



FedFin Client Report

Thursday, March 1, 2018

Powell Defends Senate Bill FBO, Threshold Provisions

Client Report: **FEDERALRESERVE43**

Executive Summary

In this report, we assess FRB Chairman Powell's appearance today before the Senate Banking Committee. With the Senate finreg legislation ([see Client Report SIFI25](#)) heading to the floor next week, supporters pushed the Chairman to rebut claims that the legislation benefits large foreign banks and eliminates key standards for banks between \$100 billion and \$250 billion. Despite Treasury Secretary Mnuchin suggesting that FBOs with U.S. operations under \$250 billion will benefit from the legislation ([see Client Report SIFI26](#)), Mr. Powell said that the FRB will consider these banks' global total consolidated assets when applying prudential requirements and that the bill does not mandate changes to IHC rules. Ranking Member Brown (D-OH) was skeptical, asking Mr. Powell to commit to ensuring that FBOs will not benefit from the bill and to outline a defense if FBOs sue for national treatment. He then raised the prospect of amending the bill to ensure FBOs are clearly excluded. Mr. Powell said he will respond in writing and announced that the FRB would release for comment a framework for evaluating banks between \$100 billion and \$250 billion. Sen. Warren (D-MA) pushed for halting Wells Fargo's growth until it has fully implemented its plans to improve its board's oversight and risk management.

Analysis

Opening Statements

Chairman Crapo (R-ID) said that his legislation will promote economic growth and provide relief to regional, mid-size and community banks. He also urged the full Senate to confirm FRB Vice Chairman for Supervision Quarles for his full term.

Ranking Member Brown argued that the Crapo bill will hurt financial stability and only promote stock buybacks, dividends, and mergers. He also called Wells Fargo

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“too big to manage” and said that recently imposed penalties should not be lifted until “real changes” occur.

Testimony

Chairman Powell repeated Tuesday’s testimony presenting the Semiannual Monetary Policy Report ([see Client Report FEDERALRESERVE42](#)).

Q&A

- **FBO:** Sens. Crapo and Tester (D-MT) pushed Mr. Powell to say that the Crapo bill will not exempt large FBOs from enhanced prudential standards. Mr. Powell said that the FRB looks at total global consolidated capital when applying enhanced standards and that no IHC requirements would be affected by the bill. Sen. Brown argued that FBOs will sue for national treatment and, as noted, asked about amending the bill to ensure that FBOs do not receive relief.
- **\$100 Billion to \$250 Billion Framework:** Mr. Powell said that the FRB would release for comment a framework for evaluating the risks of institutions in this range. Sen. Warner (D-VA) pushed Mr. Powell to confirm that these banks would face rigorous, frequent stress tests and that the framework would be completed within the eighteen month enactment period. Mr. Powell said that the banks would have frequent, strong stress tests and that the framework will be implemented on time.
- **HMDA Reporting:** Sen. Cortez Masto (D-NV) argued that exempting smaller banks from full HDMA reporting will harm the FRB’s ability to carry out CRA exams. Sen. Heitkamp (D-ND) countered that the bill preserves traditional HMDA collections. Mr. Powell agreed that the bill preserves traditional HDMA data collections and said that the FRB primary uses this data in its CRA exams.
- **Wells Fargo:** Sen. Warren asked whether the Board of Governors specifically would vote on approving Wells Fargo’s plans to improve the effectiveness and risk management of its Board of Directors. Mr. Powell said that the FRB’s plan is to delegate this authority to staff but said that he would consider changing this. Sen. Warren also pushed for making the independent review of these plans public and for maintaining the growth restrictions until they are fully implemented. Mr. Powell said that he will look into making the report public, and said that the plan is to lift the growth restriction once implementation is on track and Wells Fargo has suffered a “significant period” under the growth cap.

- Student Loans in Bankruptcy: Sen. Schatz (D-HI) argued that high student loan debt is creating a drag on the economy and Mr. Powell said that the inability to pay off student loans creates negative economic effects. Mr. Powell said he could not explain why student loan debt cannot be discharged in bankruptcy but noted that this is a not a FRB decision. As we have noted, the Education Department is currently seeking comment on how it evaluates when student loan debt can be discharged in bankruptcy.
- SA-CCR: Sen. Moran (R-KS) pushed for implementing Treasury's recommendation ([see Client Report DERIVATIVES31](#)) for revising the current exposure method (CEM). Mr. Powell said the FRB will change over to the standardized approach to counterparty credit risk (SA-CCR) "fairly soon."
- Leverage Ratio: Sen. Perdue (R-GA) asked why deposits at central banks and Treasuries are included in the calculation of the leverage ratio. Mr. Powell said that the leverage ratio needs to be a hard backstop to risk-based capital and noted the FRB is reviewing the eSLR.