FedFin Daily Briefing

Tuesday, April 11, 2023

FRB-NY Finds Still Sticker Deposit Rates, Tougher Fed Policy Transmission

A new post from Federal Reserve Bank of New York staff concludes that, even as deposit funding declines, banks remain liquid due to less rate-sensitive sources such as time deposits and FHLB advances. As we noted when assessing a prior FRB-NY deposit post, these analyses go beyond conventional deposit-flight and unfair-competition arguments to show the complexity of funding-market behavior during periods of rising interest rates. The latest post brings the prior study through the end of 2022, showing continuing lags between the fed funds rate and interest-bearing deposit rates through the fourth quarter. The deposit beta (i.e., this difference) rose far faster than in prior tightening cycles, one reason for the rapid redeployment of funds by depositors to MMFs and by banks to less rate-sensitive options. The new paper corrects an omission we noted in the prior post, now looking at the extent to which banks use deposits and are thus likely to pay more for them. In the fourth quarter of last year, loan-to-deposit and similar ratios tightened, but still lagged pre-pandemic levels. Non-deposit funding grew very fast in 2022, more than offsetting lost deposits. The post thus concludes that deposits rates will continue to lag fed fund rates even as depositors migrate to higher-rate options and banks will continue to shift to other funding sources. Thus, low-balance household accounts will grow still more distant from market rates and monetary-policy transmission will be still more muted.

Chopra Wants Expanded FDIC Coverage, Payment-System Guardrails, Comp Reform

In remarks today, CFPB Director Chopra called for tailoring DIF assessments to protect community banks and to expand coverage to payroll and certain other accounts. He also said that current law may give regulators the tools needed to deal with viral runs via systemic designations for certain payment systems and/or providers. He did not explain how this would be accomplished in practice (e.g., mandatory speed bumps, etc.). He also reiterated the President's call for additional FDIC clawback authority, pressing at the same time for rapid action on long-pending DFA incentive-compensation standards. The CFPB is not among the rulemaking agencies on this complex proposal (see FSM Report **COMPENSATION 33**), but he also sits on the FDIC board and the FDIC is among these agencies. Mr. Chopra also pressed for new standards limiting high-growth institutions – here again echoing the White House with regard to regulatory priorities.

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.

- **REFORM220:** In this report, we drill down on prior forecasts (see *Client Report* **REFORM219**) of near-term regulatory action to identify the revisions sure to be prioritized as NEC Director Brainard and FDIC Chairman Gruenberg seek to reverse rules finalized over their objections when they were in the minority.

- **UDAP8:** Following its usual practice of setting standards by edict, the Bureau of Consumer Financial Protection has laid out an extensive framework that brings a wide range of consumer-finance actions and inactions within the scope of enforcement sanctions governing acts or practices that are not only unfair or deceptive, but also abusive.

- **GSE-040623:** FHFA, Fannie, and Freddie yesterday updated the sometimes-controversial equitable-finance plans FHFA approved last year.

- **GSE-040323:** We have written from time to time about covered bonds.

- **REFORM219:** With Thursday's White House announcement, we know that the Administration will do its best to support Fed and FDIC efforts to color recent events as a failure of Republican-led rulemaking, not also one of agency supervisory acumen, speed, and even competence.

- **REFORM218:** Today's HFSC hearing on recent bank failures was more partisan than yesterday's Senate Banking session (see *Client Report* **REFORM217**).

- **REFORM217:** Today's Senate Banking hearing was extremely well-attended by Senators on both sides of the aisle clearly looking first to understand what precipitated recent bank failures, who is to blame, and what should be done next.

- **RESOLVE50:** As noted yesterday, the FDIC's recent rescues have had several unusual features with implications not only for future policy, but also for pending special assessments to replenish the DIF for the $22.5 billion estimated costs to the Deposit Insurance Fund.

- **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.

- **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 lead 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.

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