



FedFin Daily Briefing

Monday, February 6, 2023

FRB-NY Confirms Regional-Bank Struggle Following LIBOR Transition

A new Federal Reserve Bank of New York staff study and [blog post](#) reaffirms many regional-bank fears about the LIBOR transition not fully allayed by compromise provisions in the Fed's recent benchmark-setting regulation ([see FSM Report LIBOR9](#)). Focusing on the credit-line sector (which is largely unfunded), the paper finds that the likely cost of bank wholesale funding under stress will sharply exceed that earned on corporate-line drawdowns priced to SOFR, with these spreads likely especially wide for regional banks. The paper's models and data thus lead to the conclusion that the shift to SOFR will decrease line availability. We would note that the paper does not factor certain SOFR-spreads authorized under the Fed rule and it is thus unclear if these – available only for regional banks – will mitigate some of the transition effects identified in this study; if they do not, regional-bank C&I lending will surely slow as legacy contracts terminate. Given the fuss over FHLB policy, we also draw attention to the paper's finding that about forty percent of crisis line drawdowns were funded by Home Loan Bank advances because funding from the Banks was cheaper than that available benchmarked to LIBOR. It is unclear how FHLB funding will fare in future crises given the requirement that it now also benchmark to SOFR, but it is likely that Bank advances will remain less costly than other wholesale-funding sources.

Barr Prioritizes Privacy, Small-Bank Capital, FSOC Restraints

A new staff [memo](#) provides not only the agenda for Wednesday's House Financial Institutions & Monetary Policy Subcommittee, but also the priorities Chairman Barr (R-KY) will pursue with regard to financial regulation. Key concerns are encouraging fintech, data privacy (a priority issue also for [Chairman McHenry](#)), facilitating de novo charters, and holding the banking agencies accountable. Bills on which a record will be established is one yet to be introduced to revise the Gramm-Leach-Bliley Act's privacy standards to stipulate federal preemption, expand coverage and give consumers rights akin to those now also under consideration by the CFPB for a limited number of banking activities ([see FSM Report DATA3](#)). Other measures go beyond Mr. Barr's bill (H.R. 758) to loosen de novo capital requirements also to lower the community bank leverage ratio and to restrict FSOC SIFI designations – a move likely intended to block the pending rewrite reversing Trump Administration designation constraints ([see FSM Report SIFI35](#)).

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-020623](#)**: A new [post](#) from the Federal Reserve Bank of Atlanta summarizes key findings from recent pandemic-era mortgage refinancing research, reiterating [prior findings](#) that more White mortgage borrowers got lower refinancing interest rates in 2020 compared to Blacks.
- **[CHARTER29](#)**: In conjunction with rejecting an uninsured crypto bank's application for Federal Reserve membership, the Federal Reserve issued a policy statement conforming state member bank powers only to those authorized for national banks even if the state member is an uninsured depository institution.
- **[CONSUMER49](#)**: Using one of its controversial edicts to set what some consider a new rule, the CFPB has opined that negative-option or "subscription" marketing of consumer-financial products or services may be unfair, deceptive, or abusive (UDAAP) and thus subject to significant sanction for both the provider and any third parties with which it works.
- **[GSE-012323](#)**: Under Director Thompson, FHFA's top policy priority is [equitable housing](#).
- **[CONSUMER48](#)**: Building on its proposed nonbank registry related to enforcement orders, the CFPB is now also proposing a public registry requiring posting of provisions in consumer-finance contracts the agency believes threaten consumer legal or free-speech rights when issued by supervised nonbanks.
- **[GSE-011923](#)**: We will shortly send clients an in-depth analysis of the CFPB's latest controversial [proposal](#) which would establish a public registry on which supervised nonbanks would file a lot of data on any form contracts they require which includes covered provisions the Bureau thinks unfairly and even dangerously lead consumers to abandon important protections.
- **[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.