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What went wrong in the banking system? It's his job to find out.

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Lawmakers wanted to know about threats to the U.S. economy, so Sen. Elizabeth Warren (D-Mass.) asked one of the experts testifying: Could the failure of two or three midsize banks pose a "systemic" risk to the entire financial system?

"Yes," replied Michael Barr. "I think that if there are multiple institutions of that size that are failing at the same time, it is usually an indication that there is broader weakness in the financial system." That was why, he said, the Federal Reserve shouldn't focus only on regulating Wall Street giants.

That exchange wasn't last month after the stunning demise of two midsize banks, or last summer, when Barr was confirmed to the Fed board as chief banking cop. It was eight years ago, when Barr warned Congress against loosening bank rules — the very rules he helped codify in the wake of the 2008 global financial crisis, and the ones under renewed scrutiny since the collapse of Silicon Valley Bank in March.

Now Barr, 57, is leading the Fed's internal review of what went wrong. His report, due May 1, is expected to push for stricter laws for midsize banks like SVB, and will probably recommend tougher rules around how much capital they must have in reserve. The report could also propose undoing many of the changes to weaken oversight that Congress and the Fed made before Barr arrived.

Looming over his probe is the fundamental question of why no one saw this coming. The answer carries enormous weight for the central bank, as it comes under pressure to protect the economy before new threats boil over.

"Anytime you have a bank failure like this, bank management clearly failed, supervisors failed and our regulatory system failed," Barr told the House Financial Services Committee in late March. "We're looking at all of that."
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The country was reeling when Barr joined Barack Obama's administration right after Inauguration Day in 2009. Outside the White House, trust in government regulators was gutted. Bad mortgages and risky lending standards threatened to break the banking system — and had cost millions of people their homes. The unemployment rate was approaching 8 percent, and still rising.

Inside the White House, the administration was hustling to follow through on promises for aggressive regulatory reform and new laws to protect consumers. Without a desk or formal job title, Barr stationed himself in an overstuffed chair and pounded away at a laptop outside the office of Larry Summers, Obama's chief economic adviser.
Barr quickly moved over to the Treasury Department as assistant secretary for financial institutions, becoming a top adviser and confidant to then-Secretary Timothy Geithner. He became Treasury's lead negotiator in the historic 2010 banking overhaul commonly called "Dodd-Frank," after its sponsors, then-Sen. Christopher J. Dodd (D-Conn.) and then-Rep. Barney Frank (D-Mass.).

Barr's former colleagues say he was a logical pick. He gravitated toward behavioral economics, consumer protection and law, and studied international economic policy as a Rhodes scholar. His interest in financial regulation took root during a law school stint with the Financial Services Volunteer Corps, which worked on restructuring European economies as they emerged from communism.

In 1995, Barr joined President Bill Clinton's Treasury Department as a special assistant to Secretary Robert Rubin, focusing on economic development in low-income areas. That work eventually grew into a new Treasury division, which Barr ran, focusing on community investments, fair lending and expanding bank access. He also became an expert in financial regulation at the University of Michigan.

That experience all came together after the financial crisis, when Barr joined the Obama team responsible for trying to fix the system. His former colleagues say those months were marked by late nights around the large wooden table in Barr's office and long days crisscrossing the Hill. He was respected by Republicans and Democrats alike, and was often described by one high-ranking Treasury official as "omnivorous." He was also key to the creation of the Consumer Financial Protection Bureau, and had a major role in establishing the job of a designated Fed banking cop — the position he now holds.
Barr had a reputation for unending persistence, and expected that his staff be as prepared and determined as he was. He was open to being wrong, but could also wear people down until a debate tipped in his favor.

Those who worked alongside Barr hit on a common theme: timing. During the Great Recession, Barr negotiated with lawmakers and industry officials without shouldering the blame for the crisis itself, his former colleagues say. This time around, the circumstances aren't quite as clear-cut. Barr wasn't Biden's initial pick; he was only nominated after the first candidate's chances unraveled. Barr had also been a contender for comptroller of the currency in 2021, but liberal groups opposed him, saying he was too centrist and criticizing his time advising fintech firms.

Barr was ultimately confirmed to the Fed board in 2022, and was in the middle of a "holistic review" of the Fed's bank capital rules when SVB fell apart. Plus, the Fed had also been issuing warnings to SVB for months, and Fed board members, including Barr, were briefed on interest rate risk and SVB a few weeks before the bank run.

But Barr's supporters contend that again, timing may be to his advantage. As Congress and the Fed pushed to "tailor," or relax, rules on the banking system from 2015 to 2019, Barr was one of the most vocal critics. In a 2018 op-ed in the American Banker, he argued against legislation to loosen capital standards, eliminate annual stress tests for large banks and give regulators the power "to go even further to weaken oversight." He also warned against loosening rules on banks with over $50 billion in assets, writing that those firms represented "a wide variety of risk profiles, business strategies sizes and specializations."
Congress changed laws for certain banks in 2018 on a bipartisan vote, and the Fed went even further to loosen rules the following year. Those moves were championed by Barr's predecessor, Randal Quarles, and supported by Fed Chair Jerome H. Powell. (Powell says whoever is in the role of vice chair for supervision sets the regulatory agenda.)

"If he had been there for three years, it would be harder," said Daniel Tarullo, a former Fed governor who oversaw post-2008 regulation, referring to the challenge facing Barr. "But he's really in some sense the right person to be doing this."

Still, the banking system is extremely complicated. And there may never be a way of knowing whether tailoring directly contributed to SVB's downfall. The firm was recklessly managed, and its leaders repeatedly ignored warnings from regulators. SVB's vulnerabilities were also fueled by rising interest rates, and the historic bank run was turbocharged by panic on social media, which few experts ever anticipated.

Regardless, Barr's job is to understand what happened — and what to do to prevent it from happening again. How could SVB ignore regulators' warnings? Should those warnings have carried harsher penalties? How is it that no one saw the bank run coming, or that the run could intensify so fast that $100 billion was scheduled to go out the door the day SVB collapsed? Was the government right to guarantee all deposits at SVB and Signature Bank and roll out emergency lending facilities?

Then there are more questions that echo earlier parts of Barr's career: Did the government bail these banks out? How should regulators identify banks that pose a "systemic risk"? How do you prepare for the next crisis when there's so much you can't predict?

"I wasn't predicting that the next day there'd be a bank run. I had no idea. I was not expecting that — nobody was expecting that," Barr told The Washington Post in a recent interview. "But it goes back to the fundamental thing I was saying before: Nobody can predict these things. You just have to be humble about them, and that's why we need more robust rules."

That's the same answer Barr repeated over and over again through eight hours of hearings on the Hill last month. It remains to be seen whether he can sell lawmakers on that approach. But the 18 months he spent ironing out the 2010 law may serve as good training.
"I think [Dodd-Frank] probably taught some valuable lessons about how to navigate through the halls of Congress," said Amy Friend, who served as chief counsel of the Senate Banking Committee at the time. "Because you can't always get what you want."

Testifying before Congress last month, Barr said banks with more than $100 billion in assets may need more oversight, most likely through stricter capital and liquidity standards. Regulators also expressed interest in reviewing the federal insurance program that protects deposits. Before SVB, Barr was in the middle of a review of the Fed's regulatory framework, and he is expected to propose new bank capital rules before the end of June.

In the past few weeks, the White House has made its own preferences clear: Biden called on federal regulators to tighten the rules on banks with between $100 billion and $250 billion in assets, a zone that included SVB before its downfall. Biden also asked the Federal Deposit Insurance Corporation to exempt community banks from the fees that cover the costs of depositor rescues. Administration officials say none of Biden's proposals require a vote from Congress, and instead can be implemented by the regulators themselves.

Those proposals are likely to get strong pushback from the banking sector. One senior industry executive said that SVB's example proves regulators should categorize banks based on their risk profile and business model, not just asset size. Many Republicans also dispute that tailoring was at all responsible for last month's regulatory failure.
"He's very serious and very smart and very experienced," said Quarles, Barr's predecessor, who was put in the job by President Donald Trump and led the Fed's push to roll back certain regulations. "We just disagree about some things."

Last month, Sen. Tim Scott (R-S.C.), the ranking GOP member on the banking committee, said regulators "appear to have been asleep at the wheel," and that Barr's investigation amounted to "an obvious inherent conflict of interest and a classic case of the fox guarding the henhouse."

"If you can't stay on mission and enforce the laws as they already are on the books, how can you ask Congress for more authority with a straight face?" Scott said.
Much of the Fed's reputation depends on an independence from politics. Officials make some of the most consequential decisions about the economy's future. And they must resist demands from the White House or Congress so they can prioritize the economy's long-term needs.

But when it comes to banking, the Fed works alongside other financial regulators. And Congress could jump on this moment to give the Fed a closer look on supervision and oversight, without infringing on other parts of its mandate.
The limits of the Fed's authority could become a major political sticking point. Each of the top regulators at the Fed, FDIC and Treasury Department were put in their roles by the Biden administration, and all were involved in crafting Dodd-Frank.
"It was extremely partisan then," said Mark Calabria, a longtime Republican Senate aide and former director of the Federal Housing Finance Agency who is now at the Cato Institute. "And it will be extremely partisan now."
Much of Barr's career seems to connect what happened "then" and what's happening "now."

Aaron Klein, who was also at Treasury during Dodd-Frank and is now at the Brookings Institution, said there was a "cruel irony" to Barr's latest chapter.
"It must be incredibly frustrating to have designed this system to prevent this," Klein said, "and then to be stuck dealing with the aftermath."