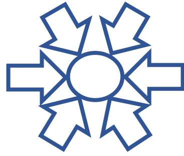

FedFin Daily Briefing

Friday, April 14, 2023

Waller Defends Fed SVB Policy

FRB Gov. Waller today defended recent Fed actions, reiterating that SVB was an idiosyncratic risk but it also posed systemic run risk, the most fundamental threat to financial stability. Thus, the systemic designation for the two failed banks was appropriate. Further, the discount window and new Fed facility have accomplished the Fed's own fundamental objective of quelling runs. Still, it remains to be seen if financial-stability challenges adversely affect growth, with Mr. Waller observing signs of credit tightening even before these collapses. Based on his broader economic thinking, Mr. Waller also concludes that monetary-policy tightening will need to continue for a "substantial period of time."

FHFA Opens the Suggestion Box

FHFA today sought views on its corpus of GSE regulation. Although this is a general review focused on matters such as duplication, burden, and clarity, it is sure to provoke comments seeking substantive changes in areas such as FHLB governance and Fannie/Freddie mission and offerings. Comments are due by June 13.

FRB-NY Proposes Novel Way To Prevent Bank Runs

A new post from FRB-NY staff adapts the minimum-balance-at-risk (MBR) policy long discussed for MMFs (see FSM Report **MMF16**) to bank deposits to determine the extent to which it would quell uninsured-deposit runs. The post's authors claim to have developed this idea for MMFs and thus perhaps unsurprisingly find it also of value to curb bank runs by ensuring first-mover risk. For deposits, the idea would be that only a percentage of uninsured deposits (e.g., 95) could be immediately withdrawn, leaving a small MBR that could be claimed only after a period of time (e.g., 45 days) after claims of uninsured depositors who did not run are met. The post also notes that additional subordination for these deposits at risk could be considered to heighten the impact on first movers, also exploring the extent to which banks that voluntary adopt MBRs could be granted more lenient regulatory treatment for liquidity or other risks. We would note not only that bank regulators are unlikely to make so big a bet on MBR, but also that MBR exists in de facto form via the FDIC's practice of quickly providing advance dividends to uninsured depositors when uninsured depositors are not fully protected in an IDI resolution.

CFPB Announces Revisions To APOR Methodology

The CFPB today announced a revised version of its Methodology for Determining Average Prime Offer Rates (APOR). Upon the effective date, the Bureau will use data provided by ICE Mortgage Technology as well as eight base products to calculate APORs. These include 30-year, 20-year, 15-year and 10-year fixed-rate products as well as 10/6-month, 7/6-month, 5/6-month, and 3/6-month ARM products. The methodology change is the result of a recent decision by Freddie Mac to make changes to its Primary Mortgage Market Survey (PMMS), which will no longer include points, fees, and adjustable rates data used by the CFPB to construct APORs for 30-year and 15-year fixed-rate mortgage products as well as five-year variable-rate mortgage products. The methodology change is effective April 21.

Bowman Rejects Calls For New Rules

In remarks today, FRB Gov. Bowman again differed from Vice Chairman Barr, emphasizing that recent failures are likely not an "indictment" of current rules and that judgment should await the Fed's report and those from others. However, to the extent regulations are revisited, she highlights an issue so far not mentioned in recent discussion: the need to encourage more de novo bank charters. The value of more bank charters is evident, she says, in unmet needs now met by nonbanks, charter-stripped franchises, and fintech partnerships. The lack of de novo competition not only increases risks associated with these developments, but also adversely affects community service and competition. Reducing barriers could, she concludes, be accomplished by reforms such as special supervisory units at the banking agencies focused only on new charters that would identify risks without the need for ex ante punitive capital regulation.

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.

- **GSE-041323:** As we noted earlier today, global regulators are rethinking their 2015 decision not to require an express capital charge for interest-rate risk, a shift with significant implications for the role of U.S. banks as mortgage lenders and investors.

- **IRR8:** As we noted yesterday, the head of the Basel Committee has targeted two capital and liquidity compromises included in the current Basel III construct not addressed in the end-game rules to which the U.S. plans shortly to turn.

- **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.

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- **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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