FedFin Daily Briefing

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Bipartisan Senate Consensus Demands Structural Change To Fed IG

At today's Senate Banking Subcommittee on Economic Policy hearing on Fed accountability, Chairwoman Warren (D-MA) was unsparing in her criticism of the Fed and its current IG, Mark Bialek. She elicited the fact that he is the Fed's highest-paid employee and, while he may be dismissed only by two-thirds of the Board, she argued that he is essentially captive and thus cannot be relied upon to investigate ethics challenges, bank failures, and internal operations. Sen. Warren plans quickly to advance legislation cosponsored by Sen. Rick Scott (R-FL) to require the Fed's IG to be Presidentially- appointed and Senate-confirmed and a new bill also cosponsored by Sen. Scott to exclude large-bank executives from Reserve Bank boards. Although the IG's report on prior Reserve Bank president trading remains incomplete, Mr. Bialek assured the Committee that it is being done thoroughly but said he could not disclose further details while the investigation is ongoing. He also promised a complete "deep dive" review by September into the Fed's supervision of SVB. Sen. Warren grilled Mr. Bialek on his office's investigation of Chair Powell and former FRB Governor Clarida's trading, saying that the investigation overlooked clear ethics violations; Mr. Bialek defended the report on grounds that it complied with Office of Government Ethics guidelines and noted that Chair Powell's violation stemmed from errors outside of his control rather than his direct intent. He also noted that perceived gaps in the IG's report were intentional due to ongoing investigations of Reserve Bank officials. Sen. Lummis (R-WY) asked if any nonpublic open issues contributed to Fed's SVB supervisory lapses; Mr. Bialek said he does not think so, noting that most of the nonpublic open investigations relate to non-supervisory problems such as IT and cybersecurity. Sen. Rick Scott grilled Mr. Bialek over his investigation track record and echoed Chairwoman Warren's claims that the structure of his office creates conflicts of interest.

HFSC GOP Demands LLPA Changes No Matter FHFA's RFI

As anticipated, Chairman Davidson (D-OH) reiterated GOP demands that the FHFA rescind the entirety of its LLPA proposal at today's HFSC Subcommittee on Housing and Insurance hearing, despite FHFA conceding to some Republican demands and issuing an RFI on the Enterprises' single-family pricing framework earlier this week. Mr. Davidson also pushed back on FHFA's assertion that LLPA pricing must be set with regard to private mortgage insurance, saying that MI does not reduce taxpayer risk or GSE capital even though it is required for risk reduction and captured in the GSE capital standards. Full Committee Ranking Member Waters (D-CA) asked what could be done regarding increasing ARM payments, citing constituent complaints that their loans have increased over a thousand dollars. The witness representing the Urban Institute stated that these ARM loans are likely not backed by the GSEs but noted that these cases illustrate the importance of well-regulated GSEs. Reps. Garcia (D-TX), Horsford (D-NV), and Williams (D-GA) argued that the new LLPAs would help close the racial wealth gap as it would boost minority homeownership. Rep. Garbarino (R-NY) asked about the merits of a pilot in which Fannie would waive title insurance requirements and act as the title insurer; the witness representing the Housing Policy Council strongly opposed this, stating that the GSEs should not displace private insurance.

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-051723:** With Republicans on the anti-LLPA warpath, FHFA is hoping to preserve as much of the current fee structure as possible without paying too high a political price, issuing a request for information (RFI) in hopes that letter-writing will keep everyone busy until Congress moves on to other matters.

- **REFORM225:** A joint hearing today of HFSC's Financial Institutions and Oversight Subcommittees expanded on themes at yesterday's full Committee session with bank regulators (see *Client Report* **REFORM224**) and Senate Banking's session with SVB's and SBNY's CEOs, with First Republic's CEO now added to the Congressional firing line.

- **REFORM224:** In their first appearance following the reports on recent failures, FRB Vice Chairman Barr and FDIC Chairman Gruenberg were harshly criticized by Republicans for both the bank failures and recommended remedies.

- **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.

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