



FedFin Daily Briefing

Monday, November 21, 2022

FRB-NY Considers Why Deposit Rates are Now So Sticky

As Karen Petrou's talk [last week](#) noted, Democrats and the CFPB have charged that exploitation explains why bank deposit rates now lag Fed rate hikes. Today's [post](#) from the Federal Reserve Bank of New York finds a steady decline in bank deposit-rate matches to Fed rate hikes since 1994, but also identifies market factors that largely explain rate sluggishness. The study estimates the "deposit beta" – i.e., the difference between FOMC hikes and all deposit rates (including non-interest paying funds) found in BHC data. The methodology captures both deposit rates and supply to address the extent to which banks may lag Fed rate hikes due to a surfeit of deposit funding and assesses the extent to which depositors have investment options preferable to deposits. It finds that the beta is highest in zero-rate environments where there is a scarcity of safe-haven, cash-equivalent investment alternatives which pay higher rates than deposits. Although current deposit betas are "lower and slower," the paper concludes that the sharpness of rate hikes and growing deposit outflows means that deposit-rate hikes are imminent. However, the paper's data do not persuade us that, if loan growth slows, then betas will normalize as expected.

Senate Dems Demand Digital-Asset Crackdown

Following last week's hearings with the banking agencies ([see Client Report REFORM214](#)), Chairman Brown (D-OH) and Senate Banking Democrats today sent [letters](#) urging Vice Chair Barr, Acting Chairman Gruenberg, and Acting Comptroller Hsu to review SoFi's digital asset activities, accusing the firm of improperly expanding its crypto trading following commitments not to do so when it was granted licenses as a national bank and BHC. Following the playbook of pressing for rules and enforcement rather than new law, Senators point to a new SoFi service they believe is not only an "expanded" digital-asset activity despite a commitment to wind down these impermissible activities, but also is dangerous to investors and unsafe and unsound. They also sent a [letter](#) to SoFi's CEO asking him to detail the company's digital asset offerings and risk management policies and to explain how SoFi's crypto strategy conforms to the Fed order, with a deadline for a response of December 8.

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](#).

- [GSE-112122](#): As came out into the open [last week](#), FSOC will finally turn to rewriting the Trump era [rewrite](#) of the Obama Administration's FSOC protocols regarding systemic financial institutions and activities.
- [FINTECH31](#): As [promised](#), this report provides an in-depth analysis of [Treasury's report and resulting recommendations](#) to the President's Competition Council on the impact of new nonbank consumer-finance entrants from a competition, consumer-protection, and financial-stability perspective.

- **REFORM215:** HFSC today largely focused bank regulators on the same range of questions posed at yesterday's Senate Banking session ([see Client Report REFORM214](#)).
- **REFORM214:** At today's Senate Banking oversight hearing with the banking agencies, Chairman Brown (D-OH) generally applauded the work of regulators, emphasizing the need for tough standards, like-kind rules for bigtech companies, and an inquiry into why depositor interest rates lag Fed rate hikes along lines [posed](#) earlier by Sen. Reed (D-RI); FDIC Acting Chairman Gruenberg concurred, criticizing banks for sluggish rates.
- **TMARKET3:** Building on our [initial assessment](#), this report goes in-depth into the Treasury assessment of the market for its obligations and reforms necessary to avert another dash for cash.
- **NBFI2:** As [promised](#), this FedFin report provides an in-depth analysis of the FSB's latest policy on [nonbank financial intermediation](#).
- **PAYMENT26:** Although the Fed characterized its final payment-system access guidelines as "transparent," FedFin's analysis and other assessments concluded that the Federal Reserve Banks retained considerable discretion to pick and choose those granted master accounts and there would be no ready way to identify which institutions had or lost this essential status for any provider of retail or wholesale deposit-taking services or their equivalent.
- **GSE-110822:** In its latest blast on racial equity, the Treasury Department's Office of Economic Policy has issued a [blog post](#) cataloguing racial disparities in residential-mortgage finance.
- **SYSTEMIC94:** As we noted [Friday afternoon](#), the Federal Reserve then released its semi-annual [financial-stability report](#) in an effort not only to comply with its protocols, but likely also to attract as little attention as possible, with the release and even the report saying only as much about growing risk as the Fed thinks is essential to preserve its credibility.
- **GSE-110722:** In its latest financial-stability [report](#), the Fed is at pains to provide dozens of pages of helpful data with the few systemic-risk conclusions the Board ventures couched in careful prose designed to assure critics that the Fed knows well what's going on without expressing any views that might suggest serious trouble looms or hint that any of what it surveys will alter the Fed's course in terms of monetary policy, regulatory actions, or systemic considerations.
- **DATA3:** Beginning a long-awaited rulemaking process on the extent to which consumers have rights to their own data and how these rights may be exercised, the CFPB is seeking views on an array of ideas and questions to guide future action.
- **OVERDRAFT11:** In conjunction with a Presidential speech and new White House initiative against "junk fees," the CFPB has accelerated its own efforts in this arena with two new policy directives.
- **GSE-102522:** As we noted [yesterday](#), FHFA has decided not only to [unbundle](#) second and high-dollar loans from its flat-fee paradigm, but now to do the same for about one in five conventional conforming purchase loans outside these categories.
- **DEPOSITINSURANCE116:** The FDIC has finalized its proposal largely unchanged to raise base Deposit Insurance Fund (DIF) assessments by two basis points (bps) to replenish the DIF by the statutory deadline to reflect deposit inflows that the FDIC no longer expects to be temporary.