FedFin Daily Briefing

Monday, April 17, 2023

HFSC Prepares for Gensler Grilling

As expected, the staff memo ahead of HFSC's hearing tomorrow with SEC Chairman Gensler reiterates much that has previously played out in highly-critical correspondence and subpoena threats. The memo details numerous, often-controversial SEC proposals, including those dealing with climate-risk disclosures, open-end fund liquidity, and qualified custodian requirements (see FSM Report **CUSTODY5**). The memo provides only brief descriptions of each proposal and offers no commentary, list of pending legislation, or any other indication of the record Chairman McHenry (R-NC) has prioritized at what is surely to be a long, intense session. We will of course apprise clients at its conclusion of our key take-aways regarding SEC and Congressional actions to come.

Senate GOP Again Slam CFPB

Ranking Member Scott (R-SC) along with eight other Senate Banking Republicans sent a letter to CFPB Director Chopra last Thursday again taking serious issue with the CFPB's "junk fee" initiative (see FSM Report **CONSUMER38**), calling many targeted fees "legal" and "reasonable." The Bureau's regulatory approach is thus said to be "misguided" and "unfair." Director Chopra is also asked again to rescind last month's "unjustified" credit card late fee proposal (see FSM Report **CREDITCARD36**) on grounds that it hampers credit availability for LMI consumers, shifts costs from delinquent borrowers to timely payers, and disincentivizes prudent consumer and business financial behavior. No response is requested from the Director who is sure not to heed these calls.

FRB-Philadelphia Study: U.S. Banking Not Concentrated

A new paper from the Federal Reserve Bank of Philadelphia finds that data suggesting undue banking-sector concentration may be misleading. Echoing comments banks have made in response to requests for an updated bank-merger policy (see *Client Report* **MERGER5**), the paper concludes that, while deposits have become more concentrated, banks play a considerably smaller role in other key products such as mortgages and small-business loans. The paper attributes decreased competition in these sectors to the cost of post-2010 regulation and thus the greater role of nonbanks and, for small-business loans, small banks.

Fed Study: EU Banks Dress Up As Supervisors Approach

In a most timely study, the FRB has released a staff paper assessing how bank supervision alters short- and medium-term bank risk-taking. Using European data related to stress testing, the paper concludes that banks do indeed "dress up" ahead of stress testing and then gradually rebuild holdings of risky securities but continue to avoid riskier borrowers. Stress-tested banks also generally shrink their balance sheets compared to banks exempt from the test, with overall securities-related bank risk-taking generally returning to pre-test levels. Riskier borrowers that relied on stress-tested banks are generally unable to find new lenders, leading to reduced sales and/or employment for at least three years. It is unclear if the finding that higher-risk borrowers face adverse effects as a result of stress testing holds true in the U.S. given the far higher share of corporate finance now conducted by nonbanks; we would expect at least some mid-sized and larger firms to overcome adverse stress-test impact but retail borrowers and small companies could well feel a chill as evidenced in the reduced credit availability since CCAR took hold. U.S. banks may be less likely to reload portfolios with risky securities due to the continuous nature of stress testing versus the one-off experience exploited in this study for analytical purposes.

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.
- **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.

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- **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.

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