FedFin Daily Briefing

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California SVB Supervisor Says Fed Mostly To Blame

The state regulator for several failed and troubled banks, California's Department of Financial Protection and Innovation (DFPI), has now released its own SVB post-mortem, blaming the Fed far more than it blames itself. Starting with an analysis of the dual banking system, the report emphasizes that the FRB was not only the bank's primary federal regulator, but also that of the holding company, suggesting that the precipitating failure factor was the BHC's decision to sell HTM securities and illiquidity at the parent company over which DFPI had no authority. Further, the San Francisco Federal Reserve Bank had DFPI formally divide responsibility for the insured depository, with DFPI saying that the Reserve Bank took charge of "many supervisory activities." Even though both it and DFPI jointly took most supervisory actions. Here, DFPI is clearer than the Fed's report (see *Client Report* **REFORM221**) that many supervisory actions noted policy and process failures but failed to spot or mandate substantive and rapid remediation of actual risk. However, like the Fed, DFPI emphasizes SVB's rapid growth as a risk factor and the role of social media as a primary cause of SVB's fatal run. The California regulator, also like the Fed, plans to review its approach to fast-growing banks and calls for federal and state action to address technology-driven run risk.

Senate Progressives Push For Card Late-Fee Restrictions

Sens. Warren (D-MA), Brown (D-OH), and six other progressive Democrats today sent a letter to the CEOs of large credit-card issuers strongly protesting the industry's recent defense of credit-card late fees. As detailed in our analysis (see FSM Report **CREDITCARD36**), the CFPB has proposed structural changes in what it characterizes as "junk fees," an initiative the senators strongly endorse. The letter focuses not only on reasons to support the late-fee revisions, but also on how individual banks have worked with those representing the industry's interests, seeking answers by May 23.

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-050923**: As our in-depth report earlier today details, the Fed's latest financial-stability report pulls a lot of punches because, as always, it's afraid to frighten the children with frank discussion of what might actually threaten financial stability in the near term.

- **SYSTEMIC96**: Perhaps because its last financial-stability report (see *Client Report* **SYSTEMIC94**) was contradicted just five months later by a systemic-risk designation, the Federal Reserve's latest report eschews a conclusion about prospective risk in favor of a review of current concerns.

- **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.

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