



FedFin Daily Briefing

Tuesday, September 20, 2022

FedFin Assessment: Tales of a New TLAC

With [press reports](#) strongly suggesting that U.S. banking agencies will impose TLAC requirements on at least some regional BHCs, we think it helpful to provide an update on the 2016 rule imposing this resolution buffer ([see FSM Report TLAC6](#)) to note the implications of reopening the regulation. As previewed in Acting Comptroller Hsu's early-April [speech](#), the agencies are looking at TLAC for regional resolvability, now perhaps doing so not as a condition of merger approval, but more generally across the sector and possibly reaching down to regionals with \$250 billion in assets or even below to address FDIC-resolvability fears ([see FSM Report MERGER9](#)). However, it seems likely that action on TLAC will go beyond the most immediate questions to address numerous issues the Fed left unresolved in the current rule.

One of these is how subsidiary banks within the holding company will ensure the kind of internal TLAC recommended by the FSB ([see FSM Report TLAC8](#)). We also expect any expansion of TLAC to come with a penalty capital surcharge on any bank holding this as an asset, a change sure to increase issuance costs unless a deep, broad market supports TLAC-required long-term debt. Another issue relates to the board's promise to reconsider TLAC once the GSIB capital framework became more certain. That time presumably has arrived. Our 2016 analysis noted methodological problems with the final rule's cost implications, and these may well require attention especially given the sharp spikes in interest rates that could exacerbate the strategic challenges of issuing more long-term debt without reducing the lending essential for profitability and macroeconomic recovery.

HFSC Dems Attack Lack of Diversity in Insurance

Ahead of an HFSC hearing on Thursday, Chairwoman Waters (D-CA) and Rep. Beatty (D-OH) released a [report](#) sharply critical of the lack of diversity in the largest US insurance companies. Noting an array of problematic practices, the report also calls for action on legislation to require insurance companies to report their diversity data and policies to their respective regulators and to publicly disclose the gender and race makeup of their board directors and senior executives.

Senate Banking Fires Another Shot at Big Banks

Following yesterday's "[snapshots](#)" of Truist, PNC, and USB ahead of the Thursday big-bank hearing, Senate Banking Democrats today continued their attack on large banks, releasing similar [reports](#) on Citi and Bank of America. These snapshots again focus on consumer issues such as Zelle fraud and also highlight recent enforcement actions. Absent from yesterday's snapshots, today's release also notes the total dollar amount of penalties and number of enforcement actions both banks have received since 2017.

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](#).

- **[SANCTION19](#)**: Today's Senate Banking hearing on Russian sanctions showcased bipartisan concern that anti-Russian sanctions have yet to have meaningful impact and doubts about the extent to which oil-price caps will reverse this.
- **[CBDC14](#)**: In this in-depth report, we follow through as promised on our initial analysis of key sections in last Friday's Treasury report on CBDC and changes to the payment system.
- **[INVESTOR20](#)**: The Senate Banking hearing with Chairman Gensler today went as [expected](#): Democrats generally praised his work while Republicans strongly opposed it on both substantive and procedural grounds.
- **[INSURANCE61](#)**: Chairman Brown (D-OH) convened a hearing today focused on the insurance industry largely focusing on the extent to which private-equity takeovers endanger insurance solvency and threaten pensioners following risk transfers.
- **[GSE-090722](#)**: Reinforcing the sharp turn-around in housing markets evident since the Fed surprised markets with its first 75 bps hike, a new working paper from the [San Francisco Fed](#) provides the first hard evidence of how monetary-policy shocks in the U.S. hit listing prices hard and fast.
- **[GSE-090122](#)**: As seems always the case, FHFA Director Thompson is as good as her word to Congress earlier this [summer](#), announcing [yesterday](#) a review of the extent to which the Home Loan Banks and their System meet the mission assigned to them and, regardless, if that mission still makes sense.
- **[GSE-083022](#)**: BofA's new no-down payment [mortgage](#) is another innovative product in which banks use their balance sheets to address their CRA obligations by offering down payment assistance or, as here, flat out nothing down.
- **[CRYPTO31](#)**: Reflecting the concerns voiced in a recent executive order from President Biden and a subsequent request for views from Treasury, the Federal Reserve has joined the OCC in demanding prior notice from banking organizations that wish to undertake cryptoasset activities.
- **[GSE-082222](#)**: A new Federal Reserve Bank of Cleveland [study](#) validates forbearance as a mortgage-market buffer, reinforcing the likelihood that policymakers and servicers will turn quickly to it if current mortgage-market conditions turn ugly under the combined stress of higher rates and slow to no growth.