FedFin Daily Briefing

Monday, May 8, 2023

GOP Plans Bills to Open Supervisory, Emergency-Liquidity, Systemic Decisions

Although its witness list is preliminary, the majority staff memo on this week's HFSC Subcommittee hearing makes it clear that the committee is gearing up for legislative action focused on supervision, not regulation. The Financial Services Subcommittee session will consider the Federal Reserve report on SVB's failure (see *Client Report* **REFORM221**) and that from the FDIC on Signature (see *Client Report* **REFORM222**), deferring work on the FDIC's subsequent report on deposit-insurance reform (see *Client Report* **DEPOSITINSURANCE119**). Draft bills on which a legislative record will be established include measures likely from Chairman Barr (R-KY) to mandate reports from bank supervisory agencies including confidential data along with regular Congressional appearances. Other measures are also focused on transparency, looking for more from the FDIC on its receiverships, from the Fed on its use of emergency-liquidity powers, and from FSOC on its activities in concert with placing its budget under the appropriations process. Decisions by the banking agencies under systemic authority would also be subject to increased transparency that include giving Congress access to confidential information. Another measure joining these GOP bills would stipulate experience requirements for future FRB supervisory vice chairs, with all these measures facing resistance from the banking agencies fearful of confidential disclosures to Congress and the Administration, which is sure to oppose bringing FSOC into the budget process and thus "politicizing" it. As anticipated, none of these bills addresses the Administration's regulatory wish list or progressive-Democrat demands for S. 2155 repeal. That said, aspects of the transparency bills might advance given the state of Democratic dissatisfaction with bank supervision.

Fed Announces Secure Supervisory Communication Portal

In a supervisory letter, the FRB announced that it will use the One Agile Supervision Solution (OASiS) application securely to exchange information with supervised institutions, including examination-related documents. The new system has been in the works for quite some time but may have been accelerated to address questions about supervisory speed and intra-Fed communications following the Fed's review of SVB failings (see *Client Report* **REFORM221**). Institutions will also be able to respond directly to Fed requests through the portal. OASiS will be phased in over two to three years, beginning in 2Q 2023.

Scott Ramps Up GOP Anti-LLPA Campaign

Following a recent House GOP bill that would block changes to the GSEs' LLPAs, Senate Banking Ranking Member Scott (R-SC) sent a letter today to FHFA Director Thompson taking issue with the pricing frameworks. He does so on grounds that they reduce risk-based pricing by altering the relationship of credit risk to credit score and LTV. He also requests answers on matters such as how the average guarantee fee has changed under Director Thompson, if cross-subsidization has increased, and how the updated pricing framework furthers Enterprise safety and soundness. The Ranking Member also requests a meeting with and his staff on May 19, with responses requested by that date. Sen. Scott may well proceed to introducing LLPA legislation akin to that in the House, but it is most unlikely to advance in the Senate.

Fed Stands by Systemic Resilience Despite Credit Qualms

The FRB's semiannual financial-stability report today is decidedly more pessimistic than its November predecessor (see Client Report **SYSTEMIC94**). Most notably, the report departs from the Fed's longstanding view about banking-system resilience due to all the post-GFC rules now to say that deposit outflows may lead to depressed credit despite the "decisive" actions taken to stem systemic risk after SVB and SBNY's failures. The Fed nonetheless remains sanguine that banks will withstand additional stress due to ample liquidity and little duration risk, but structural vulnerabilities remain in short-term funding markets that could challenge life insurance companies, MMFs, and bond mutual funds. The Board notes growing stress in CRE markets despite robust valuations, indicating that it will review banks with large CRE concentrations. We will shortly provide clients with an in-depth report on these findings as well as on the Board's view on other stability issues such as hedge-fund leverage, the LIBOR transition, and private credit funds.

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.

- **SIFI35**: In concert with proposing a new systemic-risk methodology, the Financial Stability Oversight Council sought comment on guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs).
- **DEPOSITINSURANCE119**: In this report, we follow our initial assessment of the FDIC's deposit-insurance reform report with an in-depth analysis of its recommendations and their prospects.
- **REFORM223**: Following our analyses of the Fed's report on SVB (see Client Report REFORM221) and the FDIC's on SBNY (see Client Report REFORM222), we turn now to one from the General Accountability Office sure to have at least as much impact on bipartisan consideration of what needs next to be done to govern regional banks.
- **REFORM222**: In this report, we build on our assessment earlier today of the Fed's SVB autopsy (see Client Report REFORM221) with an assessment of the FDIC's self-review of Signature's failure.
- **REFORM221**: In this and subsequent reports, we build on our initial reactions to SVB/SBNY reports from the Fed, FDIC, and GAO, focusing in more depth on the agencies' plans for near-term action with strategic consequence and key points in the GAO's report that will strongly influence Hill reactions on both sides of the aisle.
- **GSE-042723:** FSOC's newly-proposed analytical methodology for systemic risk identification is most immediately important for nonbank mortgage companies and the regulated institutions that love them.
- **SYSTEMIC95:** Rejecting the Trump Administration's hands-off approach to designating systemically-important nonbank financial institutions or activities and practices, the Biden Administration's FSOC has bifurcated this construct with one proposal on designating entities and another that lays out an analytical approach to identifying systemic risk that would then guide firm and activity designation as well as Council staff coordination with primary federal regulators leading to new rules, product or service prohibitions/restrictions, or firm-specific supervisory action.
- **GSE-042023:** FHFA yesterday proposed a sweeping rule that would codify Sandra Thompson's

equitable- and fair-housing standards in a rule that any future FHFA director would have to work a lot harder to reverse.

- **CRYPTO42:** As we anticipated, the HFSC Digital Asset Subcommittee hearing today on federal stablecoin legislation did not entertain bipartisan expressions of support for the draft noticed with the hearing announcement.

- **CRYPTO41:** As anticipated, HFSC's hearing today with Chairman Gensler was a raucous affair which, while divided sharply on party lines when it comes to Mr. Gensler, also laid out general agreement on matters such as the need for stablecoin legislation (the topic of a high-profile hearing tomorrow).

- **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.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com