



FedFin Weekly Alert

Monday, June 5, 2023

❑ CLOSE CALL

With the prospect of fiscal chaos narrowly averted, the U.S. government will go back to what passes as business as usual in this most partisan and acrimonious era. Later this week, HFSC will look into all the chaos that preceded debt-ceiling approval, looking [as we've noted](#) at several bills designed to plan ahead for default to which we expect Treasury will vigorously object. We had been told that Secretary Yellen would testify before the full House committee on June 7, but perhaps she's too tired or Chairman McHenry (R-NC) – who was up many nights in the last week or so – needs a break. Secretary Yellen may also need to stay in the office because, even with a ceiling hike, financial markets aren't out of the woods. As Karen Petrou's speech on [Monday](#) will note, significant disruptions may occur as Treasury speeds to refill its cash coffers, altering Treasury rates with challenging implications for market liquidity, reserve adequacy, and operational resilience. Regional banks need no more excitement and we'll of course be watching out for any emerging risks as the week advances.

Headlines From the Past Week's Daily Briefings

[May 30](#)

- **Fed Study Validates Bank/Shadow-Bank Interconnections, Systemic Risk** - A new [study](#) by staff from the Federal Reserve Banks of Boston and New York evaluates the banking-sector impact of fire sales across multiple NBF1 segments, finding numerous bank vulnerabilities to nonbanks not only through direct exposures, but also through complex, indirect channels.
- **McHenry Protests U.S. Outbound-Investment Constraints** - HFSC Chairman McHenry (R-NC) sent a [letter](#) to Secretary Yellen demanding information about a potential executive order that would enable CFIUS to prohibit or require notification of outbound investments into China, stating that the Administration's interest in capital controls necessitates Congressional oversight.
- **IMF Article Calls SVB Resolution "Riskless Capitalism"** - An [article](#) in the IMF's forthcoming Finance and Development magazine issue argues that SVB's uninsured depositors enjoyed "riskless capitalism," concluding that high moral hazard-risks will persist without incentives for depositor due diligence.

- **FTC Demands Greater Debit-Card Data Access** - The FTC finalized a [consent order](#) requiring Mastercard to provide competing card networks with the customer account information necessary to process debit payments, alleging that the company illegally withheld that information to prevent merchants from using its competitors or Mastercard-branded debit cards saved in e-wallets outside of traditional networks.

May 31

- **IMF: Housing Risk Not At GFC Level, Still Worrisome** - While falling home prices are unlikely to trigger another financial crisis, an IMF blog [post](#) finds that a drop could still harm the global economic outlook.
- **FDIC Tries Guarded Optimism** - The FDIC's first-quarter report on the condition of the U.S. [banking industry](#) was guardedly optimistic, but that in part appears to be due to the way in which the agency foresees its problems. Problem banks are up by 4 to 43 with \$58 billion in assets among them.
- **End-Game Starts Soon** - FRB Governor and Vice-Chair nominee Jefferson [expanded](#) on the Fed's financial-stability objectives, resolutely disavowing any of the credit-allocation ambitions Republicans sometimes ascribe to its work on climate risk.
- **CFPB Small-Business Disclosures Go Live** - The *Federal Register* [includes](#) the CFPB's controversial final rule on small business data collection [which](#) the Bureau says will increase transparency in small business lending, promote economic development, and combat unlawful discrimination.
- **FHA Expands Pandemic Mortgage Relief As Rates Rise** - FHA [requested](#) comment on a new loss mitigation proposal called the Payment Supplement Partial Claim allowing servicers to use FHA funds to bring a borrower's mortgage current and temporarily reduce principal payments.

June 1

- **BIS Head Presses for New-Age, Tough Bank Supervision** - BIS General Manager Carstens [absolved](#) central banks in general and the Fed by clear inference from fault in recent bank failures by way of recent interest-rate hikes.
- **Exec-Comp Clawback Bill Takes Shape** - With additional GOP support now also on the Banking Committee, Sen. Warren (D-MA) [introduced](#) a revised version of the earlier, also-bipartisan bill on executive-compensation clawbacks following bank failures ([see FSM Report COMPENSATION35](#)).
- **CFPB Sounds P2P Alarm** - Building on its 2022 deposit-insurance representations circular ([see FSM Report DEPOSITINSURANCE113](#)), the CFPB released an issue [spotlight](#) warning consumers that funds are at risk with payment apps such as Venmo.

June 2

- **HFSC Looks To Next Debt-Ceiling Fight** - Following the near-death experience of a Treasury default, the HFSC Financial Institutions Subcommittee will hold a hearing on U.S. fiscal management.
- **GOP Crypto-Jurisdiction Bill Slams SEC** - Ahead of a hearing next week, House Financial Services and Agriculture Republicans [released](#) a draft bill allocating digital-asset jurisdiction largely to the CFTC.

This Week

Tuesday, June 6

House Agriculture Hearing entitled: “The Future of Digital Assets: Providing Clarity for Digital Asset Spot Markets.” [10:00 am, 1300 Longworth]. Witnesses: TBD.

HFSC Subcommittee on Financial Institutions and Monetary Policy Hearing entitled: “Uncertain Debt Management: Treasury Markets and Financial Institutions.” [10:00 am, 2128 RHOB]. Witnesses: Witnesses: **Mr. Grant Driessen**, Specialist in Public Finance, Congressional Research Service; and **Mr. Jeff Arkin**, Director, Strategic Issues Team, Government Accountability Office.

Wednesday, June 7

HFSC Subcommittee on National Security, Illicit Finance, and International Financial Institutions Hearing entitled: “Dollar Dominance: Preserving the U.S. Dollar’s Status as the Global Reserve Currency.” [10:00 am, 2128 RHOB]. Witnesses: TBD.

House Energy and Commerce Subcommittee on Innovation, Data, and Commerce Hearing entitled: “Building Blockchains: Exploring Web3 and Other Applications for Distributed Ledger Technologies.” [10:00 am, 2123 RHOB]. Witnesses: TBD.

Thursday, June 8

Senate Commerce, Science, and Transportation Subcommittee on Consumer Protection, Product Safety, and Data Security Hearings to examine protecting consumers from junk fees. [10:00 am, 253 Russell Senate Office Building]. Witnesses: TBD.

Future Events of Note

Tuesday, June 13

HFSC Committee Markup. [TBD]. Matters to be discussed: TBD.

Senate Banking Hearing entitled: “The Consumer Financial Protection Bureau’s Semi-Annual Report to Congress.” [TBD] Witness: **The Honorable Rohit Chopra**, Director, Consumer Financial Protection Bureau.

POSTPONED

HFSC Democrats Roundtable on Deposit Insurance Reform. [2:00 pm, 2220 RHOB]. Witnesses: Jenna Burke, EVP and General Counsel, Government Relations & Public Policy, Independent Community Bankers of America (ICBA); Naomi Camper, Chief Policy Officer, American Bankers Association (ABA); Robert James II, Chairman, National Bankers Association (NBA); President, Carver Development CDE; and Director of Strategic Initiatives, Carver State Bank; and Lev Menand, Associate Professor of Law, Columbia Law School; former Treasury Department senior advisor; and former FRBNY economist.

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-060223](#)**: As we detailed earlier this [week](#), the OCC’s new enforcement [policy](#) is a paradigm shift in terms of the legal and reputational risk run by national banks and federal thrifts – that is, by the depository institutions that matter the most to mortgage finance.
- **[CHINA17](#)**: While largely focused on countering fentanyl, today’s Senate Banking hearing on China, saw Committee Democrats try to ascertain the details of a potential outbound investment [executive order](#) and Republicans addressing what they believe to be shortcomings in data privacy, AML regulation, and sanctions policy.
- **[SUPERVISION2](#)**: Following a speech earlier this year by the Acting Comptroller arguing that some banks are “too big to manage” and the furor caused by recent failures, the OCC has significantly revised its enforcement policy.
- **[GSE-052323](#)**: Today’s HFSC hearing with Sandra Thompson was the anti-LLPA event we [anticipated](#) when it came to Republicans that also saw the stout defense Democrats were sure to provide combined with FHFA’s resolute stand on doing nothing to change the LLPAs or guarantee-fees beyond what might come of the pending [RFI](#).
- **[REFORM226](#)**: Describing the CEOs’ statements at his last hearing as “the dog-ate-my-homework” excuses for grievous failings, Senate Banking Committee Chairman Brown (D-OH) also attacked Republicans for placing blame on monetary policy, not the culture of supervisory laxity he details with various quotes from Trump Administration officials.
- **[CRYPTO44](#)**: Although there were still considerable party-line differences of opinion on stablecoin legislation, today’s HFSC Digital-Assets Subcommittee hearing suggests that remaining divides are narrowing, increasing the odds of a new federal-regulatory framework.
- **[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.