



FedFin Weekly Alert

Monday, January 16, 2023

❑ TUMULT IN THE HOUSE

As is patently clear from all the discourse following Kevin McCarthy's fifteenth ballot win for the House gavel, the "lower body" has taken a few shots across its institutional knee-cap. However, we think experienced House Members with ambitions for higher office along with affinity for strongly-conservative policies will find a way to move legislation on the GOP side of the aisle. Less clear is what Democrats will do given the Speaker's pledge to bring every bill to the floor on an open rule – a procedure allowing them considerable scope both for substantive legislative change and political theater. If the Minority Leader, Hakeem Jeffries (D-NY) thinks his party's bread is buttered on the side of showing it can govern, some bills will move forward without toxic Democratic change; if not, not. All is, thus, a muddle in which there may well be a middle.

Where is it to be found? Our [issues brief](#) lays out financial-policy issues on which there is considerable bipartisan agreement, with Fed reform and even recapturing interest on reserves and stablecoin reform topping the list. We also note high-priority regulatory issues that will proceed to the finish line no matter the political noise surrounding them.

For example, early signs are that at least some Republicans will counter the agencies' "end-game" capital rewrite on grounds that the U.S. shouldn't do what a group of global regulators tell us just because they say so. This America-first strategy was successful when it came to global insurance rules, but we doubt it will work for bank capital. Even if the GOP wants less, Democrats want more and there lies a middle to be found in final rules to come. Congress will surely also dispute the crypto rules sure to come in the wake of FTX, Silvergate, and who knows who else. Again though, no legislative override is likely and rules will result.

We've also noted in the brief that political noise will be loudest when it comes to the SEC and CFPB. New House rules allowing Republicans to sanction individual agencies or even office holders will surely be used to make key GOP points, but no legislative change is possible unless – and this is a big unless – the Republicans figure out a way to put something strong, but not poisonous, to reform these agencies in a must-pass bill Democrats feel forced to accept. This back-and-forth is already evident in HFSC Chairman McHenry's first steps against the [CFPB](#), and many more are to follow. Similarly, Republicans are introducing bills to blast the SEC's climate-risk standards and much more

done by its chairman. Statutory override is unlikely but – unlike the CFPB and banking agencies – the SEC is under the appropriations process and thus could take some licks.

Headlines From the Past Week's Daily Briefings

January 9

- **FRB Staff Criticizes GSIB Climate Action Plans** - A new FRB staff [paper](#) assesses GSIB climate-action plans, finding them better but still wanting with regard to risk measurement, disclosure, and management as well as the alignment of financing activities with stated net-zero targets.
- **FRB-NY Staff Find Banks Target Repurchases to Constrain Capital Distribution** - Reaching no conclusions about the wisdom of the Fed's 2020 restrictions on bank capital distributions, a new [blog post](#) from FRB-NY staff finds that changes in repurchases account for almost all of the movement in bank shareholder payout since the pandemic and that the greater volatility of repurchases relative to dividends reflects long held trends.

January 10

- **Powell Fights for Higher Ground** - Although Chairman Powell's [statement](#) that the Fed does not make climate policy is not unprecedented, the express emphasis he chose to place on it speaks to even greater Fed political sensitivity about its independence given GOP control of the House.

January 11

- **CFPB Tackles Mandatory Arbitration, Auto-Agree Contracts** - Intensifying its scrutiny of nonbanks, the CFPB [proposed](#) a rule establishing a public registry of supervised nonbanks' terms and conditions in "take it or leave it" form contracts for consumer financial products and services.

January 12

- **OCC Tightens Fair-Lending Review** - Acting Comptroller Hsu took the occasion of release of a new fair-lending [manual](#) to emphasize the OCC's commitment to ending credit discrimination.
- **McHenry Chairmanship Starts With CFPB Confrontation** - In his first financial-policy action since becoming HFSC Chairman, Rep. Patrick McHenry (R-NC) [blasted](#) the Bureau and its "reckless" Director for what he described as expanding its authority beyond congressional intent.
- **FRB-NY Staff Renew Debate Over FBO Liquidity, Market Impact** - A new [post](#) from FRB-NY staff assesses the funding strategies of FBO branches and agencies to judge their current impact setting dollar-liquidity pricing in the U.S. wholesale funding market.

- **OFR Cites Heightened Systemic Risk, MMF Worries** - In its [annual report](#) on 2021, OFR has concluded that financial stability risks are generally elevated due to macroeconomic tightening, inflation, climate change and volatility in Treasury, crypto, and commodity markets.
- **DOJ Lands Unprecedented Redlining Settlement** - Continuing the Administration's [racial-equity campaign](#), the Department of Justice [announced](#) an historic settlement with City National Bank.

January 13

- **Another GSE Comes Under a Regulatory-Capital Rewrite** - A little-noticed GSE – Farmer Mac – has long been criticized by agricultural lenders for reducing competition in this critical sector based in part on unduly-advantageous capital rules.
- **Fed Records Expected Loss Congress Will Assess** - The Fed released its preliminary 2022 income and expense [data](#), detailing \$18.8 billion in deferred assets following its suspension of Treasury remittances.

This Week

No meetings of note.

Future Events of Note

No meetings of note.

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](#).

- **CRYPTO38**: Karen Petrou's [memo](#) earlier this week and her comments to the [American Banker](#) about Silvergate have sparked many client questions.
- **GSE-011123**: As the Fed has hiked interest rates, mortgage rates have of course also gone up, sending a sudden chill through the residential market and putting home ownership even more out of reach for all but those for whom the home equity they still have after prices correct suffices for long-term wealth accumulation.
- **GSE-010523a**: FHFA's latest [scorecard](#) for Fannie, Freddie, and CSS reiterates Director Thompson's overarching objectives for Fannie and Freddie in the new era of equitable finance, CRT, and capital compliance.

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

© 2023. Federal Financial Analytics, Inc. All rights reserved.

- [**GSE-010523**](#): As we previously [noted](#), the U.S. banking agencies will finally, finally, finally get around to proposing their version of the Basel IV capital rules more recently dubbed the “end-game” standards.
- [**CRYPTO37**](#): The Basel Committee has finalized its second try at global standards governing bank cryptoasset exposures, laying out a path that U.S. agencies plan quickly to implement even as Congress continues to wrestle with this fast-changing sector.
- [**DEPOSITINSURANCE117**](#): In the wake of increasing instances in which customers are confused and even misled about the extent to which fintech and cryptoasset holdings are insured deposits, the FDIC is proposing new standards addressing this problem as well as ways to modernize IDI representations of their own FDIC-insured offerings in branches and through the fast-changing array of retail banking delivery channels.
- [**LIBOR9**](#): Shortly before its statutory year-end deadline, the Federal Reserve finalized its proposal defining legacy-contract benchmarks when there is no clear, practicable contractual fallback rate.
- [**CONSUMER47**](#): The CFPB is proposing to create a public registry of certain enforcement actions that would initially cover nonbanks (including BHCs) with a goal of drawing public and enforcement-agency attention to what the Bureau’s director calls “serial offenders.”
- [**GSE-122122**](#): Finally taking what was supposed to be an “interim” [final rule in 2009](#), FHFA yesterday finalized a variation on Mark Calabria’s 2020 new-product [proposal](#).
- [**CONSUMER46**](#): In this report, we provide an in-depth assessment of the CFPB’s unprecedented \$3.7 billion [settlement](#) earlier today with Wells Fargo (WFC).
- [**FSOC28**](#): [As promised](#), this FedFin report provides an in-depth analysis of FSOC’s 2022 [annual report](#), focusing on findings with near-term policy implications.
- [**GSE-121922**](#): [As promised](#) Friday when FSOC’s [annual report](#) was released, we here go into depth on its implications for residential housing.