

## Minutes of the Financial Stability Oversight Council

March 25, 2026

### PRESENT:

Scott K. H. Bessent, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)  
Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)  
Travis Hill, Chairman, Federal Deposit Insurance Corporation (FDIC)  
Paul S. Atkins, Chairman, Securities and Exchange Commission (SEC)  
Michael S. Selig, Chairman, Commodity Futures Trading Commission (CFTC)  
Geoffrey Gradler, Deputy Director, Consumer Financial Protection Bureau (CFPB) (acting pursuant to delegated authority)  
William J. Pulte, Director, Federal Housing Finance Agency (FHFA)  
Jonathan V. Gould, Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)  
Kyle S. Hauptman, Chairman, National Credit Union Administration (NCUA)  
Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)  
Lise Kruse, Commissioner, North Dakota Department of Financial Institutions (non-voting member)  
Elizabeth K. Dwyer, Director, Rhode Island Department of Business Regulation (non-voting member) (via videoconference)  
Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

### GUESTS:

#### Department of the Treasury (Treasury)

Jonathan McKernan, Under Secretary for Domestic Finance  
Christina Skinner, Deputy Assistant Secretary for the Council  
Brian Morrissey, General Counsel  
Eric Froman, Assistant General Counsel (Banking & Finance)  
Sean Hoskins, Director of Policy, Office of the Financial Stability Oversight Council  
Silab Mohanty, Director of Analysis, Office of the Financial Stability Oversight Council

#### Board of Governors of the Federal Reserve System

Michelle Bowman, Vice Chair for Supervision  
Andreas Lehnert, Director, Division of Financial Stability

#### Federal Deposit Insurance Corporation

Alex LePore, Deputy to the Chairman for Policy

#### Securities and Exchange Commission

Kelsey Pristach, Senior Advisor

Commodity Futures Trading Commission  
Cal Mitchell, Acting Director and Senior Advisor

Consumer Financial Protection Bureau  
Sarah Dumont-Merchak, Senior Advisor to the Director

Federal Housing Finance Agency  
Aaron Kofsky, Acting Deputy Director, Division of Housing Mission and Goals

Office of the Comptroller of the Currency  
Jay Gallagher, Senior Deputy Comptroller and Chief National Bank Examiner

National Credit Union Administration  
Timothy Flynn, Economist, Office of the Chief Economist

Federal Reserve Bank of New York  
Richard Crump, Financial Research Advisor, Capital Markets (via videoconference)

Office of Financial Research (OFR)  
Lincoln Foran, performing the duties of the Director  
Mark Paddrik, Acting Deputy Director, Research and Analysis

Federal Insurance Office  
Stephanie Schmelz, Deputy Director

North Dakota Department of Financial Institutions  
Karen Lawson, Executive Vice President for Policy and Supervision, Conference of State Bank Supervisors

Maryland Office of the Attorney General, Securities Division  
Zachary Knepper, Deputy General Counsel, North American Securities Administrators Association

PRESENTERS:

*Quarterly Financial Stability Monitor*

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*
- *Luke Pettit, Assistant Secretary for Financial Institutions, Treasury*
- *Silab Mohanty, Director of Analysis, Office of the Financial Stability Oversight Council, Treasury (available for questions)*
- *Hein Bogaard, Economic Expert, Technical Advisory Group, OCC (available for questions)*

*Household Resilience Working Group*

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*

- *Benjamin Kay, Senior Policy Advisor, Office of the Financial Stability Oversight Council, Treasury*
- *Gary Shiffman, Senior Advisor, Office of the Financial Stability Oversight Council, Treasury*
- *Luke Olson, Quantitative Analyst, OFR (available for questions)*

*Interpretive Guidance on Nonbank Financial Company Designations*

- *Christina Skinner, Deputy Assistant Secretary for the Council, Treasury*

*Banking Supervision and Regulation*

- *Michelle Bowman, Vice Chair for Supervision, Federal Reserve*

**Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 1:03 p.m. He welcomed Michael Selig, Chairman of the CFTC, to his first Council meeting. He also noted that Geoffrey Gradler, Deputy Director of the CFPB, was attending the meeting on behalf of Russell Vought, Acting Director of the CFPB. The Chairperson outlined the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session included (1) a presentation on the Council's quarterly financial stability monitor and (2) an update on the Council's Household Resilience Working Group.

1. Quarterly Financial Stability Monitor

The Chairperson introduced the first agenda item, a presentation on the Council's quarterly financial stability monitor. The Chairperson then turned to Christina Skinner, Deputy Assistant Secretary for the Council at Treasury, and Luke Pettit, Assistant Secretary for Financial Institutions at Treasury, for the presentation.

Ms. Skinner noted recent elevated market volatility. She said that geopolitical developments in the Middle East, particularly oil price shocks, were driving this trend, along with heightened investor sensitivity to pockets of uncertainty. She said that the financial system nonetheless remained stable and that the current volatility had not translated into systemic stress. She said that key indicators of system-wide resilience, such as bank capital, liquidity conditions, and funding market functioning, remained within normal ranges. She said that Treasury markets had continued to function smoothly.

With regard to banks, Ms. Skinner stated that banks remained well capitalized and profitable, supporting credit growth. She said that common equity tier 1 ratios declined modestly in 2025 but remained near long-term highs, at roughly 13.5 percent systemwide. She said that the decline largely reflected balance-sheet expansion rather than deterioration in asset quality. She said that risk-weighted assets increased due to loan growth, and retained earnings continued to support capital levels. She said that asset-quality indicators remained favorable. She said that non-performing loan ratios were low by historical standards, although certain segments, such as some commercial real estate portfolios, had experienced localized stress. She said that large

banks maintained strong liquidity buffers. She stated that liquidity coverage ratios remained above regulatory minimums and holdings of high-quality liquid assets remained elevated relative to pre-2020 levels. She said that during the last quarter, the cost of funds decreased more than the yield on earning assets, which resulted in a 5 basis point increase in the banking industry's net interest margins. She said that loan growth had accelerated. She said that annual loan growth, at 6 percent in the fourth quarter of 2025, was the highest in almost three years. She said that proposed regulatory changes could increase the flexibility of banks to deploy capital, potentially supporting additional lending activity and shareholder returns, depending on economic conditions.

With regard to financial markets, Ms. Skinner stated that while valuations were elevated in the current quarter, near-term financial stability risks were better captured by funding conditions, which showed only temporary periods of stress. She said that short-term funding pressures in the fourth quarter of 2025 were reflected in elevated repurchase agreement (repo) rates and modest widening in unsecured funding spreads. She said that conditions normalized following reserve management purchases and expanded use of standing repo operations. She said that funding markets had remained orderly. She stated that the Secured Overnight Financing Rate (SOFR), the benchmark for overnight repo funding, had recently traded in the mid-3 percent range. She said that the spread between SOFR and the overnight index swap (OIS), an indicator of funding stress, remained contained, suggesting that counterparty credit concerns were limited.

Addressing corporate debt conditions, Ms. Skinner stated that corporate credit spreads had been close to historical lows, especially for investment-grade debt. She said that credit-default swap spreads are often early market indicators of credit and counterparty risk, and that the absence of sharp spikes across core indices suggested that markets were not pricing in widespread defaults. She said that credit risk was being absorbed through normal hedging and risk-transfer mechanisms. She said that there was some default activity in lower-rated segments.

Addressing equity markets, Ms. Skinner stated that equity valuations were elevated relative to historical norms. She said that the cyclically adjusted price-earnings ratio, or CAPE, was well above its long-term average. She said that market research indicated that there were no signs of deterioration in corporate earnings expectations.

Ms. Skinner stated that household balance sheets remained broadly stable, with rising delinquencies in certain segments but limited risk of broader spillovers. She said that delinquency rates on non-housing consumer credit had increased modestly across products. She said that debt service burdens remained low as a percentage of disposable personal income, helping to contain repayment pressure. She said that while fewer than 40 percent of student loan borrowers were current on their repayments, student loan balances represent a relatively modest share of total household liabilities, and only a relatively small share of total debt is held by student loan borrowers. She stated that while housing-related credit quality remained well-supported by strong homeowner equity, mortgage activity remained muted, likely reflecting higher total ownership and financing costs. She also noted that in 2024, 21 percent of U.S. adults experienced financial fraud or scams, with a median loss of around \$500 per victim. She said that a fraud of this amount can translate into payment stress for cash-constrained families.

Turning to digital assets and innovation, Ms. Skinner stated that digital asset markets had remained resilient, while financial innovation, particularly in artificial intelligence (AI), was supporting investment and economic growth. She said that over the past year, Bitcoin prices had remained below their late-2025 peak, with recent declines associated with outflows from exchange-traded funds. She said that despite some use of leverage in digital asset markets, there was limited evidence of spillovers to the broader financial system, and exposures of regulated institutions remained relatively contained. She said that stablecoin market capitalization had also remained broadly stable. She stated that at the same time, AI-related investment, including data centers, had increased rapidly and that AI-driven investment contributed 0.3 percentage points to real gross domestic product (GDP) growth in calendar year 2025.

Ms. Skinner stated that the macro environment remained stable, with steady growth and easing financial conditions. She said that consensus forecasts anticipated real GDP growth of approximately 2 percent annually through 2027, with the unemployment rate expected to remain near its current level. She said that market-based measures suggested inflation was expected to gradually move toward the Federal Reserve's 2 percent target by the end of 2027, although she noted uncertainties introduced by recent geopolitical developments and energy price volatility. She said that survey evidence suggested that banks had reduced the pace of tightening in lending standards, which she said was consistent with the acceleration in bank loan growth observed over the past year.

Addressing geopolitical risk, Ms. Skinner stated that geopolitical tensions were primarily transmitted through higher energy prices and inflation expectations, with limited but evolving spillovers to financial markets. She said that staff would continue to assess the impact of the ongoing conflict with Iran. She said that the conflict had primarily affected global markets through higher oil and gas prices, reinforcing inflation pressures. She said that the impact on U.S. financial markets had been more contained than in European and Asian markets, reflecting the U.S. position as a net energy exporter and its lower direct dependence on Middle East energy flows. She said that while geopolitical tensions had supported safe-haven demand, higher energy prices had also increased inflation expectations, which she said had placed some upward pressure on Treasury yields. She said that markets so far appeared to have absorbed recent shocks without disruption.

Turning to AI-related investments, Ms. Skinner stated that, as noted, AI-related investment had increased rapidly and was making a meaningful contribution to economic growth. She said that markets had not yet converged on a clear view of AI's long-term revenue potential, contributing to valuation volatility and an ongoing reassessment of earnings expectations in some areas. She said that financing activity had also expanded, particularly for AI-related infrastructure such as data centers. She said that this boom raised questions about leverage. She said that hyperscalers, cloud service providers operating large-scale data centers, had so far typically relied on internal cash flow to finance their capital expenditure. She said that hyperscalers may be starting to use hybrid financing arrangements, with a mix of public and private debt issuance, to fund AI data center projects. She said that Council member agencies would continue to study these developments. She stated that the Council's Systemic Risk Committee recommended that the Council monitor growth in hyperscaler debt issuance and the potential buildup of debt-like or contingent obligations that might not be fully visible on balance sheets.

Mr. Pettit then addressed private credit markets, including business development companies (BDCs), private credit lending to software firms, and bank lending to private credit firms. He noted that BDCs are funds registered with the SEC under the Investment Company Act of 1940, and some are marketed to investors as semi-liquid funds that provide shareholders with quarterly tender offers. He said that elevated demand for those tender offers had developed in the first quarter of 2026. He said that perceived signs of stress in leveraged loan markets had put valuation pressure on some publicly traded BDCs, which he said was reflected in wider discounts to net asset value. He stated that BDCs have structural features that limit potential systemic concerns, in particular regulatory leverage limits of 2 to 1, the predominant use of term funding, capped redemption structures, and contractual redemption gates. He said that market evidence indicated that although certain BDCs limited redemptions, the BDC sector overall had been managing these market developments with little or no evidence of spillovers, fire sales, or funding strains across the sector.

Next, Mr. Pettit addressed private credit funds' exposure to the software sector. He said that public concerns had arisen whether asset valuations by the funds are appropriately marked to market. He said that negative equity market sentiment was derived from concerns that software firms might be displaced as the use of AI expands. He noted that software is the largest sectoral holding in the private credit sector but nonetheless represents only approximately 22 percent of total assets. He said that effective leverage remained approximately 40 percent, which he said compared favorably to an approximately 30 percent equity market sell-off. He said that current developments appeared limited to a segment of sponsor-backed middle-market lending. He stressed that any losses to private credit funds, even if realized, would primarily affect private fund investors rather than banking institutions.

Mr. Pettit next addressed the exposure of banks to private credit. He stated that there had been scrutiny of whether bank lending to private credit firms places bank balance sheets at risk. He said that this counterparty exposure appeared contained and well-managed at present, for several reasons. He said that private credit loans into the market were approximately 45 percent leveraged, and that bank facilities were leveraged approximately 50 percent against that, so banks' last dollar at risk in these facilities was effectively 22.5 percent loan-to-value. He also said that banks cross-collateralize these loans against a large pool of assets. He said that as a result, large shocks would need to occur for losses to affect bank balance sheets. He said that system-wide, the magnitude of bank lending to private credit was modest relative to total assets on banks' balance sheets. He stated that while the exact amount of bank lending to private credit was unknown, call report data can serve as proxies for this exposure. He noted that life insurance companies had seen increased investments in private credit funds and private credit-originated loans. He said that while Treasury had not noted material concerns so far, it would continue to monitor the insurance sector for any potential signs of systemic stress.

Ms. Skinner then summarized the key takeaways from the Council's financial stability monitor. First, she said that financial institutions were resilient, with banks maintaining high levels of capital and liquidity. Second, she said that core markets were functioning well, including funding markets and the Treasury market. Third, she said that the longer-term macroeconomic backdrop remained largely supportive. She said that while Council member agencies were monitoring pockets of fluctuation, these occurrences did not appear to reflect systemic stress.

Council members then asked questions and had a discussion regarding the relationships between banks and private credit funds and other issues related to such funds.

The Chairperson stated that the Council's quarterly financial stability monitor adds valuable precision to its assessment of financial stability conditions and would provide useful information. He said that the financial system remained resilient and poised to support economic growth. He said that Treasury would continue to engage with other Council member agencies to monitor developments across the financial system.

## 2. Household Resilience Working Group

The Chairperson then turned to the second agenda item, an update on the Council's Household Resilience Working Group (HRWG). He noted that he had talked in the past about the importance of promoting parallel prosperity, an era of economic expansion where Wall Street and Main Street grow together. He said that financial stability had historically focused primarily on financial institutions and markets. He noted, however, that the real economy is the intended beneficiary of financial stability. He said that this new working group would accordingly focus directly on the financial health of the American household. He then introduced Christina Skinner, Deputy Assistant Secretary for the Council at Treasury; Benjamin Kay, Senior Policy Advisor in the Office of the Financial Stability Oversight Council at Treasury; and Gary Shiffman, Senior Advisor in the Office of the Financial Stability Oversight Council at Treasury, for the update.

Ms. Skinner noted that the Council formed the HRWG to monitor household financial resilience and to consider early-warning indicators of potential stress in household balance sheets. She said that the presentation would describe the HRWG's efforts to assess household finances.

Mr. Kay described staff's work to evaluate metrics that influence household vulnerability to shocks, such as leverage, income, creditworthiness, and geography. Mr. Kay provided an overview of aggregate conditions in household credit across major products, including mortgages, student loans, credit cards, auto loans, and others. He stated that staff had identified stable, moderate credit growth by historical standards, with nominal aggregate household debt growing 3 percent in the year through January 2026. He said that this pace may reflect several trends, such as households not increasing debt, reduced demand for credit at prevailing prices, and borrowing that tracks income expectations. He said that overall delinquency rates had continued to increase slowly since 2021. He said that mortgage delinquency rates remained below pre-pandemic levels, while credit card and auto delinquencies were modestly higher than pre-pandemic levels. He said that student loan delinquencies had risen substantially.

Mr. Kay then described data regarding non-prime borrowers and low-income borrowers. He said that non-prime borrowing grew approximately 7 percent year-over-year, while low-income borrowing grew approximately 5 percent, as compared with approximately 3 percent aggregate growth. He said that even when overall growth appears modest, trends can differ meaningfully across groups. He noted that low-income borrowers hold a significant amount of student loans, while non-prime borrowers hold a broader mix of debt, with mortgages representing the largest

share. He said that the product type of debt influences how stress emerges and how quickly it appears in measures of delinquency. He said that these indicators can vary depending on whether debt is related to revolving credit, installment loans, student loans, or mortgages.

Mr. Kay turned to noncurrent rates, which he defined as borrowers at least 30 days past due. He noted that noncurrent rates are a key tool for tracking performance and emerging signs of stress. He stated that noncurrent rates can be measured by product and by subpopulation, and he discussed examples related to auto loans, mortgages, credit cards, student loans, home equity loans, and other products. He said that for each product, staff evaluated four populations: the full sample; low-income households (less than half the national median income); non-prime households (with credit scores of 660 or less); and highly leveraged households (the top third of required debt payment-to-income ratios). He said that while the low-income and non-prime household groups can appear similar in terms of delinquency, they do not represent the same population. He said that mortgage delinquency rates for all these groups remained below pre-pandemic levels. He said that this was not the case, however, for all subpopulations, and he noted that Federal Housing Administration delinquency rates were above pre-pandemic levels. He noted the importance of segmenting data, because aggregate trends can obscure differences across programs. He noted that delinquency rates for auto loans were above pre-pandemic levels for all groups, but were only slightly higher in the full sample.

Mr. Kay noted that loan servicers collect payments, respond to customer service inquiries, and perform other administrative tasks associated with maintaining a loan. He said that the share of non-mortgage debt serviced by nonbanks was largely stable or rising slowly. He said that the bank share of servicing had decreased from 80 percent in 2013 to 41 percent in 2025. He said that for many years, nonbanks had held more non-prime, non-mortgage loans than banks.

Finally, Mr. Kay addressed geographic data. He noted that financial stress rose during the period from January 2013 to January 2026 in counties on which data were available. He said that the areas currently estimated to have the highest levels of financial stress included Clayton County, Georgia; Prince George's County, Maryland; and the Bronx, New York.

Mr. Shiffman then addressed fraud. He noted that fraud can be seen as a consumer protection issue, but he said that he would discuss fraud as a household balance-sheet shock with implications for financial stability. He defined "fraud" as an illegal, deceptive, or unfair act or omission, including misrepresentation, undertaken to obtain or extract financial assets or property from another party, causing financial loss to that party. He noted that in 2024, 21 percent of U.S. adults experienced fraud. He said that net unrecovered losses were estimated to be in the tens of billions of dollars, with a median loss of approximately \$500. He noted that according to the Federal Reserve's Report on the Economic Well-Being of U.S. Households, 37 percent of adults surveyed reported that they could not cover a \$400 emergency with cash on hand, but may be able to cover the loss with credit cards or sale of items, and 13 percent reported that they could not cover a \$400 emergency expense using any approach. As a result, he said that for a large share of households, a \$500 fraud loss represents a significant loss. He stated that some researchers estimated annual U.S. fraud losses of \$138 billion, with modeled effects indicating a reduction in GDP of more than 0.5 percent and a reduction in productivity growth of

approximately 0.4 percent. He noted that these amounts are difficult to measure, because most fraud is unobserved.

Mr. Shiffman stated that AI and emerging “agentic” workflows were expected to increase the capabilities of illicit actors that engage in fraud, particularly through automation of phishing campaigns, synthetic identity creation, and deepfake-enabled impersonation. He said that fraud could, therefore, be relevant to economic growth and economic security. He said that, given the rapid growth of AI and the use of fraud by geopolitical threat actors, a cycle may accelerate in which fraud generates proceeds that are reinvested in expanded fraud capacity, which in turn generates more fraud.

Ms. Skinner noted that the HRWG would continue to refine its analyses over time, including regarding payment fraud.

Council members then had a discussion regarding risks from fraud and member agencies’ efforts to address this issue, including through programming for National Financial Literacy Month in April.

The Chairperson adjourned the executive session of the meeting at approximately 1:41 p.m.

## **Open Session**

The Chairperson called the open session of the meeting of the Council to order at approximately 2:02 p.m. He outlined the agenda for the open session, which included (1) a presentation and vote on the Council’s proposed interpretive guidance on nonbank financial company designations, (2) an update on banking supervision and regulation, and (3) a vote on the minutes of the Council’s meeting on December 11, 2025.

### **1. Interpretive Guidance on Nonbank Financial Company Designations**

The Chairperson introduced the first agenda item, a presentation on the Council’s proposed interpretive guidance on nonbank financial company designations, followed by a vote on approving the proposed guidance.

The Chairperson stated that the Council is often, and understandably, associated with its authority under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to designate a nonbank financial company for Federal Reserve supervision and prudential standards. He noted that in the Council’s first few years, the Council used this designation authority four times in relatively quick succession. He said that that experience revealed important shortcomings in relying on firm-specific designations as a primary tool to address threats to financial stability. He said that the Council has a vital mission of identifying and responding to potential threats to the stability of the financial system before they can translate into real economic harms. He stated that in most cases, the most efficient and effective way to achieve that goal is to ensure that the regulators and market participants who have the ability and expertise to understand and address the risks take appropriate action. He said that the Council, instead of advocating for more or less regulation, should use the best available data to guide the

financial system to outcomes that promote its ability to support economic activity. He said that the Council's proposed guidance represented an important step in that direction. He said that it would return the Council to prioritizing an activities-based approach, in which the Council focuses first on risks that arise from specific activities and practices across markets, rather than singling out individual firms.

The Chairperson stated that this approach would enable the Council to be more nimble in how it addresses emerging risk, while also taking a balanced approach to considering the effects on economic growth. He said that emphasizing an activities-based approach reflects the Council's commitment to working closely with primary regulators. He said that by leveraging Council member agencies' existing regulatory tools, the Council could better address risks to financial stability and provide greater clarity and predictability to market participants. He said that clear rules of the road reduce uncertainty. He said that reduced uncertainty lowers the cost of capital and minimizes the risk of unnecessary competitive distortions.

The Chairperson stated that the proposed guidance would also incorporate cost-benefit analysis into the designation process. He said that this step underscores the Council's focus on thoughtful decision-making and enabling facts to guide its actions. He said that he looked forward to receiving public comments on the proposal and continuing to strengthen the financial system in ways that promote both economic growth and economic security. He turned to Christina Skinner, Deputy Assistant Secretary for the Council at Treasury, for the presentation.

Ms. Skinner stated that she would provide an overview of the proposed guidance. She said that the proposed guidance was intended to help ensure that the Council's work is clear, transparent, and analytically rigorous, and would enhance the Council's engagement with companies, regulators, and other stakeholders. She said that the guidance proposed a new approach for the Council to identify, analyze, and address potential risks to U.S. financial stability. She stated that it would also add new rigor to the Council's process for considering a nonbank financial company for designation under section 113 of the Dodd-Frank Act. She said that under that authority, if the Council determines that a nonbank financial company's material financial distress or activities could pose a threat to U.S. financial stability, the Council can designate the company for Federal Reserve supervision and enhanced prudential standards. She then highlighted certain key changes that the proposal would make.

First, Ms. Skinner stated that the proposed guidance would update the Council's analytic methodologies, including with a new list of types of vulnerabilities that most commonly contribute to potential risks to U.S. financial stability. She said that in addition, the proposed guidance explained that the Council would consider impediments to economic growth and economic security when identifying potential risks to U.S. financial stability. She said that this change would align the Council's framework with the reality that economic growth and economic security underpin and are interconnected with financial stability.

Second, Ms. Skinner stated that under the proposed guidance, the Council would prioritize its efforts to identify, assess, and respond to potential risks to U.S. financial stability through a process that begins with an activities-based approach. She said that this approach generally reproduced the activities-based approach that was first introduced by the Council's guidance on

nonbank financial company designations issued by the Council in 2019. She noted that the Council replaced the 2019 guidance in 2023, at which time it also issued a separate analytic framework for financial stability risks. She said that the approach under the proposed guidance was consistent with the Council's priority of identifying potential risks to U.S. financial stability on a system-wide basis. She stated that under the proposed guidance, the Council would pursue entity-specific nonbank financial company designations only if a potential risk to U.S. financial stability cannot be, or is not, adequately addressed through an activities-based approach. She said that the reversion to an activities-based approach would leverage the expertise of the Council member agencies and provide regulatory certainty to nonbank financial companies.

Third, Ms. Skinner stated that under the proposed guidance, the Council would merge the descriptions of its nonbank financial company designation process and its analytic methodologies for financial stability risks into a single document, reproducing the structure of the Council's 2019 guidance. She said that if the Council issues final interpretive guidance based on the proposed guidance, the Council intended to rescind the separate analytic framework that the Council issued in 2023. She said that this change was intended to provide regulatory clarity and certainty about how the Council goes about its work.

Fourth, Ms. Skinner stated that under the proposed guidance, if the Council considers a nonbank financial company for potential designation, the Council would perform a cost-benefit analysis before making the designation, consistent with the 2019 guidance. She said that the Council would designate a nonbank financial company only if the expected benefits to financial stability from Federal Reserve supervision and prudential standards justify the expected costs that the designation would impose. She said that as part of an assessment of the benefits of a designation, the Council would assess the likelihood of a nonbank financial company's material financial distress, in order to evaluate the extent to which a designation may promote U.S. financial stability, along with the extent to which material financial distress at the nonbank financial company could pose a threat to U.S. financial stability. She stated that this approach reproduced and clarified the assessment of the likelihood of a nonbank financial company's material financial distress that was introduced by the 2019 guidance but eliminated in the 2023 guidance. She said that these procedures were intended to ensure that the Council engages in analytically rigorous and thoughtful decision-making in evaluating a potential designation.

Fifth, Ms. Skinner stated that under the proposed guidance, the Council would modify its interpretation of the term "threat to the financial stability of the United States," for purposes of the Council's nonbank financial company designation authority, to mean "the threat of an impairment of financial intermediation or of financial market functioning to a degree that would be sufficient to inflict severe damage on the broader U.S. economy." She said that this interpretation was consistent with the Council's interpretation of this term in the 2019 guidance. She stated that it would represent a higher threshold than the one in the 2023 analytic framework, which interpreted this term to mean events or conditions that could substantially impair the financial system's ability to support economic activity. She said that the proposal was intended to set the bar for designation very high.

Sixth, under the proposed guidance, Ms. Skinner stated that the Council would add a new procedural step to its administrative process for nonbank financial company designations. She

said that, based on the Council's preliminary evaluation of a nonbank financial company, the proposed guidance stated that the Council intends to identify steps a nonbank financial company or financial regulatory agencies could take to address a potential threat to U.S. financial stability. She said that this procedure would enable a nonbank financial company to leverage its internal expertise to address a potential threat to financial stability prior to government intervention.

Ms. Skinner stated, in conclusion, that the proposal would enhance the Council's ability to address risks to financial stability and lead to a more rigorous designation process.

Following the presentation, the Chairperson invited other Council members to comment.

Jerome Powell, Chair of the Federal Reserve, expressed his support for the proposed guidance. He said that he believed it is appropriate that the Council set the bar for designation very high, as described in the presentation, and he said that he believed that this approach was consistent with the Council's designation authority under section 113 of the Dodd-Frank Act.

Paul Atkins, Chairman of the SEC, stated that he had been consistent in his skepticism of nonbank financial company designation. He said that the proposal represented a meaningful step in the right direction, but does not, and cannot, resolve the fundamental issues with designation of nonbank financial companies, an approach that he said was ill-advised and flawed in the Dodd-Frank Act. He said that designating nonbank financial companies for Federal Reserve supervision and enhanced prudential standards was never the appropriate mechanism to maintain the strength or resilience of the financial system. He stated that while only Congress can address the underlying deficiencies of this framework, that should not discourage the Council from continuing to refine its interpretive guidance within existing authorities. He said that the proposal would move the Council in a better direction, even if it cannot entirely address these deficiencies.

Travis Hill, Chairman of the FDIC, expressed his support for the proposed guidance, which he noted would prioritize an activities-based approach to identifying and addressing potential risk to U.S. financial stability, consistent with the 2019 guidance. He said that trying to project the systemic impact of financial distress for a diverse set of nonbank financial companies is an extremely difficult task, and he stated that designating nonbank financial companies inevitably results in picking winners and losers. He said that he was skeptical that prudential requirements designed for large banks are workable for a variety of nonbank business models.

Jonathan Gould, Comptroller of the Currency, noted that he had been part of the team of lawyers and consultants that assisted MetLife during the Council's designation process for the company in 2014. He stated that the government's efforts with regard to MetLife were among the most egregious abuses of government power that he had witnessed in his career. He said that both the substance and process of the Council's MetLife designation were deficient, and he noted that a court ultimately overrode the Council's action. He stated that it took significant resolve and resources to fight what he called blatant government overreach. He said that in the years since, different iterations of the Council had alternatively taken a step towards a more rational framework, only to take a step back. He said that the proposed guidance reverted to a common-sense approach consistent with the law. He said that it would recenter the Council on an

activities-based approach, focusing on identifying and addressing risks at their source, in coordination with primary regulators, before resorting to considerations of nonbank financial company designation. He stated that conducting a cost-benefit analysis was both legally necessary and inherently desirable, should the Council undertake a designation in the future. He said that cost-benefit analysis also affords an opportunity to determine whether, among other things, subjecting a nonbank financial company to bank-like regulation would in fact mitigate the identified risks to financial stability posed by the company. He stated that given the considerable cost and invasiveness of bank-like regulation, and the narrow purposes for which such regulation was designed, the nonbank financial company designation process should be approached with caution and restraint. He expressed his support for the proposal's restoration of an analysis of a nonbank financial company's likelihood of material financial distress, a more meaningful definition of what constitutes a threat to U.S. financial stability, and the identification of a clear off-ramp within the designation process. He said that these proposals would create a more rational framework for considering the designation of a nonbank financial company.

William Pulte, Director of the FHFA, stated that during the previous Administration, the Council adopted an approach to nonbank financial company designation that singled out individual companies, risked unnecessarily impeding the financial system, and lacked transparency. He said that the proposed guidance represented a return to the activities-based approach that the Council adopted during President Trump's first Administration. He said that the partnership of Fannie Mae and Freddie Mac with nonbank mortgage companies was essential to liquidity and ensuring a safe, sound, and efficient national mortgage market. He stated that any disruptions to nonbank financial companies pose a threat to the national housing finance system and could have disastrous implications for the American people. He said that recently there had been a hesitation by individuals who craft U.S. monetary policy to lower interest rates. He said that as a result, the cost of mortgages had remained high, and many Americans had been locked out of being able to own their own home. He said that this was the case until President Trump directed Fannie Mae and Freddie Mac to buy \$200 billion of mortgage-backed securities, which he said drove down mortgage rates significantly. He said that avoiding disruptions with nonbanks is critical to each of these initiatives.

Lise Kruse, Commissioner of the North Dakota Department of Financial Institutions, stated that as the Council considers potential changes to its guidance, it should seek to establish a process that is effective, durable, clearly understood, consistently applied, and broadly accepted by stakeholders. She said that the proposed guidance provided an important opportunity to move in that direction. She said that the public comment process would serve as a meaningful indicator of whether the Council had struck the right balance between flexibility and predictability and whether the proposed approach is workable in practice. She emphasized the central role of state regulators in this process. She said that state regulators are the primary prudential and market conduct supervisors of many nonbank financial companies. She stated that state regulators bring institution-specific knowledge and an ongoing supervisory presence that can inform the Council's analysis. She said that consultation and coordination with state regulators should therefore be viewed as a core strength of the designation process.

The Chairperson then presented to the Council the following resolution approving the notice of

proposed interpretive guidance on nonbank financial company designations.

*WHEREAS, the Council's duties under section 112 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) include monitoring the financial services marketplace in order to identify potential threats to U.S. financial stability; recommending to the Council member agencies general supervisory priorities and principles reflecting the outcome of discussions among the member agencies; identifying gaps in regulation that could pose risks to the financial stability of the United States; requiring supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve) for nonbank financial companies that may pose risks to the financial stability of the United States in the event of their material financial distress or failure, or because of their activities; and making recommendations to primary financial regulatory agencies to apply new or heightened standards and safeguards for financial activities or practices that could create or increase risks of significant liquidity, credit, or other problems spreading among bank holding companies, nonbank financial companies, and United States financial markets; and*

*WHEREAS, section 113 of the Dodd-Frank Act authorizes the Council to determine that a nonbank financial company shall be supervised by the Federal Reserve and shall be subject to prudential standards if the Council determines that material financial distress at the company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to the financial stability of the United States; and*

*WHEREAS, on November 3, 2023, the Council approved interpretive guidance (the 2023 Interpretive Guidance) that described the approach the Council intended to take in prioritizing its work to identify and address potential risks to U.S. financial stability and in making determinations regarding nonbank financial companies under section 113 of the Dodd-Frank Act; and*

*WHEREAS, on November 3, 2023, the Council approved an analytic framework (the 2023 Analytic Framework) that described the approach the Council intended to take in identifying, assessing, and responding to certain potential risks to U.S. financial stability; and*

*WHEREAS, the staffs of the Council members and their agencies have prepared proposed interpretive guidance (the Proposed Guidance) that would replace the 2023 Interpretive Guidance and that describes (1) the approach the Council proposes to take in (a) prioritizing its work to identify and address potential risks to U.S. financial stability using an activities-based approach, and (b) enhancing the analytical rigor and transparency in the processes the Council would follow if it were to consider making a determination under section 113 of the Dodd-Frank Act, and (2) the Council's intention to rescind the 2023 Analytic Framework if it issues final interpretive guidance based on the Proposed Guidance; and*

*WHEREAS, the staffs of the Council members and their agencies recommend that the Council approve and publish the Proposed Guidance.*

*NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the Proposed Guidance and authorizes the Chairperson, or his designee, to cause the Proposed Guidance to be published in the Federal Register, in a form and manner acceptable to the Chairperson, or*

*his designee, and to otherwise make it available to the public as the Chairperson deems appropriate.*

*BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the Proposed Guidance to ensure that it can be published in the Federal Register; to extend the due date for public comments on the Proposed Guidance; and to take such other actions and issue such other documents incident and related to the foregoing as the Chairperson, or his designee, deems necessary or appropriate to fulfill the Council's objectives in connection with its publication.*

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

## 2. Banking Supervision and Regulation

The Chairperson then introduced the next agenda item, an update from the Federal Reserve, the FDIC, and the OCC on their efforts to simplify and modernize regulatory capital standards. He noted that the federal banking agencies had recently issued a proposal to revise bank capital rules, which he said was an important step to help modernize the capital framework, avoid market distortions that drive financial activities to nonbanks, and ensure that community and mid-sized banks do not face a competitive disadvantage. He stated that the proposal built on the work underway by the agencies to refocus bank supervision on material financial risk, improve the stress testing framework, and recalibrate the enhanced supplementary leverage ratio (eSLR). He said that these efforts were advancing the Council's goal of a fundamental reset of financial regulation so that the banking system can fulfill its critical role in supporting economic growth. He then turned to Chair Powell for an update.

Chair Powell stated that the previous week, the Federal Reserve issued three proposals to re-examine its capital rules, with the goal of ensuring that they are still effectively and efficiently mitigating the risks they were designed to address. He said that the first proposal would help the Federal Reserve fulfill its commitment to the Basel III capital standards. He said that the second proposal would make corresponding changes for other banks, which would better match their risk-based capital requirements to the risks of traditional lending. He said that the third proposal would improve how systemic risk for the largest and most complex banks is measured and how the resulting capital surcharge is implemented. Chair Powell then turned to Michelle Bowman, Vice Chair for Supervision at the Federal Reserve, for an update.

Ms. Bowman stated that, as Chair Powell noted, the Federal Reserve recently issued three proposals to modernize its bank capital requirements and promote economic growth: a proposal on Basel III capital standards, a proposal on the global systemically important bank (G-SIB) surcharge, and a standardized approach proposal. She said that nine months ago, the Federal Reserve began a comprehensive review of its capital framework. She said that the Federal Reserve evaluated each element to examine whether it aligns with risks, achieves its intended purpose, and avoids creating unintended outcomes. She stated that the three proposals were expected to result in more efficient regulation to better position banks to support U.S. economic

growth and engage in traditional banking activities, while preserving safety and soundness and U.S. financial stability.

Ms. Bowman stated that the Federal Reserve developed the proposals to modernize and rationalize the four pillars of the regulatory capital framework for the largest banks: stress testing, the supplementary leverage ratio, the Basel III framework, and the G-SIB surcharge. She said that the proposals accounted for the aggregate impact of revisions already introduced to the eSLR and the proposed changes to improve the transparency and accountability of the stress testing framework. She said that the proposals would also remove duplications among the Federal Reserve's capital requirements. She said that the proposals would streamline the risk-based capital framework using a single set of calculations and better align requirements to risk. She said that the Basel III proposal would fulfill the obligations of the Federal Reserve under the 2017 Basel agreement, simplifying and improving the capital framework by incorporating risk sensitivity and consistency in capital requirements. She stated that the G-SIB surcharge proposal would improve measurement of systemic risk and align surcharges with those risks. She said that under this proposal, the G-SIB surcharge would reflect changes in the financial system and the economy and be indexed to account for economic growth and inflation. She said that the standardized approach proposal would modify capital requirements for smaller and less-complex banks. She said that these changes would better reflect and react to the risks of traditional lending activities, encouraging smaller banks to return to their role of supporting businesses, families, and communities. She said that these proposals built upon planned enhancements to the community bank leverage ratio, which she said preserves strong capital requirements while reducing regulatory burden and increasing flexibility for community banks. She stated that all of the proposals would maintain strict approaches for complexity, but recognize the necessity of bank engagement in traditional banking activities, including mortgage servicing and origination. She said that the goal was to bring more of these traditional banking activities back into the banking system, achieving a modernized capital framework that supports lending and U.S. economic growth.

Chairman Hill expressed his support for Ms. Bowman's remarks, and he stressed the importance of the capital reforms that the federal banking agencies had undertaken over the past year. He stated that the reforms were intended to improve the risk sensitivity of the capital framework, particularly in areas such as mortgage lending and corporate lending, and simplify the risk-based capital framework. He said that the proposed and finalized rule changes would unlock billions of dollars of additional lending capacity and remove disincentives to banks engaging in activities that support economic growth. He said that the proposals were a key part of the agencies' broader efforts to reform the regulatory framework to enable banks to better serve their customers.

Comptroller Gould stated that since the last Council meeting, the OCC had undertaken efforts to restore the role of banks as financial intermediaries and reinvigorate the federal banking system. He said that the OCC and other Council member agencies had proposed regulatory capital changes for all banks, issued a proposed regulatory framework for payment stablecoin issuers, identified reforms to the OCC's bank appeals process, and finalized rules to reduce regulatory burdens for community banks. He said that the federal banking agencies would continue to review and revise the post-2008 regulatory and supervisory framework with the goal of ensuring

the banking system remains relevant and able to serve Main Street.

3. Resolution Approving the Minutes of the Meeting Held on December 11, 2025

*BE IT RESOLVED, by the Financial Stability Oversight Council (Council), that the minutes of the meeting held on December 11, 2025 of the Council are hereby approved.*

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 2:27 p.m.