



# *FedFin Daily Briefing*

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Monday, March 20, 2023

## **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) late Friday [asked](#) GAO to conduct an immediate review of recent bank failures, insider actions, and related policy actions such as the March 12 systemic rescue and new Fed [facility](#). GAO is also asked to investigate why the FDIC was unable to resolve SVB via acquisition, the extent to which other banking organizations are as vulnerable as SVB and SBNY, the role of an unnamed investment bank (presumably Goldman Sachs), the ratings agencies, and Home Loan Banks. An interim report is requested by April 28, a deadline doubtless set not only to delay near-term hearings and give the GAO time to wrestle with still-breaking developments, but also to reflect the three-week Congressional recess beginning on April 1. In addition, Rep. Waters sent a separate [letter](#) to the FDIC asking that its bridge bank honor all of SVB's CRA and related commitments; it is unclear if the bank will be able to do so given stress on its assets and ongoing resolution challenges.

## **Warren Piles On To Powell With New IG Study**

Sen. Warren (D-MA) in a [letter](#) Saturday 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. Indeed, she notes that these investigations must be protected from Mr. Powell's "interference," also noting that he has not yet responded to her request that he recuse himself from the Fed's investigation.

## **McHenry, Scott Take Gloves Off For Fed, FDIC Investigation**

HFSC Chairman McHenry (R-NC) and Ranking Senate Banking Member Scott (R-SC) today [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. The Fed letter demands a timeline of SVB and SBNY lending, supervisory and examination activity for the last two years and even a list of officials involved in supervising or examining the banks during that time. Similarly, the FDIC letter requests a timeline of supervisory and resolution activity for the last two years as well as the names and titles of employees involved. The Fed letter (but not the FDIC's) also requests a timeline of events supporting the recommendation to invoke the Systemic Risk Exception for the banks as well as a list of employees involved in this decision. The regulators are also told to preserve all records related to these issues, with responses requested by March 31.

## 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 today released a [statement](#) demanding an end to what it calls “big government bailouts.” The statement opposes universal bank deposit guarantees as well as any new small- or mid-sized bank regulation, interestingly omitting opposition to new big-bank standards despite the Caucus’ usual flat-out objections to most federal rules. As with today’s earlier McHenry/Scott -banking agency letters, the statement takes direct aim at the Fed, accusing it of keeping interest rates artificially low and demanding that it unwind the new Bank Term Funding [Program](#) as soon as possible.

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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](#).

- [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.
- **[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.