for the Limited Purpose of Clearing and Settling Their Payments," press release, December 19, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251219a.htm; Governor Christopher J. Waller, "Embracing New Technologies and Players in Payments," speech, October 21, 2025, https://www.federalreserve.gov/newsevents/speech/waller20251021a.htm.

against money laundering and terrorist financing.[176] The request for information stated that the Fed was exploring risk controls for money laundering and cyber risks but did not propose any.

Policy issues for Congress going forward could include the following:

- Should crypto firms and other nontraditional firms with federal or state bank charters be granted direct access to the Fed's payment system through master accounts if they are legally eligible?
- Should Congress expand legal eligibility to master accounts to promote innovation? If so, should the Fed have regulatory oversight of those firms to safeguard the stability of the payment system?
- Should the Fed create "skinny" master payment accounts to expedite approval for nontraditional applicants? Or should the Fed act more quickly on traditional master account applications?

Payment Stablecoins

Stablecoins are cryptocurrencies that are tied in value to some reference currency. For example, some stablecoins are intended to remain equal in value to the U.S. dollar. Some stablecoins are backed by assets in an effort to maintain their stable value against the dollar. Stablecoins have many potential uses, including to make retail payments, although stablecoins make up an insignificant fraction of total traditional payments currently. Stablecoins that are used—or, in some cases, have the potential to be used—to make retail payments are referred to as payment stablecoins.

Stablecoins face run risk. Stablecoin holders who seek to convert into dollars rely on the issuers' ability to meet redemption demands. If holders believe that an issuer is unable to meet all redemption demands, then they benefit from being among the first to redeem. This can result in runs that cause the stablecoin's value to collapse because the underlying assets are of insufficient value or because they are too illiquid to meet redemption demands promptly. Whether this run risk should be regulated depends on whether there is some policy justification for addressing it. Potential justifications include consumer protection and promoting innovation in payments. Moreover, run risk potentially poses systemic risk if stablecoins grow or become interconnected with the traditional financial system, as FSOC has argued.[177]

In April 2025, the Fed rescinded 2023 guidance that explained why it was unlikely to approve the issuance of dollar-denominated tokens, such as payment stablecoins, by banks it regulates.[178] The 2023 guidance was issued based on the Fed's concern that "issuing tokens on open, public, and/or decentralized networks, or similar systems is highly likely to be inconsistent with safe and sound banking practices" because of operational, cybersecurity, run, and illicit finance risks.[179]

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[176] Federal Reserve, "Statement on Payment Account Request for Information by Governor Michael S. Barr," press release, December 19, 2025, https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20251219.htm.

[177] FSOC, *Report on Digital Asset Financial Stability Risks and Regulation*, October 2022, https://home.treasury.gov/system/files/261/FSOC-Digital-Assets-Report-2022.pdf.

[178] Federal Reserve, "Federal Reserve Board Withdraws 2023 Policy Statement and Issues New Policy Statement Regarding the Treatment of Certain Board-Supervised Banks That Facilitates Responsible Innovation," press release, December 17, 2025, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251217a.htm.

[179] Federal Reserve, "Policy Statement on Section 9(13)." In August 2023, the Fed laid out an approval process for banks requesting permission to issue dollar tokens, noting the various risks that would need to be addressed for approval to be granted. Federal Reserve, "Supervisory Nonobjection Process for State Member Banks Seeking to Engage in Certain Activities Involving Dollar Tokens," August 8, 2023.

The new bank regulatory leadership and the 119th Congress has shown a new openness to bank participation in stablecoin markets. The GENIUS Act (P.L. 119-27) was enacted in 2025 to create a regulatory framework for stablecoins, allowing both banks and nonbank firms to issue stablecoins.[180] The act creates reserve and liquidity requirements to address the run risk. Under the act, the Fed is the primary regulator of stablecoin issuers that are subsidiaries of state member banks. State regulators can also choose to enter into agreements with the Fed where the Fed may participate in the regulation of nonbank state stablecoin issuers. The Fed or OCC can take an enforcement action on limited grounds against state-regulated issuers under "unusual and exigent circumstances," subject to judicial review. The Fed chair (or vice chair for supervision) is one of three members of the Stablecoin Certification Review Committee, which (1) can override the act's prohibition on nonfinancial companies issuing stablecoins, (2) certifies that state regulatory regimes meet the act's requirements, and (3) can recommend to the Treasury Secretary whether a foreign country's regulatory regime is comparable to the U.S. regime. The act states that it cannot be construed as changing the eligibility under current law to receive Fed services, such as master accounts.

Policy issues for Congress going forward could include the following:

- Does the GENIUS Act sufficiently address safety and soundness and financial stability concerns surrounding bank issuance of stablecoins? Is the Fed implementing the GENIUS Act quickly enough?
- Should bank and/or nonbank stablecoin issuers have access to federal deposit insurance, Fed master accounts, and the Fed's discount window? How much discretion should the Fed have in denying access to individual issuers?

For more information, see CRS Insight IN12553, *Stablecoin Legislation: An Overview of S. 1582, GENIUS Act of 2025*, by Paul Tierno; CRS In Focus IF12984, *Key Issues in Stablecoin Legislation in the 119th Congress*, by Paul Tierno and Marc Labonte.

Central Bank Digital Currency[181]

Stablecoins have illustrated that there is market demand—or at least potential demand—for payments innovation. If stablecoins were to become prevalent in payments, they have the potential to partially replace the function of money, which is solely issued or underpinned by the Fed. But the Bank for International Settlements (BIS, an international organization of central banks) argues that they "fall short on the three key tests for money."[182] This has led to questions of whether the Fed should create a central bank digital currency (CBDC)—a publicly issued "digital dollar" that would share some of the technological features of these private digital currencies but would enjoy legal tender instead of attempting to anchor its value to the dollar.

According to the Atlantic Council, 137 jurisdictions around the world were engaged in CBDCs at some level (researching, piloting, or launching) as of July 2025.[183] Although no major economy has formally launched a CBDC, China is the furthest in its digital currency development. Several central banks in advanced economies are also researching and piloting CBDCs. For example, the European Central Bank is in a two-year preparation phase for a digital euro, the Bank of England

[180] For more information, see CRS Insight IN12553, *Stablecoin Legislation: An Overview of S. 1582, GENIUS Act of 2025*, by Paul Tierno.

[181] This section draws from other CRS products coauthored with Rebecca Nelson.

[182] BIS, "The Next-Generation Monetary and Financial System," *BIS Annual Economic Report*, Chapter 3, June 2025, https://www.bis.org/publ/arpdf/ar2025e3.htm.

[183] Available at https://www.atlanticcouncil.org/cbdctracker/.

is beginning work on a digital pound, and the Swiss National Bank has announced plans to test a wholesale CBDC. The "Innovation Hub" at the BIS is working with a range of countries on CBDC research projects, including cross-border pilots. The proliferation of CBDCs around the world has raised questions about whether the United States is falling behind in the future of the financial system and whether that could affect its predominant "reserve currency" status in international trade and payments.[184]

Digital payments and account access are already widespread in the United States. A key question from an end-user (e.g., consumer or merchant) perspective is whether a CBDC would be faster, more reliable, and less expensive than the current system. A CBDC would presumably allow for real-time settlement of payments—a feature that is not currently ubiquitous in the U.S. payments system but is growing rapidly, particularly since the Fed introduced FedNow, its real-time settlement system, in 2023. Whether payments using a CBDC would be less expensive than the status quo remains unknowable until detailed proposals have been made. (Using CBDCs for cross-border payments has been identified as offering greater potential gains in cost and speed, but raises more technical and legal complications.)

From an end-user perspective, CBDC proposals range from a payment system similar to the status quo to one that is fundamentally different. At one end of the spectrum of proposals, a CBDC accessible only to banks may differ only slightly from the current system given that wholesale payment systems are already digital. At the other end, proposals for consumers to be able to hold CBDCs in accounts at the Fed—where they could receive government payments in CBDC—would fundamentally change the role of the Fed and its relationship with consumers and banks. Thus, depending on its attributes, a domestic CBDC could potentially compete with private digital currencies (such as stablecoins), foreign CBDCs, private payment platforms, or banks. CBDC proponents differ as to which of these they would like a domestic CBDC to compete with. CBDCs are more likely to compete with private digital currencies as a payment means for legal commerce than to function in their other current uses (e.g., as speculative investments or as payment means for illicit activities).

Depending on its features and how much it differed from the status quo, a U.S. CBDC would have an ambiguous but potentially significant effect on financial inclusion, financial stability, cybersecurity, Federal Reserve independence, seigniorage,[185] and the effectiveness of monetary policy. If the CBDC mainly crowded out cash and cryptocurrency use, it could make illicit activity more difficult, potentially at the expense of some individual privacy.

On January 23, 2025, President Donald Trump issued an executive order on digital financial technology.[186] The order stated that agencies are prohibited from "undertaking any action to establish, issue, or promote a CBDC" and should "terminate any plans or initiatives related to the creation of a CBDC." To date, the Fed has not taken a position on whether creating a CBDC would be desirable. In a 2022 report, the Fed stated that it "does not intend to proceed with issuance of a CBDC without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law."[187] The report argued against a FedAccounts model (where the Fed would offer retail services directly to consumers) and argued for allowing

[184] For more information, see CRS In Focus IF11707, *The U.S. Dollar as the World's Dominant Reserve Currency*, by Rebecca M. Nelson and Martin A. Weiss.

[185] An expansive definition of *seigniorage* is the income the government obtains from having government (including central bank) liabilities act as money.

[186] Executive Order 14178, "Strengthening American Leadership in Digital Financial Technology."

[187] Federal Reserve, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation*, January 2022, https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf.

individuals to use a CBDC directly (as opposed to limiting their use to financial institutions). The Fed has undertaken various research pilot projects to develop technical expertise in how to operate a CBDC.[188]

Congress might choose to legislate in order to either explicitly authorize or mandate the Fed to create a CBDC and shape its features and uses or to prohibit one from being introduced. In the 119th Congress, the House passed standalone legislation (H.R. 1919) that would prohibit the Fed from issuing a CBDC or offering products, services, or accounts to individuals. The same bill text was also included and passed by the House in a broader crypto regulatory structure bill (H.R. 3633) and the National Defense Authorization Act (Title LI of H.R. 3838).

Policy issues for Congress going forward could include the following:

- Would a CBDC crowd out private financial services in the areas of cryptocurrency, payments, or banking?
- Would CBDCs be less costly and more efficient than the current payment system? Should the Fed introduce a CBDC to prevent privately provided stablecoins from serving as money? Or, as posed by Fed Governor Christopher Waller, is a CBDC a "solution in search of a problem"?[189] What practical advantages would a CBDC provide compared to FedNow?
- Could international coordination on CBDCs improve the efficiency of cross-border transactions?
- How would a CBDC balance privacy and preventing illicit activity?
- How could the U.S. dollar be affected by other countries' adoption of CBDCs?
- Should the decision to introduce a CBDC be made by Congress, the Administration, or the Fed?

For more information, see CRS In Focus IF11471, *Central Bank Digital Currencies*, by Marc Labonte and Rebecca M. Nelson.

Lender of Last Resort

Despite their name, Federal Reserve banks do not carry out any commercial banking activities, with one limited exception: The Fed makes short-term loans to commercial banks through its discount window.[190] The discount window was one of the key tools that Congress gave the Fed in 1913 to fulfill its original mission to act as a lender of last resort (LOLR). Over time, the Fed's other responsibilities grew out of this role, and the LOLR role became secondary.

Typically, the Fed's LOLR operations are minimal, because banks can borrow privately to meet their liquidity needs. But during periods of financial instability, such as the 2007-2009 financial crisis and the COVID-19 pandemic, LOLR operations grew rapidly as private sources of liquidity dried up. To borrow from the discount window, banks pledge their assets as collateral, temporarily converting illiquid assets (such as mortgages) into liquid reserves. Banks that are

188 CRS cannot locate any statement from the Fed on whether it intends to terminate its research in response to the executive order.

189 Governor Christopher J. Waller, "CBDC: A Solution in Search of a Problem?," speech, August 5, 2021, https://www.federalreserve.gov/newsevents/speech/waller20210805a.htm.

190 The Fed's lending facility is called the discount window because in the Fed's early years, a bank that wanted a loan would take its securities to a window at its Federal Reserve bank to be discounted (a sale at a discount with the right to repurchase at a price determined by the discount rate). Today, the Fed makes advances (collateralized loans) instead.

adequately capitalized and are not poorly rated by their supervisors use *primary credit* and can borrow for up to 90 days with "no questions asked." Poorly capitalized or rated banks must use *secondary credit*, which is shorter term and subject to close oversight. *Seasonal credit* is also available for small banks to manage seasonal inflows and outflows. The Fed sets the *discount rate* charged for loans. Traditionally the primary credit rate was set above market rates, but since the pandemic it has been set at the top of the FFR target range. The secondary credit rate is set higher.

Section 13(3)

Less commonly, the Fed has also provided liquidity to firms that were not banks (and sometimes to banks as well) under emergency authority found in Section 13(3) of the Federal Reserve Act.[191] After the Great Depression, this authority was not used extensively again until the 2007-2009 financial crisis. Subsequently, it was used during the COVID-19 pandemic and again following large bank failures in 2023. In the financial crisis and the pandemic, the Fed used that authority to create a series of temporary emergency facilities to support nonbank financial markets and firms. Since the financial crisis, the Fed has financed discount window lending and credit through its emergency facilities by expanding its balance sheet.

Section 13(3), as amended by the Dodd-Frank Act, allows the Fed, subject to approval by the Treasury Secretary, to set up temporary broad-based facilities for the purpose of providing liquidity to the financial system when the Fed finds that there are unusual and exigent circumstances. There are few practical limitations on the types of actions the Fed can take under Section 13(3) except that there are several provisions to prevent the Fed from "bailing out" a failing firm.

Pandemic LOLR Actions

As noted above, the Fed created a series of emergency programs to stabilize economic conditions during the pandemic. Congress took the unprecedented step of providing at least $454 billion and up to $500 billion to the Treasury to support some of these programs through the Coronavirus Aid, Relief, and Economic Security Act (P.L. 116-136). Assistance outstanding under these facilities peaked at nearly $200 billion in April 2020 then hovered around $100 billion for the rest of the year. Programs expired at the end of 2020 or in March 2021, but a small amount of loans still remain outstanding.[192]

Bank Term Funding Program

Following a run on large (but not the largest) banks in the spring of 2023, discount window lending suddenly spiked and reached an all-time high (in nominal dollars) of $295.7 billion on March 15, 2023. The bulk of that lending went initially to the three large banks that failed (SVB, Signature, and First Republic) and then to the FDIC to finance its resolution of those banks. At the same time, the Fed also created the Bank Term Funding Program (BTFP) under Section 13(3) to allow banks to borrow against securities whose market values were less than their book values. SVB failed in part because it had to sell such securities at a loss to honor deposit outflows. When interest rates rose, banks' unrealized losses on securities became very large. BTFP loans

[191] 12 U.S.C. §343. See CRS Report R44185, *Federal Reserve: Emergency Lending*, by Marc Labonte.

[192] For more information, see CRS Report R46411, *The Federal Reserve's Response to COVID-19: Policy Issues*, by Marc Labonte.

outstanding peaked at $168 billion. The BTFP expired in March 2024, and all loans were repaid in full with interest.[193]

Discount Window Reforms

Although discount window lending spiked in 2023, some believe that the discount window did not function as smoothly as it could have for the banks that failed and for the broader banking system. Various explanations for this (which are not mutually exclusive) include (1) perceived stigma caused banks to be reluctant to borrow, (2) a lack of preparedness by banks slowed the borrowing process, (3) outdated Fed technology and procedures slowed the borrowing process, and (4) Federal Home Loan Bank lending to banks impeded the discount window's LOLR function. The episode also raised questions about the effectiveness of large bank liquidity rules and their relationship to discount window borrowing.

In July 2023, the bank regulators issued updated guidance encouraging—but not requiring—banks to be prepared to use the discount window, including by pre-pledging collateral, and to periodically test their preparedness.[194] The Fed reported that 3,900 out of 4,824 eligible banks had signed up to use the discount window in 2023 (up from 3,561 in 2022) and 1,996 had pre-pledged collateral.[195] However, an internal memorandum on Vice Chair Bowman's supervisory priorities (discussed above) stated that examiners "should not discourage or prohibit firms from taking into account liquidity available from the Federal Home Loan Banks (FHLBs) in managing their liquidity…. Similarly, they should not require firms to preposition assets at the discount window as a condition to future discount window secured borrowings."[196] In September 2024, the Fed issued a request for information as part of its initiative to modernize the discount window.[197]

In the 119th Congress, H.R. 3390, as reported by the House Financial Services Committee, would require the Fed to conduct a review of the effectiveness of the discount window, develop a remediation plan of any deficiencies identified in the review, and issue a report to Congress.

Policy issues for Congress moving forward could include the following:

- Were the loans to failing banks in 2023 an appropriate use of the discount window? Should changes be made to discount window eligibility to more effectively restrict loans to failing banks?
- Does stigma associated with the discount window dissuade banks from borrowing in times of stress, thereby reducing its effectiveness? If so, can stigma be reduced without encouraging unhealthy banks to be overly reliant on the

[193] For more information, see CRS Insight IN12134, *Bank Term Funding Program (BTFP) and Other Federal Reserve Support to Banking System in Turmoil*, by Lida R. Weinstock and Marc Labonte; David M. Arseneau et al., "The Federal Reserve's Response to the 2023 Banking Turmoil: The Bank Term Funding Program," Federal Reserve, November 2025, https://www.federalreserve.gov/econres/feds/the-federal-reserves-response-to-the-2023-banking-turmoil-the-bank-term-funding-program.htm.

[194] Federal Reserve, FDIC, National Credit Union Administration, and OCC, "Agencies Update Guidance on Liquidity Risks and Contingency Planning," joint press release, July 28, 2023, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230728a.htm.

[195] Fewer credit unions have signed up. Data at https://www.federalreserve.gov/monetarypolicy/discount-window-readiness.htm.

[196] Federal Reserve, "Federal Reserve Board Releases Information Regarding Enhancements to Bank Supervision."

[197] Federal Reserve, "Request for Information and Comment on Operational Aspects of Federal Reserve Bank Extensions of Discount Window and Intraday Credit," 89 *Federal Register* 73415, September 10, 2024, https://www.federalregister.gov/documents/2024/09/10/2024-20418/request-for-information-and-comment-on-operational-aspects-of-federal-reserve-bank-extensions-of.

discount window? Do statutorily required disclosures strike the right balance between transparency and stigma?

- Should discount window readiness—through registration, testing, and prepositioning collateral—be mandatory for banks, or is the guidance issued in 2023 encouraging them to voluntarily do so sufficient?
- Did the 2023 episode illustrate that banks are using the Federal Home Loan Banks as an alternative to the discount window, and is this interfering with the proper functioning of the discount window?
- Are the Fed's efforts to modernize the discount window sufficient, sufficiently transparent, and happening in a timely manner?
- Should banks get credit for discount window borrowing capacity in large bank liquidity rules? If so, should existing rules be modified, or should new rules be added?
- Has the Fed's emergency 13(3) lending authority been used appropriately, or are new statutory restrictions necessary? Were the COVID-19 emergency programs and the BTFP an appropriate use of that authority? Was it appropriate for the Treasury to use its Exchange Stabilization Fund to backstop potential losses on a subset of emergency Fed programs? Are some of these programs better suited to Treasury than Fed administration?
- Do the benefits of emergency lending, such as quelling liquidity panics, outweigh the costs, including moral hazard? Has the Fed created a moral hazard problem where financial markets expect every recession to bring 13(3) facilities, thereby leading financial participants to take on greater risks in the expectation of Fed support? If so, are changes to the Fed's lending or regulatory powers appropriate to mitigate that risk?
- Did the BTFP provide regulatory forbearance by allowing banks to avoid cleaning up the unrealized losses on their balance sheets? Did the BTFP rely on Section 13(3) as an end around of the statutory restrictions on the discount window?
- Should the Fed make discount window loans to provide short-term financing of FDIC resolutions, or should the FDIC use its line of credit to the Treasury to meet its liquidity needs?

For more information, see CRS In Focus IF12655, *Federal Reserve's Discount Window: Policy Issues*, by Marc Labonte.

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