



FedFin Weekly Alert

Monday, March 27, 2022

□ BODIES ON THE BEACH

As is all too evident, U.S. and global banking-system stress continued throughout last week, ebbing and flowing with the force and speed of hurricane-strength storms. The deluge of events combined over the course of the week with a torrent of political and policy-maker comments, demands, and explanations that sometimes had a similar tidal effect – see, for example, Treasury Secretary Yellen’s [efforts](#) to comfort depositors without altering U.S. deposit-insurance policy. As the schedule below notes, Senate Banking and HFSC will haul senior Treasury, Fed, and FDIC officials in for hearings. We expect only these only to lay out parameters of post-crisis policy to be outlined because the crisis is upon us, supervisors are swamped, and even those above the waterline are gulping for breath. With cameras rolling, Members will also make many political points, but real action will await the final swoosh of the last storm tide and a view of the bodies which Warren Buffet famously said are only evident in financial markets once the water recedes. Knowing full well that they aren’t ready yet to propose meaningful legislation or hold specific agencies and individuals to account, Members of Congress plan for future action after the long April recess based not only on what happens by then, but also by the answers they got to the high-impact letters key leaders have recently sent. Over the past two weeks, these include:

- [assertions](#) by Senate Banking Ranking Member Scott (R-SC) and fellow Committee Republicans to Chairman Powell and FRB-SF President Daly that SVB’s failure reflects significant supervisory lapses and demands all supervisory reports;
- [demands](#) from HFSC Subcommittee Chairmen Barr (R-KY) and Huizenga (R-MI) and Rep. Kim (R-CA) to FRB Vice Chair Barr to provide information on its supervision of SVB and its reliance on Goldman Sachs and FHLB loans;
- [a missive](#) from Subcommittee Chairman Barr, Huizenga, Kim, Lawler (R-NY) and Garbarino (R-NY) demanding supervisory information from New York and California bank regulators;
- [requests](#) from Subcommittee Chairman Barr and Huizenga to the Council of Inspectors General on Financial Oversight Chair Delmar and Secretary Yellen to provide information on FSOC’s March 12 meeting;

- [demands](#) from Senate Banking Chairman Brown (D-OH) and Ranking Member Scott to the former CEOs of SVB and SBNY that they answer for their banks' failures and testify before the committee;
- [requests](#) from HFSC Chairman McHenry and Rep. Hill (R-AR) to Chairman Gruenberg for all supervisory communications between the FDIC, New York state regulators, and Signature Bank and to Secretary Yellen for any communications between Treasury and the White House on potential bidders for the failed banks prior to their resolution;
- [calls](#) from Sen. Warren (D-MA) and 10 other Senators for FRB Vice Chair Barr to quickly strengthen regulations for banking organizations between \$100 and \$250 billion;
- [calls](#) from Sen. Warren for the Fed's, FDIC's and Treasury's IGs to conduct independent investigations of the two failed banks;
- an [announcement](#) from Chairman McHenry and Ranking Member Scott to Chairmen Powell and Gruenberg that Republicans will be launching an investigation to uncover potential missteps by both in recent failures;
- an [announcement](#) from HFSC Ranking Member Waters (D-CA) to Fed, FDIC, and SEC leadership that she is crafting legislation to strengthen claw-backs of failed bank executive compensation;
- [requests](#) from Sen. Hagerty (R-TN) to the FDIC IG to investigate the agency's compliance to its least-cost requirements during SVB's resolution;
- repeated [demands](#) from Sen. Warren for Chairman Powell to recuse himself from the Feds supervisory inquiry, citing several deregulatory actions taken by the Fed that she claims weakened the regulatory system;
- [calls](#) from Chairman Brown to all of the banking agencies and Treasury to investigate the scope of uninsured deposits at the two failed banks and the role of social media; and
- [calls](#) from Sens. Blumenthal (D-CT) and Warren to Attorney General Garland and SEC Chairman Gensler to investigate SVB and SBNY for criminal activity related to self-dealing, exclusivity clauses, failure to disclose risks, and other concerns.

Headlines From the Past Week's Daily Briefings

March 20

- **HFSC Sets Plan For Crisis Review** - In what may be an effort to buy some time as the banking crisis hopefully eases and tempers cool, HFSC Chairman McHenry (R-NC) and Ranking Member Waters (D-CA) [asked](#) GAO to conduct an immediate review of recent

bank failures, insider actions, and related policy actions such as the systemic rescue and new Fed [facility](#).

- **Warren Piles On To Powell With New IG Study** - Sen. Warren (D-MA) in a [letter](#) applied even more pressure on the banking agencies by urging the Fed's, FDIC's, and Treasury's IGs to conduct independent investigations of the bank as well as "regulatory and supervisory problems" leading to failures, renewing claims that Chair Powell is especially culpable.
- **McHenry, Scott Take Gloves Off For Fed, FDIC Investigation** - HFSC Chairman McHenry (R-NC) and Ranking Senate Banking Member Scott (R-SC) [sent letters](#) to Chair Powell and Chair Gruenberg, making it clear that – for all Mr. McHenry's more conciliatory statements – Republicans are launching an investigation premised on potential missteps by the Fed and/or FDIC warranting rapid remediation.
- **House GOP Conservatives Oppose Liberalized FDIC-Coverage Ceiling** - Countering demands for an end to FDIC insurance ceilings not only from Sen. Warren (D-MA), but also from their [GOP peers](#), the very conservative House Freedom Caucus released a [statement](#) demanding an end to what it calls "big government bailouts."

March 21

- **US Races to Calm Depositors, Bankers** - In a concerted effort to quell depositor fear, the White House has told [Bloomberg](#) that it will not allow community banks to experience a panic and Secretary Yellen is said shortly to [assure](#) bankers that smaller banks will not be allowed to experience a concerted run.
- **Treasury Stands Behind Small Banks In Systemic Situations** - In her formal [remarks](#), Treasury Secretary Yellen confirmed press reports that the U.S. would contemplate interventions similar to those for SVB and SBNY should a smaller bank suffer a deposit run posing contagion risk.
- **CFPB Adds to Credit-Card Competition Interventions** - Continuing its campaign against large credit-card companies ([see FSM Report CREDITCARD36](#)), the CFPB [launched](#) an expanded credit card issuer survey to post new information on smaller companies the agency thinks beneficial to increase competition in this sector.
- **Adeyemo Reiterates US Backstop** - In addition to Secretary Yellen's comments, Deputy Secretary [Wally Adeyemo](#) not only praised his agency's response, but also reaffirmed that the government is prepared to back smaller banks.

March 22

- **FTC Builds On Treasury Cloud Concerns, Seeks Competition, AI Views** - Signaling apprehension about a number of risks outlined in a recent [Treasury report](#), the FTC [requested comment](#) on the business practices of cloud computing providers.

- **Scott, Warren Reach Over Partisan, Ideological Divide to Blast the Fed** - Demonstrating the confluence of populist and progressive thinking about the Fed we [anticipated](#) at the start of this year, Sens. Rick Scott (R-FL) and Warren (D-MA) have [introduced](#) legislation mandating that the Fed's inspector general be fully independent of the chair and board of governors.
- **Fed Under Still More Pressure to Boost Regional-Bank Supervision** - Sen. Warren (D-MA) continued her prolific letter-writing campaign, [also joining](#) with Sens. Duckworth (D-IL), Blumenthal (D-CT), Sanders (I-VT), Reed (D-RI), Hirono (D-HI), Markey (D-MA), King (I-ME), Whitehouse (D-RI), Smith (D-MN), Van Hollen (D-MD), and Schatz (D-HI) to call upon Vice Chairman Barr quickly to heighten regulatory standards for banking organizations between \$100 and \$250 billion.
- **Powell Protests Suggestions Of Fed Supervisory Error** - At his press conference, Chairman Powell sought to defend the Fed so vigorously that some of his comments may ignite still more criticism.
- **Yellen Denies FDIC-Coverage Rewrite, Suggests Need for Liquidity-Rule Revisions** - In her appearance before the Senate Appropriations Subcommittee on Financial Services and General Government, Treasury Secretary Yellen refuted press [reports](#) that Treasury is considering significant deposit-insurance coverage expansion, saying only that the banking system is safe and it is too soon to consider structural reforms.

March 23

- **OFR Study Predicts Household Gains, Banking Instability From Digital Currencies** - A new OFR [working paper](#) concludes that full integration of digital currencies into the economy would reduce financial-system volatility and improve household welfare, but also increase the probability of a banking crisis.
- **HFSC Poses Still Tougher SVB/SBNY Resolution Questions** - Following tough GOP letters to the Fed and FDIC [earlier](#), HFSC Chairman McHenry (R-NC) and Subcommittee Chair Hill (R-AR) sent even sterner missives to [Chairman Gruenberg](#) and [Secretary Yellen](#).
- **Bipartisan Push Begins For CEO Clawbacks** - Ahead of its first of many hearings on the collapse of SVB and SBNY, Senate Banking Chairman Brown (D-OH) and Ranking Member Scott (R-SC) [sent letters](#) to the former CEOs of the banks demanding that they answer for the bank failures, noting also that they will be expected to testify before the Committee if they are unable to do so next week.
- **OFR Blog: CRE, Residential Markets Pose Little Systemic Risk** - Despite growing concerns about CRE and even potential systemic risk, an OFR [blog post](#) concludes that neither the residential nor commercial real estate market poses a significant threat to the financial system.
- **Basel Stands By Its Rules, Contemplates New Supervisory Standards** - The Basel Committee's [release](#) following its meeting unsurprisingly notes the bank failures

preceding it just days before, but attributes them principally to poor risk management in the face of rising rates.

- **GSEs Seek Public Comment on Credit Score Model Transition** - The FHFA [announced](#) that the GSEs are asking for public comment on the implementation of their updated credit score [requirements](#).
- **Yellen Edges Closer To FDIC Backstop** - Following comments earlier [this week](#) suggesting only systemic backstops and others [indicating](#) intervention only if essential, Treasury Secretary Yellen altered her Wednesday testimony to tell the House Appropriations Subcommittee that the U.S. has not only acted, but is prepared to do so again if uninsured-deposit protection is warranted.

March 24

- **GOP Expands Attack On Fed Supervisory Actions** - In yet another letter ahead of next week's hearings, Senate Banking Ranking Member Scott (R-SC) and all Republican Members of the committee [asked](#) Fed Chairman Powell and FRB-SF President Daly a series of questions asserting that SVB's failure reflects significant supervisory lapses.
- **FSOC Breaks The Glass** - Although there is no formal announcement, FSOC will hold what is clearly an emergency, closed meeting per a new [media advisory](#).
- **Top HFSC Republicans Join SVB-Supervisory Inquest** - Following a similar letter from Senate Banking Republicans earlier, HFSC Subcommittee Chairmans Barr (R-KY) and Huizenga (R-MI) along with Rep. Kim (R-CA) sent yet another [letter](#) to Vice Chair Barr and FRB-SF President Daly also demanding detailed supervisory-related information on SVB.
- **Reserve Banks Promise to Bear Some Sometime Soon** - Under ever-growing pressure, all of the Federal Reserve Banks under the New York Fed's aegis [announced](#) a common transparency policy.
- **HFSC GOP Targets State Bank Supervisors** - Top House Republicans brought state banking commissions into the SVB and SBNY fray, asking each for extensive details on recent actions and setting the April 6 deadline now evident in all recent GOP requests in this arena.
- **GOP Leaders Also Demand FSOC Answers** - HFSC Subcommittee Chairman Barr (R-KY) and Huizenga (R-MI) also sent letters to FSOC Chair [Yellen](#) and Council of Inspectors General on Financial Oversight Chair [Delmar](#) requesting detailed information on meetings surrounding the banking agencies' March 12 decision to invoke a systemic risk exception for SVB and SBNY.

- **FSOC Keeps Mostly Mum** - As anticipated, FSOC's [readout](#) of its meeting was singularly uninformative, noting only that it evaluated market conditions and deems the banking system resilient.

This Week

Tuesday, March 28

Senate Banking Hearing entitled: "Recent Bank Failures and the Federal Regulatory Response." [10:00 am, Dirksen Senate Office Building 106]. Witnesses: **The Honorable Martin J. Gruenberg**, Chairman, Board of Directors of the Federal Deposit Insurance Corporation (FDIC); **The Honorable Michael S. Barr**, Vice Chair for Supervision, Board of Governors of the Federal Reserve; and **The Honorable Nellie Liang**, Under Secretary for Domestic Finance, U.S. Treasury Department.

Wednesday, March 29

FHFA HFSC Hearing entitled: "The Federal Regulators' Response to Recent Bank Failures." [10:00 am, 2128 RHOB]. Witnesses: **The Honorable Martin J. Gruenberg**, Chairman, Board of Directors of the Federal Deposit Insurance Corporation (FDIC); **The Honorable Michael S. Barr**, Vice Chair for Supervision, Board of Governors of the Federal Reserve; and **The Honorable Nellie Liang**, Under Secretary for Domestic Finance, U.S. Treasury Department.

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.

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](#).

- **RESCUE79**: Recent editorials and other media have often said that the FRB and/or FDIC have powers or taken actions that is not the factual case as we understand it. Members of Congress

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also appear sometimes willing to make assertions about what agencies can do now even if it is unclear if there is statutory authority to do so.

- [GSIB21](#): In this report, we assess the implications of recent events on two assumptions underlying current U.S. and global policy affecting GSIBs and those considered domestic SIBs: first, all are likely to be well insulated from illiquidity and/or insolvency and, when this is not the case, then orderly resolution without taxpayer bailout can be readily deployed.
- [LIQUIDITY33](#): Among the most vexing issues in the wake of SVB's failure is the extent to which social media may have led to the first "viral run," a run akin to the meme-stock volatility that led the SEC and others to fear a new form of "flash-crash" risk.
- [GSE-032023](#): In this report, we build on FedFin's in-depth reports about recent bank failures to detail new risks for all of the innocent bystanders in the U.S. mortgage market along with a not so-innocent bystander: the Federal Home Loan Banks.
- [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.