FedFin Daily Briefing

Friday, August 2, 2019

Great Financial Crisis Taxpayer Cost: $3.5 Trillion+

Providing the first dollar total of the global cost to taxpayers of the financial crisis of which we are aware, a new IMF working paper assessing direct public interventions during the financial crisis concludes that total gross public support to financial institutions amounted to $3.5 trillion from 2007 to end-2017. IMF researchers found that the public sector provided financial institutions with $1.6 trillion in direct interventions and another $1.9 trillion in guarantees. Totals exclude public support to Fannie Mae and Freddie Mac; the paper estimates that total gross financial support increases by $412 billion if the GSEs are added. Direct interventions to U.S. banks totaled $250 billion.

U.S. institutions accounted for most of the support by number, but only less than 10 percent of total dollar value. We expect that the discrepancy between institutional totals and dollar amount is due to the far larger number of small institutions in the U.S. the way the TARP was allocated. Overall, big banks received about two thirds of global support in dollar terms, with the share of support declining over time – big banks received 86 percent of support in 2008, but only 37 percent in 2011. The paper posits that this may be attributable to the systemic nature of these banks, with large, interconnected banks more exposed to initial shocks and then propagating risk to small- and medium-sized banks. The speed and extent to which this support has been unwound varies widely, with the U.S. recovering the funds within a few years, and sizeable public equity holding remaining in Ukraine, Luxembourg, Portugal, Greece, and Belgium. Public holdings of impaired assets are still substantial in Austria, Slovenia, and Germany, and total global public asset holdings in individual banks amounted to $135.3 billion at end-2017. However, the study concludes that, on average, governments recorded net cumulative indirect benefits from the interventions via dividends and fees from asset holdings that exceeded interest payments on debt issued. Indirect benefits were found to lower the total global fiscal impact of interventions by $250 billion, but only about half of the countries examined saw these indirect benefits.

Republicans Expand Capital One Breach Inquiry to Amazon

Three House Oversight and Reform Subcommittee Ranking Members yesterday sent Capital One and Amazon letters requesting staff-level briefings on the Capital One data breach. Calling it one of the largest ever, Reps. Jordan (R-OH), Meadows (R-NC), and Cloud (R-TX) also requested a briefing on Amazon's cloud services security protocols, broadening the case by suggesting that the Committee will examine these services in connection to the 2020 Census and the pending, controversial Pentagon contract. Both briefings are requested no later than August 15. We do not expect Chairman Cummings (D-MD) to grant any minority requests to link the Capital One case to the census or Pentagon, but the panel may well proceed to broader hearings on banking and the cloud in connection with work already under way in HFSC.

FDIC Supports RegTech, AI Adoption With or Without Other Agencies

FDIC Chair McWilliams today gave a full-throated regtech endorsement, arguing that the introduction of innovative technology could ease compliance and reduce costs. Noting that machine learning and artificial intelligence are already changing retail financial markets, Ms. McWilliams said it is essential that regulators use technology not only to prevent illicit activity, but also to strengthen collaboration among banks, regulators, law enforcement, and intelligence. While the FDIC has partnered with other federal agencies to encourage depository institutions to meet their BSA/AML compliance obligations and to develop guidance on artificial intelligence, Chair McWilliams said the FDIC will proceed unilaterally on its own if regulators fail to agree to joint guidance. Defending the utility of SARs, she said the agencies should develop better ways to communicate their value; she did not say whether filing thresholds should be raised.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing requests@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about GSE Activity Reports, click: http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18

- **CRYPTO11:** At the sparsely-attended Senate Banking hearing on digital currencies, Chairman Crapo (R-ID) and Ranking Member Brown (D-OH) were divided on the need to develop a new regulatory framework.

- **MORTGAGE114:** Following a request for information in 2017, the CFPB has issued an advance notice of proposed rulemaking that would not only end the qualified mortgage (QM) temporary exemption for loans sold to Fannie Mae and Freddie Mac, but also redefine the QM.

- **GSE-072919:** Although the CFPB on issued an ANPR seeking views on the QM patch, it didn't invite them on the over-arching question confronting the agency: whether to extend the GSE patch for long enough that no one need worry about it.

- **FCRA28:** The HFSC Taskforce on Financial Technology's consideration of two draft bills signals that Chairwoman Waters (D-CA) intends to treat the committee's FinTech and AI Task Forces as *de facto* subcommittees, quickly moving legislation to mark-up once formally introduced.

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- **MERGER4:** In this report, we assess the HFSC hearing on the BB&T/SunTrust merger, a large transaction that is subject to political risk with implications for any other banking transaction of size or scope and broader action on pending "megabank" legislation.

- **GSE-072419:** Although anticipated, Ginnie's announcement creating a version 1 (V1) stress test for nonbanks will surely be viewed with considerable alarm by nonbanks, with delight by any bank interested in renewed FHA or VA lending, and competitive interest by Fannie and Freddie.

- **GSE-071819a:** In comments to Reuters, FHFA Director Calabria reaffirmed FHFA's statement last week that the GSEs must transition from LIBOR to SOFR for newly-originated hybrid ARMs.

- **GSE-071819:** The FDIC approved a controversial proposal that charts a new course through its "safe harbor" for private placements and other PLS outside the reach of the SEC's Rule AB disclosures.

- **CAPITAL224:** The federal banking agencies have finalized changes to the standardized approach (SA) of the risk-based capital rules that slightly reduce the capital costs of certain assets.

- **VC10:** The HFSC Libra hearing made it very, very clear that Democrats are vigorously opposed to Facebook's venture and Republicans, while warier of suppressing innovation, nonetheless have far-reaching reservations about the new virtual-currency payment/financial construct.

- **VC9:** In this report, we assess the Senate Banking hearing at which Chairman Crapo (R-ID) cited Libra to push data-privacy standards establishing consumer privacy protections similar to those in the EU.

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