

Jerome H. Powell

US prosecutors drop criminal probe into Federal Reserve chair Jay Powell

Breakthrough removes potential hurdle to Kevin Warsh's confirmation as next head of the central bank



Treasury yields dropped following the news the investigation into Jay Powell had closed © Bloomberg

Claire Jones and **Alex Rogers** in Washington and **Kate Duguid** in New York

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US prosecutors have dropped their criminal investigation into Federal Reserve chair Jay Powell, in a breakthrough that could pave the way for the Senate to confirm Kevin Warsh as the country's top central banker.

Jeanine Pirro, US attorney for the District of Columbia, said in an [X post](#) on Friday that she had told her office to "close our investigation" into cost overruns in a Fed building project and had passed the probe to the central bank's inspector general.

The move could clear hurdles for [Warsh](#) as he seeks confirmation through a majority in the Senate. Some Republican senators, led by North Carolina's Thom Tillis, have refused to back his nomination because of the criminal probe.

[Tillis](#), a member of the Senate banking committee overseeing Warsh's nomination, this week said he would support the prospective central bank chair "once the [Department of Justice] drops their bogus investigation into chairman Powell that threatens the independence of the [Fed](#)". The senator did not immediately respond to requests for comment.

The breakthrough comes weeks before Powell's term as Fed chair was due to end on May 15. US President Donald Trump has repeatedly berated him for not cutting interest rates.

A pivotal point in Warsh's confirmation process came on Monday when Trump met Treasury secretary Scott Bessent, White House legislative affairs director James Braid and Treasury department official Derek Theurer and said he wanted Warsh at the Fed as soon as possible, said a person familiar with the matter.

Conversations then ensued among the White House, DoJ, Senate banking committee chair Tim Scott and Tillis, the person said. Trump then identified Fed inspector general Michael Horowitz as someone he trusted to lead the investigation into the cost overruns at the central bank's \$2.5bn renovation project.

The White House declined to comment on the meeting. The Treasury department did not immediately respond.

Treasury yields dropped following the news the investigation into Powell had closed, as investors bet that a swift confirmation of Warsh would ultimately lead to lower interest rates.

The two-year Treasury yield, which moves with monetary policy expectations, fell 0.05 percentage points to 3.79 per cent. Traders in the futures market modestly increased their bets on an interest rate cut this year, though the odds were only lifted to about 40 per cent.

Pirro's probe represented one of the fiercest attacks from the White House on the central bank's ability to set monetary policy free from interference from the administration.

Trump also attempted to fire Fed governor Lisa Cook last summer over allegations of mortgage fraud. She has denied the allegations, for which she has yet to be charged, and is contesting the decision in a Supreme Court case.

The investigation focused on whether Powell misled Congress over the Fed's renovations. He has denied the allegations and said the probe was a White House attempt to press central bank officials to slash borrowing costs.

White House spokesperson Kush Desai said the inspector general's "more powerful authorities best position it to get to the bottom of the matter" of the Fed's "fiscal mismanagement".

Powell in July requested the Fed's inspector general launch a fresh inquiry into the cost of the refurbishment, which is \$700mn over budget.

Pirro this week said she would appeal against an earlier opinion that blocked her attempts to subpoena the Fed.

She is yet to confirm a deadline for the appeal, a move that would close the probe with finality, and said in her X post she "will not hesitate to restart a criminal investigation should the facts warrant doing so".

Senate Republicans have been increasingly vocal in objecting to the DoJ probe, raising the prospect that their block on Warsh would mean Powell remaining Fed chair beyond May 15.

Eswar Prasad, a professor at Cornell University, said: “A key question is whether this is just a feint by the administration to smooth the path for Warsh’s confirmation on the assumption that he will prove pliant to Trump’s wishes.”

Warsh, a former Fed governor, needs 51 senators to back his nomination. Republicans hold a majority of 53 in the upper house of Congress.

Desai said: “The White House remains as confident as before that the Senate will swiftly confirm Kevin Warsh . . . to finally restore competence and confidence in Fed decision-making.”

Scott on Friday said: “I welcome the inspector general’s review and expect a full accounting of how these costs spiralled out of control.”

Warsh appeared before the committee this week, but his nomination cannot advance to a full Senate vote without Tillis’s support.

Powell retains the right to remain at the Fed as governor until January 2028 even if the Senate approves Warsh.

The investigation’s closure with legal finality is thought to be the bare minimum Powell wants to see before departing the central bank.

He will also need evidence that Warsh is willing to safeguard the Fed’s independence and that Trump will stop trying to fire officials such as himself and Cook.