



# FedFin Weekly Alert

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Monday, March 20, 2023

## □ WHAT A WEEK THAT WAS

As the flood of FedFin reports, alerts, and client calls makes clear, the last ten days have not only been busy – they are a threshold moment. Now, U.S. and global bank regulation will proceed to much unfinished business after 2008 along with targeted changes to address hard lessons from SVB, SBNY, Credit Suisse, and broader market stress as this seems still to be evolving. FedFin is continuing to advise clients of each twist and turn in U.S. and global financial policy, but we are also stepping back to provide forward-looking in-depth reports as the shape of things to come becomes clear. Last week's reports include:

- [RESOLVE49](#) lays out FedFin's forecast for imminent Congressional hearings and likely banking agency reactions to the collapse of SVB. At least some Democrats may go easier on the Fed – which is conducting its own SVB investigation – Treasury, and the FDIC to give them greater room to lay out revamped rules. They are also sure to argue for tougher large bank regulations, focusing on liquidity rules that, if stronger, some believe might have prevented the SVB crisis. Republicans will demand accountability for supervisory lapses, attack the FDIC for its SVB [resolution strategy](#), and deploy “bailout” language against the agencies whenever possible. For their own sake, the agencies will protest against any notion that they have provided a bailout even as they contemplate numerous ways to reinstate market discipline.
- [DEPOSITINSURANCE118](#) assesses the prospects for potential policy changes likely to be discussed in SVB's wake. Changes to the deposit insurance coverage threshold are constrained by current law, but new legislation may prove less controversial than other proposals, especially given recent deposit outflows from community banks. [Legislation](#) has already been introduced seeking to prevent the FDIC from levying special assessments on community banks. Chair Gruenberg may also take another look at risk-based assessments to capture risks such as unrealized losses, as a 2011 final rule authorizes the FDIC to do so without new rulemaking.
- [REFORM216](#) looks at critical regulatory changes likely as the banking agencies reevaluate the regional-bank capital, liquidity, and IDI/BHC construct. Key issues of note around regional-bank capital include a potential repeal the AOCI-recognition exemption for banks above \$100 billion; revising the leverage ratio; new RWAs for sovereign exposures; and a new stress-test construct. We also expect the banking agencies to reinstate the modified LCR dropped when tailoring was adopted, explore erecting more significant firewalls between IDIs and parent companies, and re-examine conflicts of interest.

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This week, look for more in-depth reports looking in particular about how large-bank resolution standards will change and the overall rethink of GSIB standards in Credit Suisse's wake.

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## Headlines From the Past Week's Daily Briefings

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### March 12

- **Systemic Ruling Stems Run Risk, Opens Sweeping Policy Debate** - The Treasury, Fed, and FDIC decided on an SVB package protecting not only insured, but also uninsured, depositors at both SVB and Signature Bank, which was closed earlier this evening.

### March 13

- **Biden Promises Regulatory Revamp** - In an effort to restore confidence in the banking system, President Biden announced that he will ask Congress and the banking regulators to strengthen regulations that were rolled back by the Trump administration.
- **Political Battle Lines Take Shape** - In the wake of the [decision](#) to protect all SVB depositors, Members of Congress are now positioning themselves for future action.
- **Biden Presses Stability in Wake of SVB, Signature Rescues** - Reflecting ongoing uncertainties and political fallout, President Biden [reiterated](#) comments [noted](#) in our prior alert.
- **Comment Deadline Set for GSE Capital Proposal** - The *Federal Register* [includes](#) the FHFA's proposal to refine Fannie and Freddie's capital construct.
- **Fed Tries to Get Ahead of SVB Storm** - Even as Sen. Hagerty (R-TN) led calls to review Fed [supervision](#), the Fed [announced](#) that Vice Chair Barr will lead a review of SVB's supervision and regulation.

### March 14

- **JEC Chairman Heaps SVB Blame on Trump-Era Rollbacks** - Echoing Democratic [statements](#) made earlier, JEC Chairman-Designate Heinrich (D-NM) released a [statement](#) blaming the Trump Administration's 2018 regulatory "rollbacks" for SVB's failure, noting that the committee [warned](#) in 2018 that the rollbacks would result in SVB being subject to "nearly none" of Dodd-Frank's enhanced regulations.
- **Warren Lambasts Powell on SVB Inquiry** - Expanding her attack against FRB Chairman Powell, Sen. Warren (D-MA) [demanded](#) that he recuse himself from the SVB investigation [announced](#) Monday.

- **Treasury Official Announces Coming DeFi Risk Report** - In [remarks](#), Assistant Secretary for Treasury's Office of Terrorist Financing and Financial Crimes Elizabeth Rosenberg announced that her team will shortly be releasing a risk assessment on DeFi.
- **FDIC Warns Bridge-Bank Counterparties** - Reflecting the unusual nature of the two bridge banks the FDIC has established for SVB and Signature, the agency was compelled to issue a [warning](#) that financial institutions are required to comply with their obligations to these FDIC-owned institutions to the extent previously required of the failed banks.

### March 15

- **Waters Reiterates ICE/BKI Opposition** - HFSC Ranking Member Waters (D-CA) released a [statement](#) applauding the FTC's move to block Intercontinental Exchange from acquiring the mortgage software company Black Knight.
- **Progressives Press For Tailoring Redo** - Cementing prior [denouncements](#) of 2018 Dodd-Frank "rollbacks" into legislative action, 17 Democratic senators and 31 House Members took direct aim at Trump-era banking policy by introducing [legislation](#) that would repeal Title IV of the Economic Growth, Regulatory Relief, and Consumer Protection Act.
- **Bowman Presses Small-Bank Mergers, Climate Caution, Third-Party Guardrails** - In [remarks](#), FRB Governor Bowman noted that delays in merger reviews cause significant operational and reputational risks and suggested considering all competitors when evaluating a small bank merger's competitive effect to reduce delays.
- **New CFPB RFI Brings Data Brokers Under Scrutiny** - Ahead of a planned rulemaking, the CFPB [released](#) an RFI seeking comments on the business practices of data brokers, focusing on new business models to determine if certain practices fall under the scope of FCRA.
- **Warren, Blumenthal Call on DOJ, SEC to Investigate SVB** - Although media reports indicate that an investigation is already [under way](#), Sens. Warren (D-MA) and Blumenthal (D-CT) sent a [letter](#) to Attorney General Garland and SEC Chairman Gensler urging them to investigate senior SVB officials if they are not already doing so.
- **FHFA Delays New DTI-Based Upfront Fee** - Following an [announcement](#) this January that FHFA would implement changes to Fannie and Freddie's single-family pricing framework, Director Thompson [announced](#) that the Agency will delay the effective date of a new upfront fee for certain borrowers with a DTI ratio above 40 percent.

## March 16

- **FedFin Assessment: One CS Consequence – LISCC Reinstatement For All Large Foreign GSIBs** - In the wake of CS's distress, we draw client attention to a 2021 exchange sure to factor heavily in the political response.
- **Brown Presses For In-Depth SVB, Signature Review** - As anticipated ([see Client Report RESOLVE49](#)), Senate Banking Chairman Brown (D-OH) [called](#) on all the banking agencies and Treasury quickly to undertake a review of SVB and Signatures failures.
- **Warren Heaps Still More Blame On Powell** - In another [letter](#), Sen. Warren (D-MA) [once again](#) lambasted Chair Powell for what she claimed was his direct contribution to the collapse of Signature Bank and SVB as well as a “a culture of corruption” at the Fed.
- **Senate GOP Blames Fed, California re SVB** - Senate Banking Republicans [tweeted](#) a series of comments citing articles going back to last year identifying SVB risk and suggesting strongly that the Fed and California state supervisors are at fault for missing clear warning signs.
- **Bipartisan Senators Push Better Beneficial-Ownership Data Access** - Senate Budget Committee Chairman Whitehouse (D-RI) was joined by Sens. Wyden (D-OR), Warren (D-MA), Grassley (R-IA), and Rubio (R-FL) in submitting a [comment letter](#) to FinCEN taking serious issue with its proposed implementation of the Corporate Transparency Act (CTA) ([see FSM Report AML135](#)).
- **Senate Finance Hearing Deepens SVB Divide** - At a heated Senate Finance hearing with Treasury Secretary Yellen, Members were quick to deviate from the hearing's budget-focused agenda to address who should bear the blame for SVB's collapse.
- **Hagerty Presses Demands re SVB-Resolution Review** - Building on his [prior comments](#), Senate Banking Member Hagerty (R-TN) sent a [letter](#) to the FDIC's IG urging him to investigate the agency's compliance with the least-cost resolution statute in its resolution of SVB.
- **First Republic Pulled From Frying Pan** - After days of frantic negotiations, Treasury and the banking agencies have [announced](#) that a banking consortium deposited \$30 billion in First Republic Bank.
- **Community Bank Deposit-Insurance Campaign Notches First Bill Introduction** - Responding to demands from community banks, Sens. Hawley (R-MO) and Braun (R-IN) introduced [legislation](#) that bars banks from passing on the cost of special assessments to consumers and prevents the FDIC from levying special assessments on community banks to protect uninsured depositors, as it [recently did](#) with SVB and Signature Bank.

## March 17

- **Biden Positions White House On Side Of SVB/SBNY Enforcement Actions** - Reflecting growing political heat as SVB/SBNY revelations continue, President Biden [called](#) on Congress to toughen enforcement penalties for senior management at failed banks.
- **HUD Reinstates Tough Disparate-Impact Standard** - HUD announced a [final rule](#) rescinding a 2020 rule governing Fair Housing Act disparate impact claims ([see FSM Report FAIRLEND8](#)) and restoring a 2013 discriminatory effects rule ([see FSM Report FAIRLEND4](#)).
- **Waters Pledges Bill on Failed-Bank Execs, Pushes Incentive-Comp Regs** - Shortly after the President called on Congress to toughen penalties for failed bank executives, HFSC Ranking Member Waters (D-CA) sent a [letter](#) to Fed, FDIC, and SEC leadership announcing she is crafting legislation to do so.

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## This Week

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### Wednesday, March 22

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future Wrap-Up Listening Session" [1:00, webcast]. Matters to be discussed: TBD.

### Thursday, March 23

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future Wrap-Up Listening Session" [1:00, webcast]. Matters to be discussed: TBD.

### Friday, March 24

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future Wrap-Up Listening Session" [1:00, webcast]. Matters to be discussed: TBD.

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## Future Events of Note

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### Wednesday, March 29

Treasury Federal Advisory Committee on Insurance Open Meeting. [1:30, 1500 Pennsylvania Ave.] Matters to be discussed: Discuss topics related to climate-related financial risk and the insurance sector; discuss cyber insurance developments and international insurance issues; and receive status updates from each of its subcommittees and from FIO on its activities.

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## Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [REFORM216](#): In this report, we continue our policy postmortem of SVB/SBNY and, now, so much more.
- [DEPOSITINSURANCE118](#): As promised in our first post-SVB impact assessment ([see Client Report RESOLVE49](#)), this report begins a series of analyses of specific policy issues.
- [RESOLVE49](#): As we [noted last night](#), the President concurred with Treasury, the Fed, and FDIC in [deciding](#) that SVB's Friday failure and [imminent runs on Signature Bank](#) and, most likely, others posed a systemic risk.
- [GSE-030923](#): As detailed in our reports earlier this week on Powell's appearance before [Senate Banking](#) and [HFSC](#), much was said about the pending rewrite of big-bank capital standards.
- [FEDERALRESERVE73](#): At today's HFSC hearing, Chairman Powell modulated his hawkish stance just a bit, continuing as he long has done to refuse to take a stand on fiscal policy while advocating for rapid debt-limit action.
- [FEDERALRESERVE72](#): Although Chairman Powell's testimony kept exclusively to monetary policy, today's Senate Banking hearing seemed only to go through the motions set at previous hearings with regard to inflation, growth, and the Fed's long-term objectives.
- [GSE-030123](#): A recent FRB-Atlanta [study](#) finds that closing the racial homeownership gap alone would not redress housing market racial disparities because minority homeowners cannot equitably access home equity and thus enjoy comparable access to the economic opportunities afforded by homeownership.
- [SANCTION20](#): In a remarkably bipartisan session, the Senate Banking Committee today made it clear that Congress wants tougher sanctions against Russia, near-term action against hold-out nations to oil-price caps and other efforts, and perhaps even confiscation of Russian assets to fund U.S. Ukraine aid.
- [CRYPTO40](#): In the wake of revelations by Silvergate and other banks about significant deposit exposures to cryptoasset entities, federal banking agencies have issued a statement about the need to manage liquidity risk associated with cryptoassets.
- [GSE-022723](#): FHFA has proposed a set of refinements to the current GSE [capital construct](#).
- [CUSTODY5](#): Making full use of powers granted in the 2010 Dodd-Frank Act, the SEC is proposing a wholesale rewrite of the rules dictating how investment advisers must place assets in custody and which institutions are considered qualified for this purpose.
- [GSE-022123](#): As we noted, FHFA is venturing onto treacherous political ground with a [request for input](#) on expanding Fannie and Freddie's ESG imprint.