



Wednesday, April 12, 2023

Hill Charts Different FDIC Course

In remarks [today](#), newly-confirmed Republican FDIC Vice Chairman Travis Hill for the first time lays out his thinking ahead of a raft of FDIC decisions in SVB's wake. Mr. Hill notes the challenges of reflecting AOCI in regulatory capital, the role reciprocal-deposit services play in circumventing coverage limits for those with the largest funds best able to exert market discipline, the rapid nature of many recent bank runs, and the need for the FDIC to be open to all bidders in a regional-bank resolution. Without offering specific ways to accomplish these goals or better manage the interest-rate risk he lays at the Fed's doorstep, Mr. Hill concludes by noting the need for targeted reform as well as humility when pursuing them. In remarks following Mr. Hill's presentation, Karen Petrou discussed regulatory options and reiterated points in her recent [Barron's op-ed](#) about the importance of retaining coverage for depositors without the capacity to judge an IDI's risks or whose deposits are vital to the protection of employees or others unable to play a role in placement decisions.

CFPB UDAAP Policy Now Effective

The *Federal Register* [today](#) includes the CFPB's policy statement expanding the scope of the Bureau's UDAAP framework, which is now effective upon this publication. As noted in FedFin's in-depth report ([see FSM Report UDAP8](#)), the policy no longer requires express proof of predatory behavior, expanding the definition of abusive to include any action the Bureau deems does not provide demonstrable consumer benefit or takes advantage of a consumer's lack of understanding, even if the consumer freely chooses the product. Financial companies will also be liable for products with abusive features dictated by third parties. Comment is due by July 3.

Scott Lays Out Housing Plan

In conjunction with advancing his Presidential campaign, Senate Banking Ranking Member Scott (R-SC) late yesterday [announced](#) his new federal housing framework via planned legislation, the Renewing Opportunity in the American Dream (ROAD) to Housing Act. Although the framework does not provide details, it emphasizes greater congressional oversight of federal housing programs, mandates a review of "overregulation" in the affordable housing industry, and proposes a rethink of agency data collection and analysis. The bill is most unlikely to advance in the Senate.

Basel Turns to Capital, LCR Revamp

The Basel Committee's head, Pablo Hernández de Cos, [today](#) spoke out strongly against regulatory liberalization, implicitly criticizing the U.S. tailoring rules and urging jurisdictions to adhere tightly to Basel's "multi-metric" standards given their proven value in the recent crisis. However, he also wants Basel to revisit two instances in which he believes it went too easy: decisions not to impose express capital charges for interest-rate risk ([see FSM Report IRR7](#)) and to ease outflow ratios in the final Basel LCR ([see FSM Report LIQUIDITY7](#)). Much in the talk reiterates Basel's recent [announcement](#) about its own work plan in the wake of recent events, but Mr. de Cos is emphatic that national jurisdictions need not only to adhere to prudential standards,

but also Basel's core principles for effective risk management ([see Client Report RISKMANAGEMENT12](#)). He particularly highlights the importance of supervisory oversight when banks grow very quickly, an issue highlighted in the White House [priority list](#) and FDIC Vice Chairman Hill's talk earlier today.

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](#).

- **COMPENSATION35**: Executive compensation incentives have proved among the most important reform priorities in the wake of recent bank failures.
- **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.