

**Paul A. Volcker Lecture Series
Yale School of Management
Program on Financial Stability**

**Lecture 3:
What Would Paul Volcker Think?
Repairing Financial Regulation and
Confronting the Risks Ahead**

**Martin J. Gruenberg
Lecturer in Management
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Introduction

Today I have the privilege of presenting the third and final lecture of this inaugural Paul A. Volcker Lecture Series.

In the first lecture, I discussed the importance Chairman Volcker placed on the independence of monetary policy and financial regulation from political direction, and the unprecedented threat now posed to that independence.

In the second lecture, I described how the loss of that independence has resulted in a comprehensive weakening of regulation, supervision, and enforcement across all of the federal banking regulators, and the other financial regulators as well, in addition to devastating workforce reductions.

Today, in this third and final lecture, I want to look to the future.

That is not an easy question to address at the current moment. When institutions are in the process of being weakened, it is natural to focus on the damage. But it is all the more important to think ahead, to consider what must be restored, what must be rebuilt, and what new risks must be confronted if we are to preserve financial stability in the years ahead.

I want to address my remarks today to two questions.

First, what should be done to repair the damage to financial regulation once there is a change of administration?

Some non-regulatory actions can be taken relatively quickly to begin restoring supervisory credibility, reestablishing prudential rigor, and stabilizing the agencies.

Formal regulatory action will also be needed to rebuild the prudential safeguards that have been weakened or abandoned.

The longer term requires something more difficult still - rebuilding institutions, restoring the credibility of public service, and reviving the idea that financial regulation is a vocation worthy of the nation's best talent.

Second, what are the emerging risks in the financial system that require sustained attention beyond the immediate challenge of repair? Even if every action I described yesterday could somehow be reversed overnight, the financial system going forward would not be the same as it was ten or even five years ago. The structure of finance is changing rapidly. If we focus only on repairing yesterday's damage and fail to prepare for tomorrow's risks, we will not have done enough.

That, by the way, is very much in the spirit of Paul Volcker.

In my experience with him, he understood that finance evolves, often rapidly, and that regulation and supervision must evolve with it. But he also understood that the underlying principles do not change - independence, discipline, institutional competence, healthy skepticism, and an unwavering commitment to the long-term public interest.

Those are the principles that should guide us now.

Repairing the Damage

Restoring Credible Supervision

When there is a change of administration, the first task should be rebuilding the institutional capacity of our regulatory agencies, which are currently under attack. Rules are important, but they are only as effective as the agencies and public servants that implement them.

It begins with supervision. As I discussed yesterday, one of the most consequential developments of the past year has been the effort to redefine what supervision means -- to narrow it to currently observable “material financial risks,” while deemphasizing governance, internal controls, risk management, and the broader pattern recognition that allows supervision to be preventive rather than merely reactive.¹

That is a profound mistake, and I say this from personal experience.

In every crisis with which I have had experience – the thrift and banking crises of the 1980s and early 1990s, the Global Financial Crisis of 2007-2009, the regional bank failures of 2023 – the problems that ultimately became material financial risks were manifested much earlier as governance weaknesses, as concentrations that individually seemed manageable, as risk management deficiencies that had not yet produced losses, as growth strategies that outpaced internal controls. The value of supervision is that it identifies these vulnerabilities before they become crises. If examiners are instructed to wait until a risk is material before they act, you have effectively eliminated the preventive function of supervision.²

¹ Board of Governors of the Federal Reserve System, *Enhancements to Bank Supervision* (Nov. 18, 2025), <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20251118a.htm>; Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation, "Unsafe or Unsound Practices, Matters Requiring Attention," *Federal Register* 90, no. 206 (Oct. 30, 2025): 48835–48853, <https://www.federalregister.gov/documents/2025/10/30/2025-19711/unsafe-or-unsound-practices-matters-requiring-attention>.

² On the thrift and banking crises, see Federal Deposit Insurance Corporation, *Managing the Crisis: The FDIC and RTC Experience, 1980–1994* (Washington, DC: FDIC, 1998), <https://www.fdic.gov/publications/managing-crisis-fdic-and-rtc-experience>. On the Global Financial Crisis, see Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report* (Washington, DC: U.S. Government Printing Office, 2011),

A future administration should therefore first move promptly to restore the traditional scope of prudential supervision. That means setting clear expectations that examiners are to assess not only realized financial risks that have risen to material levels, but also to assess managerial, governance, operational, and compliance weaknesses that, if left unaddressed, could give rise to such risks. It means reestablishing the principle that unsafe or unsound practices do not need to approach institution-threatening proportions to warrant supervisory attention. It means restoring the legitimacy of horizontal reviews, peer comparisons, and forward-looking judgments about business models, concentrations, funding structures, and governance practices. It means restoring the legitimacy of bank supervision.

Second, it also means reversing the directive from the Federal Reserve that examiners should rely on a bank's own internal audit function to validate the remediation of supervisory deficiencies or requirements in an enforcement action.³ Internal audit has an important role, but effective supervision cannot be outsourced to the supervised institution. Where a bank has been found deficient, the regulator must retain both the authority and the responsibility to determine whether the deficiency has actually been corrected. No experienced examiner with whom I have ever worked would seriously view that principle as controversial.

Third, beyond formal standards, there is the matter of tone. Supervision is influenced by the signals sent from agency leadership. If the signal is that adverse findings are unwelcome, that enforcement should be exceptional, that management weaknesses are unimportant unless a firm is already experiencing financial loss, then the practical effect is a broad reduction in supervisory rigor regardless of what the manuals say. I have seen this dynamic work in both directions. Leadership can weaken supervision without changing a single rule. And leadership can restore it simply by making clear that conscientious supervision is expected and supported.

The fourth element is operational. The workforce reductions described in some detail in yesterday's lecture must be halted and, where possible, reversed once a new administration is in place.

A financial regulatory agency is not simply a legal shell with statutory authorities. Its real capacity lies in experienced staff, including: examiners who know how to read a loan portfolio and spot slippage before the numbers fully reveal it; lawyers who understand how to build durable enforcement actions; economists who can distinguish a temporary

<https://www.govinfo.gov/app/details/GPO-FCIC>. On the 2023 regional bank failures, see Board of Governors of the Federal Reserve System, *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>; Federal Deposit Insurance Corporation, *FDIC's Supervision of Signature Bank* (April 2023), <https://www.fdic.gov/sites/default/files/2024-03/pr23033a.pdf>.

³ Board of Governors, *Enhancements to Bank Supervision* (Nov. 18, 2025).

market fluctuation from a dangerous buildup of vulnerability; resolution specialists who know what a failure looks like at five o'clock on a Friday evening.

I have worked alongside professionals like that throughout my career. When experienced professionals leave, the agency loses not only headcount but institutional memory, practical judgment, and the ability to transfer knowledge to future professionals. The Federal Reserve's own report on the failure of Silicon Valley Bank noted shortages of bank examiners impacting supervision.⁴ Staff reductions, especially in the examination corps, compound that problem enormously.

Where staff have been pushed out, discouraged, or sidelined, efforts should be made to foster retention, to bring on or rehire experienced staff, and to reconstitute core teams in supervision, enforcement, policy, legal analysis, resolutions, and examinations.

Rebuilding interagency coordination at the staff level, including information sharing, staff-level cooperation, horizontal risk assessment, and crisis planning, also should be an early priority, because fragmentation in oversight creates blind spots, and blind spots in a stressed environment become failures.

Fifth, agencies should revisit examination guidance, ratings practices, escalation standards, and enforcement policies that were altered to make oversight less consequential. The withdrawal of large numbers of enforcement actions by all of the financial regulatory agencies, many without assessing whether banks have addressed the deficiencies identified by examiners, is truly unfortunate. It should once again be clear that unsafe growth, poor governance, weak controls, recurring violations, and unresolved supervisory findings carry consequences.

Finally, the short-term agenda should include a clear reaffirmation of independence as an operating norm. As I noted in the first lecture, independent agencies are meaningfully accountable – to the President through appointments, to Congress through confirmation and oversight, to courts through law, and to the public through transparency.

But accountability is not the same as day-to-day political control. A future administration committed to repair should make clear, in word and in conduct, that supervisory judgments, enforcement decisions, and prudential policies are to be made by the agencies on the merits, not filtered through partisan priorities or political convenience. I understand the challenge here. Once the genie is out of the bottle it is difficult to put it back in. But the public interest here is clear. I don't know if we can get back to where we were, but I hope we can do better than where we are now.

⁴ Board of Governors of the Federal Reserve System, *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank* (April 2023).

Restoring Consumer Protection

I would like to raise a particular concern about consumer protection.

I have focused these lectures primarily on financial stability and prudential regulation, but let me make clear, consumer protection is not a detached concern. It is an integral part of financial stability. Weak underwriting, abusive practices, opaque products, and incentive structures that reward short-term profits over sustainability have not just harmed individual borrowers. They have repeatedly contributed to broader systemic crises. The deterioration of mortgage underwriting standards that fueled the Global Financial Crisis of 2007-2009 was not a consumer problem that happened to have systemic consequences. It was a systemic risk that manifested first in consumer markets.⁵

That is why the creation of the Consumer Financial Protection Bureau, the CFPB, was a central part of Congress's response to the Global Financial Crisis. Since its creation in 2011, the CFPB's enforcement and supervisory work has generated more than \$21 billion in relief for more than 205 million consumers and consumer accounts. It has imposed more than \$5 billion in civil money penalties on companies and individuals found to have violated consumer protection laws. Its scrutiny of banks' overdraft and non-sufficient funds fee practices have helped save consumers more than \$6 billion annually. Its mortgage disclosure reforms standardized and simplified the information mortgage borrowers receive before closing. Overall, the CFPB has imposed a new discipline on previously neglected markets for consumer financial products.⁶

A serious rebuilding effort must therefore include restoration of the operational capacity and mission of the CFPB, which as I discussed yesterday has been the target of near-complete dismantlement. The GAO has documented a planned reduction of approximately 88 percent of its workforce, including 90 percent of its supervision staff.⁷ A recent court decision may mitigate that somewhat, but the Administration's intention in regard to this agency is clear.⁸ I should note, in addition, that the consumer protection supervision and enforcement responsibilities at the other bank regulatory agencies have been seriously diminished and will need to be restored as well.

⁵ Financial Crisis Inquiry Commission, *The Financial Crisis Inquiry Report* (2011).

⁶ Consumer Financial Protection Bureau, *Enforcement by the Numbers* (January 30, 2025), <https://www.consumerfinance.gov/enforcement/enforcement-by-the-numbers/>; National Consumer Law Center, *Fast Facts: CFPB by the Numbers* (December 2024), <https://www.nclc.org/wp-content/uploads/2025/01/FINAL-CFPB-Fact-Sheet-CFPB-by-the-Numbers-Dec-2024.pdf>.

⁷ Government Accountability Office, *Consumer Financial Protection Bureau: Status of Reorganization Efforts*, GAO-26-108448 (Washington, DC: GAO, January 27, 2026), <https://www.gao.gov/assets/gao-26-108448.pdf>.

⁸ *National Treasury Employees Union v. Vought*, No. 1:25-cv-00381 (D.D.C. 2025).

Restoring Prudential Safeguards – Capital, Liquidity, Resolution

The objective for future rulemakings should be straightforward: to restore the prudential safeguards that were weakened or dismantled, while taking account of what has been learned from recent episodes of stress.

Let me begin with capital, because capital is the foundation of the stability of the banking system. Capital is not a constraint on banking. It is what makes banks, as well as the banking system, credible and able to meet the credit needs of the economy.

Previously, I described in detail the coordinated effort now underway to weaken both the leverage and risk-based capital ratios, especially for the largest, most systemically important financial institutions. The agencies have essentially eliminated the effectiveness of the enhanced supplementary leverage ratio as a financial stability safeguard, allowing a precipitous drop, especially at the GSIB bank level.⁹ The proposed changes to the Basel III Endgame, the GSIB surcharge, and stress testing would further lower risk-based capital for the largest banks.¹⁰ In my experience, proposed capital rules tend to be the high-water mark for capital requirements. The final reductions may be larger still.

A future regulatory agenda should seek to restore the credibility of capital standards for these institutions. That means revisiting the leverage ratio, restoring the integrity of the stress testing regime, and ensuring that risk-based capital is implemented in a manner faithful to its purpose.

⁹ Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, "Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies," *Federal Register* 90 (December 1, 2025): 55248, <https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us>.

¹⁰ Board of Governors of the Federal Reserve System, "Enhanced Transparency and Public Accountability of the Supervisory Stress Test Models and Scenarios," *Federal Register* 90 (November 18, 2025): 51856; Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, "Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations," *Federal Register* 91 (March 27, 2026): 14952; Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, "Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets," *Federal Register* 91 (March 27, 2026): 15332; Board of Governors of the Federal Reserve System, "Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies," *Federal Register* 91 (March 27, 2026): 14908; see Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, joint press release, "Agencies Request Comment on Proposals to Modernize the Regulatory Capital Framework," March 19, 2026, <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260319a.htm>.

It also means resisting the familiar temptation to treat high capital levels during a benign period as evidence that capital is no longer needed.

The banking system entered 2025 in strong condition. Return on equity for U.S. banks averaged more than 9 percent from 2010 through 2024, outperforming European banks in every single year. Total assets more than doubled. Total loans more than doubled. Total deposits more than doubled. Research by the European Central Bank and the Bank for International Settlements has demonstrated that higher capitalization actually improves bank performance and resilience without impairing credit supply. The argument that the post-crisis capital framework was unduly constraining the U.S. banking industry is simply not supported by the evidence.¹¹

Liquidity is the second priority.

The regional bank failures of 2023 demonstrated with devastating clarity that liquidity risk can move with extraordinary speed. Liquidity crises do not begin when a bank runs out of liquid assets. They begin when counterparties and depositors stop believing that the liquidity-associated assets can be realized in time or will prove sufficient.

The impacts of the liquidity failures of 2023, which resulted in three of the largest resolutions in FDIC history, have only now started to subside and the agencies appear to be failing to learn its lessons.¹²

For example, the Federal Reserve's "Statement of Supervisory Operating Principles" provided that examiners and supervisory staff "should not require firms to preposition assets at the discount window as a condition to future discount window secured borrowings."¹³ Failure to have collateral of adequate quality to access discount window borrowing from the Federal Reserve was one of the key issues precipitating liquidity stress at the failed regional banks. Prepositioning collateral at the discount window to assure access to liquidity at times of stress should certainly be under consideration. However, caution should be exercised in allowing banks to count discount window

¹¹ Federal Deposit Insurance Corporation, *Quarterly Banking Profile*, Third Quarter 2025, Table I-A and Table III-A (Performance and Condition Ratios), <https://www.fdic.gov/analysis/quarterly-banking-profile/>; FDIC, *Statistics at a Glance: Historical Trends*, <https://www.fdic.gov/bank/statistical/stats/> (return on equity data, 2010–2024). For European comparison, see European Banking Authority, *Risk Dashboard*, Q3 2025, <https://www.eba.europa.eu/risk-analysis-and-data/risk-dashboard>; Basel Committee on Banking Supervision, *Evaluation of the Impact and Efficacy of the Basel III Reforms* (Basel: Bank for International Settlements, December 2022), <https://www.bis.org/bcbs/publ/d544.htm>.

¹² FDIC, "FDIC Establishes Signature Bridge Bank, N.A., as Successor to Signature Bank, New York, New York," press release PR-021-2023 (Mar. 12, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23021.html>; FDIC, "FDIC Creates a Deposit Insurance National Bank of Santa Clara to Protect Insured Depositors of Silicon Valley Bank," press release PR-016-2023 (Mar. 10, 2023), <https://www.fdic.gov/news/press-releases/2023/pr23016.html>; Board of Governors of the Federal Reserve System, *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank* (April 2023).

¹³ Board of Governors, *Enhancements to Bank Supervision* (Nov. 18, 2025), attachment, 3.

access – a public source of liquidity – to meet a bank’s self-funded, internal regulatory liquidity requirements.

Repair efforts will need to include renewed attention to liquidity standards, deposit concentration risk, contingent funding plans, discount window preparedness – including prepositioning of collateral, and interest rate risk management.

Third, resolution planning.

One of the most consequential regulatory changes preceding the 2023 regional bank failures was the weakening of resolution planning requirements for firms in the asset range where those failures ultimately occurred.¹⁴ If a firm is large enough to require extraordinary government action when it fails — and the invocation of the systemic risk exception for both Silicon Valley Bank and Signature Bank demonstrated that firms of this size clearly can — then it is large enough to plan for failure in advance. Restoration of credible resolution planning should be a priority.

Finally, the repair agenda should confront the regulatory perimeter itself. The repair agenda should not simply rebuild the bank regulatory perimeter. It should ask whether important activities involving maturity transformation, leverage, liquidity mismatch, payments, and credit intermediation are occurring outside the bank perimeter in nonbank financial institutions in ways that create new vulnerabilities and how they could be addressed.

That question brings me to the emerging risks I want to discuss. But first, let me address the long-term repair challenge, because in some respects it may be the most important of all.

Restoring Institutions

The long-term challenge is the hardest because it is not principally about rules. It is about institutions. Institutions do not fail only when rules are weakened. They fail when the people capable of enforcing those rules are no longer there.

A rule can be rewritten in a year or two. Staffing levels can be increased on paper in a budget cycle. But rebuilding the effectiveness of an institution after sustained insult,

¹⁴ Board of Governors of the Federal Reserve System and Federal Deposit Insurance Corporation, “Resolution Plans Required,” *Federal Register* 84, no. 212 (November 1, 2019): 59194, <https://www.federalregister.gov/documents/2019/11/01/2019-23967/resolution-plans-required>; Federal Deposit Insurance Corporation, “Resolution Plans Required for Insured Depository Institutions With \$100 Billion or More in Total Assets; Informational Filings Required for Insured Depository Institutions With at Least \$50 Billion but Less Than \$100 Billion in Total Assets,” *Federal Register* 89, (July 9, 2024): 56620, <https://www.govinfo.gov/content/pkg/FR-2024-07-09/pdf/2024-13982.pdf>.

politicization, and attrition is a much longer challenge. That is especially true where the damage is cultural.

The federal financial regulatory agencies have historically depended on a particular type of public ethic. Talented people accepted that the work would not make them rich, that much of it would be invisible, that the victories would be measured in crises prevented rather than applause received, and that their obligation was to the public and the long-term stability of the system rather than to partisan advantage or private gain.

That ethic cannot be restored by directive alone.

If public service is treated as suspect, if expertise is treated as elitism, if career staff are treated as disposable, if agency leadership becomes as an instrument of ideological and industry advocacy rather than stewardship, then over time the nation will lose not merely personnel but a whole tradition of professional administration. The administration's move to finalize Schedule F authority — which would remove virtually all federal workforce protections for career employees in “policy-influencing” roles, effectively treating them as political appointees subject to at-will removal — would make that loss permanent if it is not reversed.¹⁵

Paul Volcker understood this as well as anyone in American public life. It was, as I said in the first lecture, a core value rooted in his family. His father served as city manager of Teaneck, New Jersey, for twenty years, a career civil servant who believed in the social value of professional public management. His son carried that conviction through his entire career. His graduate work at Harvard was in the School of Public Administration. He founded the Volcker Alliance specifically to support public service at the local, state, and federal level. For Chairman Volcker, the idea that professional public service mattered was not a talking point. It was the animating principle of his life's work.¹⁶

Rebuilding institutions in that spirit will require restoring the attractiveness of public service as a career: competitive hiring, serious training, career development, respect for expertise, and leadership that treats staff as professionals rather than obstacles. It will require creating conditions in which highly capable younger people can imagine spending a substantial part of their working lives in public institutions without thinking they are sacrificing dignity, stability, or purpose.

¹⁵ Executive Order No. 14171, “Restoring Accountability to Policy-Influencing Positions Within the Federal Workforce”, *Federal Register* 90 (January 30, 2025): 8625.

¹⁶ Paul A. Volcker, *Keeping at It: The Quest for Sound Money and Good Government* (New York: PublicAffairs, 2018); The Volcker Alliance, “About Us,” *VolckerAlliance.org*, accessed April 3, 2026, <https://www.volckeralliance.org/about-us>.

It will require rebuilding institutional memory. That means rehiring former staff where possible, preserving internal histories, strengthening training programs, mentoring younger examiners and attorneys, and ensuring that the practical lessons of past crises are transmitted rather than forgotten.

It is worth remembering that after the reforms of the Great Depression, the banking industry experienced more than four decades of stability.¹⁷ That stability was not an accident. It was the product of effective regulation, administered by dedicated professionals, sustained over time. And when the memory of why those regulations existed began to fade, the excessive deregulation that followed set the stage for the next crisis.

Finally, it will require rebuilding trust within agencies, across agencies, and with the public. That institutional confidence must be earned and maintained. It cannot be taken for granted.

That kind of institution building is slow. It is not dramatic. It does not fit neatly into an election cycle. But it will be indispensable to reverse the damage that has been done.

Emerging Risks

Let me turn now to the second part of my remarks.

It would be a mistake to think that the next major episode of financial instability will arise from the same institutional settings or the same products as the last one.

The broad sources of instability - leverage, liquidity mismatch, opacity, complexity, concentration, weak governance, rapid growth, interconnection with nonbank financial companies, new activities and products whose risks are poorly understood, and misplaced confidence - remain familiar. But the channels through which they manifest themselves are constantly evolving.

The next set of risks may not come from a single sector. They are as likely to emerge at the boundaries where unseen or underappreciated gaps develop, such as the boundary between banks and nonbanks, between regulation and innovation, between the speed of modern finance and the capacity of institutions, and not just regulatory institutions, to keep pace.

¹⁷ Federal Deposit Insurance Corporation, *A Brief History of Deposit Insurance in the United States* (Washington, DC: FDIC, 1998), <https://www.fdic.gov/bank/historical/brief/brhist.pdf>.

Nonbank Financial Institutions

Nonbank financial institutions are critical intermediaries in the U.S. financial system, alongside traditional banking organizations. They include hedge funds, finance companies, mortgage companies, securitization vehicles and a wide range of other financial firms outside the banking sector. It is these less-regulated entities that at various times have played central roles in episodes of financial instability.

The Financial Stability Board of the G-20 countries estimates that U.S. nonbank financial institution assets now exceed the size of the banking sector by more than 2.5 times.¹⁸

During the Global Financial Crisis of 2007-2009 and the COVID-19 pandemic beginning in 2020, both banks and nonbanks benefitted from extraordinary fiscal, monetary, and regulatory policy support to avoid a financial collapse.

Yet, the regulatory frameworks for banks and nonbanks remain quite different. Nonbanks do not have the direct, standing statutory access to the public safety net that banks have. But when their distress threatens broader financial stability, they have repeatedly received extraordinary public support nonetheless. Even so, they are generally not subject to the same degree of regulation and supervision as banking organizations. As a result, they often have less transparency in their operations and greater reliance on excessive leverage and volatile funding sources.

When market shocks combine with these vulnerabilities, nonbank financial institutions can transmit risk into other parts of the financial system and seriously hamper the credit and financial intermediation needed to support the economy. This includes banking organizations, which often interact directly with nonbanks by providing funding to support nonbank activity. The resulting interconnections may amplify market stresses through feedback between the two sectors.

As a result, careful attention needs to be paid to the systemic risks posed by nonbank financial institutions and how those risks can be mitigated.

An argument is made that more stringent banking regulation has pushed higher risk activities into the less regulated nonbank financial sector, subjecting the risky activities to less supervisory attention. More accommodating banking regulation, it is argued, would attract these activities back into the banks and result in better risk management.

¹⁸ Financial Stability Board, *Global Monitoring Report on Non-Bank Financial Intermediation 2025* (December 16, 2025), <https://www.fsb.org/2025/12/global-monitoring-report-on-non-bank-financial-intermediation-2025/>.

This argument would be familiar to Paul Volcker.¹⁹ It's exactly what many people argued for in the early 1980s when money market funds, among others, threatened traditional bank business models. Chairman Volcker was adamant that the proper response to nonbank competition is to address nonbank risks, not to deregulate banks and promote a race to the bottom. As discussed in yesterday's lecture, the experience of the thrift crisis in the 1980s and the Global Financial Crisis in 2008 indicates that bank deregulation as a response to nonbank competition is not a winning strategy.

In the aftermath of the Global Financial Crisis, Congress included in the Dodd–Frank Act a set of authorities for regulators to use in response to the systemic risk posed by nonbank financial institutions. In doing so, Congress made clear that financial stability should not be treated as the responsibility of the banking agencies alone.²⁰

The agencies represented on the Financial Stability Oversight Council include the federal banking agencies, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and representatives of state banking and insurance regulators. All Council members are expected to bring a concern for financial stability to the exercise of their core statutory responsibilities. Thus, the first responsibility to identify and address emerging risks in nonbanks lies with the primary regulators of each nonbank sector.

The Council also has additional powers that may be used to augment ordinary regulatory oversight. The Council may instruct the Treasury's Office of Financial Research to collect information on nonbanks, designate systemically important nonbanks to be supervised by the Federal Reserve, and designate systemically important financial market utilities and payment, clearing, and settlement activities for additional risk–management requirements. These authorities may serve as a basis to address the systemic risk concerns presented by nonbank financial institutions – for example, by improving transparency, prudential supervision, and controls on the use of leverage.

An indication of the international urgency of this issue is the report released just this month by the Group of 30, a nonprofit organization made up of current and former heads of central banks, academics, and industry leaders.

¹⁹ Volcker, *Keeping at It*, 219.

²⁰ Dodd-Frank Wall Street Reform and Consumer Protection Act §§ 111–112 (establishing the Financial Stability Oversight Council and the Office of Financial Research), § 113 (authority to designate systemically important nonbank financial companies), and § 120 (FSOC recommendations for new or heightened regulatory standards), Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010); 12 U.S.C. §§ 5321–5322, 5323, 5330; see also *id.* §§ 801–806, 12 U.S.C. §§ 5461–5472 (payment, clearing, and settlement supervision and designation of systemically important financial market utilities).

The report is titled, “Nonbank Financial Intermediation and Financial Stability – A Perfect Storm in the Making.”

The report cites the rapid growth in nonbank financial intermediation since the 2008 crisis to account for more than half of global financial intermediation. Agustin Carstens, the former Governor of the Bank of Mexico and co-chair of the project warned, “the risks posed by NBFIs are escalating. Now is the time to act decisively to strengthen regulation, improve transparency, and enhance resilience. Delaying reform could leave the global financial system exposed to a crisis of unprecedented scale.”

The Case of Private Credit

Within the nonbank sphere, private credit deserves particular attention at this time.

Private credit funds are nonbank financial companies which have grown rapidly in recent years to \$3 trillion. They serve as a source of financing for middle-market companies, commercial real estate, leveraged transactions, and other borrowers.²¹

Rapid growth in any opaque credit channel should attract supervisory and regulatory attention. But given that stress at some of these private credit funds has recently led to requests for redemptions by investors, there is particular reason for concern.

Private credit vehicles are generally less transparent than banks. Loan terms, covenant quality, portfolio composition, valuation methodologies, and investor redemption dynamics may be difficult to assess from the outside.

A Federal Reserve Bank of Boston study recently described U.S. bank’s link to the private credit sector as “extensive”, warning that “those links indirectly expose banks to the traditionally higher risks” associated with private credit loans.²² The most recent annual report of the Financial Stability Oversight Council estimated that total loan

²¹ Alan Rappaport and Colby Smith, “Private Credit Wobbles Could Prove Perilous for Trump,” *New York Times*, March 30, 2026; Alternative Credit Council and Houlihan Lokey, *Financing the Economy 2025* (London: AIMA, 2025) (global private credit assets under management reached \$3.5 trillion), <https://www.aima.org/article/press-release-strong-growth-sees-private-credit-market-reach-us-3-5-trillion.html>; State Street Global Advisors, *2026 Credit Research Outlook* (Boston: State Street, January 2026) (citing Morgan Stanley research; U.S. private credit reached approximately \$3 trillion, exceeding the size of the public high-yield bond market), <https://www.ssga.com/us/en/institutional/insights/2026-credit-research-outlook>.

²² José L. Fillat, Mattia Landoni, John D. Levin, and J. Christina Wang, *Could the Growth of Private Credit Pose a Risk to Financial System Stability?*, Current Policy Perspectives no. 25-8 (Boston: Federal Reserve Bank of Boston, May 21, 2025), <https://www.bostonfed.org/publications/current-policy-perspectives/2025/could-the-growth-of-private-credit-pose-a-risk-to-financial-system-stability.aspx>; see also Eric Platt, “Banks’ Links to Private Credit Could Pose Systemic Risk, Says Boston Fed,” *Financial Times*, May 21, 2025.

commitments made by banks to private credit funds were approximately \$445 billion as of the second quarter of 2025.²³

Even when banks are not the primary lenders to these firms, they may provide warehouse financing, subscription lines, derivatives, or other forms of exposure to private credit structures. Further, benign credit conditions can obscure weaknesses in underwriting. The Group of 30 report noted, “the rapid expansion of private credit relies heavily on financing and other support from banks.”

As we have seen many times before — in subprime mortgages, in commercial real estate, in energy lending — opacity may not be a problem in good times. It is a problem when economic conditions begin to deteriorate and you need transparency most.

A recent Department of Labor proposal to allow 401(k) retirement plans to invest in private credit funds as well as other “alternative investments” such as crypto-asset funds should raise serious concerns.²⁴

The growth, interconnectedness, and opacity of private credit warrant sustained and detailed attention to a potential nonbank systemic risk.

Charter Proliferation and Regulatory Arbitrage

Historically, the banking charter carried with it a fundamental bargain between the banking institution and the public. If an institution was going to fund itself with runnable liabilities, facilitate payments, extend credit, and have access directly or indirectly to the public safety net of deposit insurance, discount window borrowing, and support in times of stress, then it would be subject to serious public oversight. That oversight included prudential supervision, capital and liquidity requirements, constraints on activities, and an obligation to serve the public interest.

That bargain is under extreme pressure today, if indeed it is not being broken. The federal banking agencies are granting or permitting special-purpose charters, novel trust-charter models, fintech-bank partnerships and other arrangements that may permit

²³ Financial Stability Oversight Council, *2025 Annual Report* (Washington, DC: U.S. Department of the Treasury, December 11, 2025), <https://home.treasury.gov/system/files/261/FSOC2025AnnualReport.pdf>.

²⁴ U.S. Department of Labor, Employee Benefits Security Administration, “U.S. Department of Labor Proposes Landmark Rule to Democratize Access to Alternative Investments in 401(k) Plans,” news release, March 30, 2026, <https://www.dol.gov/newsroom/releases/ebsa/ebsa20260330>.

firms to engage in banking-like activities without accepting the full prudential responsibilities historically associated with banking.²⁵

While innovation can greatly enhance the operation of the financial system, experience suggests it be tempered by careful and prudent management and appropriate regulation and supervision.

The question now is whether the chartering framework is producing a level playing field or instead encouraging a race toward weak oversight and fragmented accountability for new activities whose risks may not be well understood.

The Speed of Modern Financial Stress

Finally, there is the accelerating speed of financial stress itself.

The 2023 regional bank failures reminded us that the classic bank run has not disappeared. It has evolved. Silicon Valley Bank lost \$42 billion in deposits in a single day. Uninsured depositors, concentrated client networks, mobile technology, real-time payments, and social media amplification have accelerated the tempo of financial stress. The supervisory and managerial response frameworks that were designed for a world in which runs developed over days or weeks have not fully adapted to a world in which they can develop in hours or minutes.²⁶

This obviously requires serious supervisory attention. A better understanding is needed of the new technologies that increase the speed of transmission and that pave the way for around-the-clock money movements. It calls for a careful review of liquidity risks. It is a reason to have the kind of forward-looking supervisory capacity that I have argued today must be restored.

Conclusion

My purpose in these lectures has been to provide an overview of what I described as a multipronged attack on the foundations of monetary policy and financial regulation in the United States.

If this extreme deregulation and the broader undermining of financial regulatory institutions are not reversed, then at some point we will face a financial crisis as a result. Further, the institutions we rely on to manage such crises will not have the staff

²⁵ Office of the Comptroller of the Currency, “Interpretations and Decisions,” last modified April 2026, <https://www.occ.treas.gov/topics/charters-and-licensing/interpretations-and-decisions/index-interpretations-and-decisions.html>.

²⁶ Board of Governors of the Federal Reserve System, Office of Inspector General, *Material Loss Review of Silicon Valley Bank*, Report No. 2023-SR-B-013 (September 2023), <https://oig.federalreserve.gov/reports/board-material-loss-review-silicon-valley-bank-sep2023.htm>.

experience, expertise, and resources needed to limit the costs to the financial system, the economy, and the public.

Attention has been given to particular parts of the attack – on the Federal Reserve and the Consumer Financial Protection Bureau - but I don't think its comprehensive scope has been fully appreciated. Even in that regard, I have focused on the bank regulatory agencies. The other federal financial regulators – the SEC, CFTC, FHFA, and NCUA – have been subjected to similar treatment.

Given that this is the inaugural Paul Volcker Lecture Series, I have framed these lectures under the question, “What would Paul Volcker think?”

I do not think he would regard the current weakening of financial regulatory institutions as a passing policy disagreement. He would recognize it for what it is - a serious challenge to the nation's capacity to govern finance in the public interest.

Chairman Volcker had a long view of public policy and of institutions. He knew that the American financial system has repeatedly moved through cycles of confidence, excess, failure, reform, forgetting, and renewed risk-taking. He knew that periods of apparent calm often breed complacency, that regulatory systems find it hard to sustain discipline under political and industry pressure, and that prevention before damage is often harder to achieve than the repair after damage has occurred.

But he also knew that serious reform is possible. He pursued it throughout his career with considerable success. There is a reason the title of his memoir is, “Keeping at It.”

The path forward today is clear, even if it won't be easy.

Restore the supervisory scope, prudential rigor, and capacity of our federal financial agencies.

Restore the rules, standards, and enforcement commitment that give substance to resilience, especially the capital, liquidity, and resolution planning frameworks that were built, at great cost and with hard-won experience, after the crises of the past four decades.

In the long term, rebuild the agencies themselves, their expertise, their legitimacy, their memory, and their commitment to the principle that public service in financial regulation is not a bureaucratic burden but a public trust.

At the same time, we will need to be forward looking. The next set of risks is already emerging through nonbanks, private credit, new charters, digital assets, and the

accelerating dynamics of confidence, contagion, and interconnectedness in modern finance.

Chairman Volcker concluded his memoir by relating a conversation he had with his mother. I'll quote it to you:

"My mother, who lived for almost a century, died in 1990. I recall bemoaning to her, during some earlier occasion of despair: 'Where is our proud country headed?'

"Her response, to me, remains the only convincing answer:

'The United States is the oldest and strongest democracy in the history of the world. In two hundred years it has survived a lot.

'Get back to work.'"²⁷

I agree with that.

Thank you very much.

²⁷ Volcker, *Keeping at It*, 240.