



FedFin Client Report

Tuesday, January 23, 2018

Senate Banking Welcomes FDIC, FSOC Nominations, Dems Target Goodfriend

Client Report: **REFORM145**

Executive Summary

In this report, we assess today's Senate banking hearing on the nominations of Jelena McWilliams to be Chair of the FDIC, Marvin Goodfriend to be an FRB Governor, and Thomas Workman to be the FSOC voting member with insurance expertise. Ms. McWilliams, a former committee staffer, received a friendly reception from both sides (who know her well). She plans to prioritize reducing community-bank burdens, encouraging de novos, and advancing a regulatory approach to cyber security. She also said that she would like to take "a look" at leverage-capital rules. Late yesterday, the White House made a change to her nomination almost surely resulting in Vice Chair Hoenig leaving the Board when his term expires in April. This should make it considerably easier to finalize inter-agency action implementing the Basel leverage denominator ([see FSM Report LEVERAGE11](#)) and advance the agenda announced on [Friday by Vice Chairman Quarles](#).

Mr. Goodfriend received tough questioning from Democrats on prior-monetary policy commentary and on whether he supports the Fed's dual mandate. Struggling under hostile questioning, he sought to allay these concerns, but also stepped on sensitive issues (e.g., TBTF) with key Republicans. Mr. Workman received a warm reception and said that FSOC should pursue an activities-based approach to nonbank SIFI designations – citing Treasury and IAIS ([see FSM Report SYSTEMIC85](#)) as supportive of this approach.

Analysis

Opening Statements

Chairman Crapo argued that all the nominees are highly qualified. Ranking Member Brown (D-OH) used his opening statement to express concerns about Mr.

Federal Financial Analytics, Inc.
1140 Nineteenth Street, N.W., Washington, D.C. 20036
Phone (202) 589-0880 Fax: (202) 589-0423
E-mail: info@fedfin.com www.fedfin.com

© 2018. Federal Financial Analytics, Inc. All rights reserved.

Goodfriend's nomination, saying that he has supported abandoning the full employment mandate, gutting the CFPB, undermining the Fed's independence, and taxing cash.

Testimony

All three witnesses laid out their personal background and support for agency mission.

Q&A

- **Monetary Policy:** Sens. Brown, Menendez (D-NJ), and Warren (D-MA) criticized Mr. Goodfriend previous inflation predictions and monetary-policy recommendations, saying that they were inaccurate and would have worsened the crisis. They also argued that Mr. Goodfriend is opposed to the Fed's full employment mandate. Mr. Goodfriend said that the FRB's two mandates are complementary and that he supports the employment mandate. Sen. Toomey (R-PA) argued that price stability is key to promoting long term full employment and Mr. Goodfriend agreed. Sen. Toomey also criticized the Fed's large balance sheet and its purchase of MBS. Mr. Goodfriend endorsed the FRB's balance sheet normalization plan. Sen. Kennedy (R-LA) asked for Mr. Goodfriend's views on quantitative easing and Mr. Goodfriend said it can be used during crises but spoke negatively regarding QE3.
- **Resolution Policy:** Sen. Kennedy asked if any banks are still TBTF; Mr. Goodfriend said that he believes that none are. When pressed by Sen. Reed (D-RI) on whether he supports Gov. Powell's comments on OLA, Mr. Goodfriend said he does and also wants to undertake a review of resolution procedures to ensure that it is clear when OLA is used after first pursuing bankruptcy. Sen. Reed asked if this would be undertaken with an eye towards OLA repeal and Mr. Goodfriend said that it would be undertaken with no predetermined objective.
- **Leverage Rules:** Sen. Brown criticized the Senate reform bill ([see Client Report SIFI25](#)) and comments from Gov. Quarles on revising leverage rules, particularly for the largest banks. He asked Ms. McWilliams if she would oppose these changes to protect the DIF. Ms. McWilliams said that she wants to review these rules but noted that the FDIC is not the primary regulator for any bank over \$250 billion.
- **Nonbank SIFI Designations:** Sens. Crapo, Cotton (R-AR) and Tester (D-MT) pressed Mr. Workman on improving FSOC's process for designating and de-designating nonbank SIFIs. Mr. Workman indicated that FSOC should move

towards an activities-based approach that provides clear on-ramp and off-ramp guidance. Sen. Cortez Masto (D-NV) argued that FSOC would have difficulty forcing the activities-based approach on state insurance regulators; Mr. Workman said he would have to review this issue. If the Senate reform bill becomes law, Sen. Brown asked whether Mr. Workman would recommend that FSOC raise its \$50 billion threshold for evaluating whether a nonbank is a SIFI. Mr. Workman said that he would have to look into this issue.

- **Community Reinvestment Act:** Sen. Menendez argued that the administration is working to undermine the CRA. Ms. McWilliams said that the CRA is the law of the land and that she is personally invested in the law's mission. Sen. Cortez Masto asked about her commitment to ensuring that underrepresented and low income groups have access to sustainable homeownership; Ms. McWilliams said that she wants to ensure access to banking products and will evaluate the FDIC's current programs if confirmed.
- **Industrial Loan Companies:** Sen. Heller (R-NV) criticized current FDIC reviews of ILC applications and pressed Ms. McWilliams on how she would review them. Ms. McWilliams said that she would do so pursuant to the law, looking also at if there has been any undue delays.
- **Real Estate Exposures:** Sen. Cotton asked about the interagency proposal ([see FSM Report CAPITAL219](#)) to replace the high volatility commercial real estate (HVCRE) exposure category with a new a new High Volatility Acquisition, Development and Construction (HVADC) exposure. He argued that the new measure's treatment of contributed equity discourages lenders from seeking higher down payments. He noted that FinServ has reported a bill regarding this and asked for the rule to be delayed to allow for Congress to alter the law. Ms. McWilliams said that she would like to review the comments.
- **BSA AML Requirements:** Noting recent committee action on this issue, Sen. Cotton asked if Ms. McWilliams is open to reviewing BSA requirements. She welcomed a review, saying that requirements can be streamlined and that too many SARs are currently required and make it difficult for regulators to determine compliance.
- **Income Inequality:** Sen. Brown pressed Mr. Goodfriend on his comments in this area, and Mr. Goodfriend indicated that his views have no bearing since the Fed is focused on the dual mandate.

- 30-year FRM: Sen. Tester asked Mr. Goodfriend if a government guarantee is required to maintain access to the 30-year FRM. Mr. Goodfriend said that it is not but emphasized that this is a question for Congress to decide.
- Cybersecurity: Sen. Reed asked how Ms. McWilliams would address cybersecurity; she said that regulators need to provide a blueprint for firms. She said that she will review comments on the 2016 interagency ANPR once confirmed.