FedFin Daily Briefing

Monday, August 15, 2022

FDIC Study Finds Changing Assessment Rates Had Procyclical Effects During the Financial Crisis

A new FDIC staff study tackles an immediate concern in the wake of the FDIC's proposal to raise DIF premiums (see FSM Report **DEPOSITINSURANCE114**): procyclicality. In what its authors describe as one of the first studies to provide large-scale empirical evidence on deposit insurance's procyclical effects, this model-driven study looks at the effect of changing deposit insurance assessment rates during the period between 2009 and 2011. Using credit unions as a control group, it finds a 1.6 percent decrease in bank lending after a 7 bp increase in the assessment rate and a 0.3 increase after a 5-10 bp rate decrease. It also finds differences in how small and large banks experienced rate changes; small banks experienced a 2 percent decrease when rates were raised, while large banks faced no significant impact. We posit that this is so because large banks have numerous funding sources other than insured deposits and can thus adjust funding strategies to reduce the impact on lending. The time period used for this study also presents analytical problems due to the sharp impact of the great financial crisis and exogenous macroeconomic considerations. Even so, the aggregate impact of this study's conclusions may strengthen those complaining that the FDIC's premium increase is ill-timed in the face of a possible recession.

Fed Tries to Sooth Payment-Access Critics with New Policy

Doubtless reflecting all the political pressure it's under regarding payment-system access, the FRB today not only finalized its payment-system access rules, but also made sure to use an e-mail subject line containing the release that these rules are "transparent, risk-based, and consistent." The board also states that the final standards are consistent with both its 2021 proposal (see FSM Report **PAYMENT22**) and the 2022 "supplemental" proposal (see FSM Report **PAYMENT24**) even though the supplemental was considerably more detailed than the initial attempt to give the Reserve Banks broad discretion without the appearance of inconsistent or even insider decision-making. We will shortly provide clients with an in-depth analysis of the final standards which, similar to the supplemental, give FDIC-insured institutions a streamlined approval process compared to those with novel charters or that engage in non-traditional activities, providing more equity between federal and state charters than included in the first rounds. We will need to review the final standards to determine what happens when an institution is both FDIC-insured and unusual. Reflecting all the pressure on the central bank, the new guidelines are effective on publication in the *Federal Register*. Although no legislation to overturn them is possible in this Congress, we doubt that this will end controversies in this arena. As we noted, bipartisan legislation to address digital assets essentially forces the Fed to give all state-chartered institutions payment-system access (see FSM Report **CRYPTO28**) and we doubt that any Fed concessions in this area will satisfy many digital-asset companies.

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 info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click here.

- **FINTECH30:** Continuing its practice of setting sweeping policy by administrative action without prior notice or comment, the CFPB has issued an interpretive rule sharply curtailing the extent to which digital advertising and market strategies are exempted from the legal and compliance obligations associated with most parties directly providing consumer financial products or services and those acting as servicers to these entities.

- **GSE-081222:** FHFA, Fannie, and Freddie yesterday released the results of FHFA's latest stress test, focusing on the severely-adverse scenario in order – or so FHFA says – to push the GSEs to the limit.

- **INTERCHANGE10:** Two senators have reopened questions about the manner in which card-related payments are handled, tackling those applicable to credit cards with a bill mandating that merchants must be given a network choice that is not either Visa or Mastercard in order to, the sponsors argue, increase competition and lower credit-card transaction costs.

- **LIBOR8:** Moving belatedly but now expeditiously to implement legislation governing legacy-contract benchmarks when there is no contractual fallback rate, the Fed has proposed a new framework for derivatives, consumer loans, certain GSE contracts, and any other legacy contracts without clear LIBOR-replacement provisions and a "determining person" to effectuate them.

- **GSE-072122:** We yesterday provided a complete assessment of Sandra Thompson's sojourn on HFSC's griddle, noting the lack of any insights into essential issues such as conservatorship's end or the full scope of CRT's new beginning.

- **GSE147:** At her first hearing as confirmed FHFA Director, Sandra Thompson made it clear to House Financial Services that she is committed to expanding credit-risk transfer (CRT), encouraging equitable finance via new GSE activities, and recapitalizing Fannie and Freddie as quickly as possible.

- **GSE-071922:** As noted earlier today, the Fed has finally brought forth its LIBOR-transition proposal specifying permissible benchmarks for legacy contracts without contractual fallback rates.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com
© 2022. Federal Financial Analytics, Inc. All rights reserved.