



Monday, May 15, 2023

Yellen Highlights Investor – Not Uninsured-Deposit – Runs, Buoy Sector Mergers

In an interview over the [weekend](#), Treasury Secretary Yellen struck a decidedly different tone on bank mergers than voiced in the Administration's policy prior to recent failures. She indicated that bank regulators are likely "open" to more regional and mid-sized bank consolidation, taking no position on whether still larger banks should be allowed to make acquisitions in these sectors prior to FDIC intervention. Differing also from recent regulatory statements about uninsured deposits such as those highlighted in our forthcoming analysis of the FDIC's proposed special [assessment](#), the Secretary also said that uninsured investors are fleeing banks following investor qualms that drop market capitalization, an analysis presented last week in Karen Petrou's client [memo](#). Separately, NEC Director Brainard [said](#) over the weekend that recent bank failures are idiosyncratic.

Gensler Outlines Top Financial Stability Concerns

In [remarks](#) today, SEC Chair Gensler outlined his financial-stability priorities. In addition to listing ongoing efforts such as Treasury-market and MMF/OEF regulation, Mr. Gensler highlighted three emerging risks. Picking up on his longstanding concerns about predictive analytics, the SEC chair notes that AI raises financial-fragility risks via increasing herding and interconnectedness as well as exposing regulatory gaps. He also points to digital-economy risks independent of crypto-compliance concerns such as the ways in which fintech and social media could significantly change the deposit and banking landscape. Mr. Gensler also broadly notes that government rescue may encourage moral hazard, saying nothing more about what might be done about this or the other emerging risks he targets.

Failed-Bank CEOs Defend Themselves, Contest Need For Receivership

Ahead of testimony tomorrow before Senate Banking, the CEOs of SVB and Signature have filed statements defending their actions and those of their colleagues. We expect the hearing to be very feisty as Democrats seek to build a record for executive-compensation clawback legislation and defend the Fed and FDIC's accounts of these failures. Testimony filed ahead of the hearing makes it clear that none of these executives will go quietly. SVB's Greg Becker notes that his bank quickly followed up when supervisors raised concerns and took no risks beyond those of many other banks holding large books of low-rate assets. Mr. Becker also blames social-media runs for his bank's demise and counters complaints about his own share purchases, noting that these were part of prearranged programs. Signature's Scott Shay defended decisions such as expanding cryptoasset activities, describing his bank as well-capitalized, solvent even upon failure, and able to execute on a robust contingent-funding plan. He thus argues that the receivership was unnecessary, noting that the day his bank failed was "devastating" for him but providing no testimony on his compensation or related considerations. Another senior Signature officer, Eric Howell, who is now running the post-failure transition, reiterated Mr. Shay's points to defend the bank and contest its receivership. We will provide clients with an assessment of the hearing's policy and political impact as quickly as possible tomorrow morning.

FHFA Seeks Views On New Pricing Framework

Following last week's announcement that it would [postpone](#) its controversial decision to retain an upfront fee related to a borrower's debt-to-income level, the FHFA today [released](#) a Request for Input on the Enterprises' single-family pricing framework as well as the process for setting their upfront guarantee

fees. Input is sought on matters such as the appropriate long-term commercially reasonable return on capital threshold, whether FHFA should set only minimum return thresholds, if upfront guarantee fees should be eliminated, and the frequency with which FHFA should consider updating the upfront guarantee fee grids. In brief comments on the announcement, Director Thompson highlighted future loss protection, affordable housing, first-time homebuyers, and fostering secondary-market liquidity as key areas on which comment is sought. FedFin will soon provide clients with an in-depth report on the RFI, on which feedback is requested by August 14.

Barr Stands His Supervisory, Regulatory Ground

Vice Chairman Barr's testimony for Congressional hearings [this week](#) has just been released along with the Board's 2023 supervision-and-regulation [report](#). Mr. Barr's testimony reiterates findings and the regulatory recommendations of this earlier SVB report ([see Client Report REFORM221](#)), a report strongly contested on Friday by [Gov. Bowman](#) as just one governor's views. It is not known if the testimony reflects the Board of Governors' perspective, including that of Chairman Powell, or just Mr. Barr's perspective. The new report references First Republic's failure as well as SVB and Signature's, concluding that they all show the need to address concentrated funding sources and poor risk management. The Fed is also fearful of growing credit risk despite recent hikes in loan-loss reserves, with supervisors "redoubling" efforts to anticipate credit, liquidity, and interest-rate risk with particular regard to contingency funding and CRE exposures. The report also states that Fed supervisors in 2022 anticipated growing funding risks as well as an economic downturn.

Gruenberg Sticks To His Guns

FDIC Chairman Gruenberg's Congressional [testimony](#) largely recounts prior statements about the condition of the banking system, recent bank failures, the new special-assessment proposal ([see FSM Report DEPOSITINSURANCE120](#)), and the agency's deposit-insurance reform conclusion ([see Client Report DEPOSITINSURANCE119](#)). It provides a few details on bridge-bank asset dispositions, but generally only restates commitments to improved bank supervision. The testimony does, however, note the need to update bank merger policy in the wake of the early-2022 request for comment ([see FSM Report MERGER9](#)).

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](#).

- [DEPOSITINSURANCE120](#): As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has now proposed a special assessment to compensate the Deposit Insurance Fund (DIF) for the cost of backing the two banks' uninsured deposits.
- [CRYPTO43](#): Today's joint HFSC-House Ag hearing on assessing crypto's regulatory gaps saw bipartisan calls for Congressional action, but none on what that should be done.
- [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).