



Wednesday, June 14, 2023

## OCC Lays Out Revised Risk Warnings, Admonitions

The OCC today released its [semiannual risk assessment](#), with much of its context based on data as of September 2022 and thus of limited value forecasting near-term threats. The OCC is careful to advise that the banking systems and institutions with federal charters have been the focus of special OCC attention since the mid-March failures. The report also includes a special section on emerging risks to bring some of it up to date. It expands over-arching regulatory concerns about liquidity resilience to a discussion of increasingly scarce liquidity that is also cost-effective with the potential for materially-adverse capital and earnings effects in addition to potential market volatility and overall risk. Consistent with prior statements, the report also focuses on CRE risk, noting this is particularly problematic with regard to repricing and refinancing; banks are urged to scale up troubled-loan capabilities if these may prove inadequate to higher stress. Retail credit is generally robust, but banks are told to stress test vulnerable sectors, vintages, or locations and renew attention to loan-loss reserve resilience. Reflecting CFPB [concerns](#), nationally-chartered institutions are also told to consider mortgage modifications in light not only of the odds of long-term repayment, but also implications for the borrower through use of tools such as reduced interest rates in workout waterfalls. However, banks are also told not to use forbearance, extensions or rate reductions to mask delinquencies.

## McHenry Heightens GOP Opposition to FSOC Systemic Standards

Perhaps because he was unable yesterday to quiz Secretary Yellen ([see Client Report REFORM227](#)), HFSC Chairman McHenry (R-NC) today sent Ms. Yellen a [letter](#) taking sharp issue with proposed FSOC nonbank-SIFI designation standards ([see FSM Report SIFI35](#)). Arguing that FSOC's longstanding precedent is not to designate nonbanks although this was done after Dodd-Frank (before Trump-era de-designations), Mr. McHenry states that the new approach focuses only on size and thus ignores the extent to which activities pose risk. He does not mention FSOC's accompanying proposal to create a new systemic-risk methodology ([see FSM Report SYSTEMIC95](#)) that would do so. Following a line of questioning at today's CFPB hearing (see forthcoming report), Mr. McHenry also urges that cost-benefit analyses be reinstated as a designation criterion, arguing forcefully that Fed regulation is wholly inappropriate for nonbank financial institutions. No deadline is set for a response.

## Powell Says No to ONRRP Redesign

At his press conference today, Chairman Powell denied that the ONRRP has any adverse impact on deposit inflows but said it and reserve levels will gradually drop as Treasury rebuilds its cash reserves. Further, the Fed is not open now to reducing RRP rates. When asked about nonbank systemic risk, Mr. Powell said the Fed is keeping an eye on it, but it is responsible only for banks, a surprising comment in light of the often expressed mandate the Board believes it has for financial stability. CRE risk is also under surveillance but likely not systemic since it is principally held by smaller banks.

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### 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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **CONSUMER51**: With Rep. Andy Barr (R-KY) leading the attack with an accusation of CFPB “McCarthyism,” today’s HFSC hearing with Director Chopra tracked much in yesterday’s Senate Banking [session](#).
- **REFORM227**: Treasury Secretary Yellen was pressed at today’s HFSC hearing to comment on pending bank capital standards, the scope of FDIC coverage, and failed-bank resolutions.
- **CONSUMER50**: Reflecting Acting Comptroller Hsu’s focus on consumer protection, fairness, and inclusion, the OCC is seeking views on what could become an annual survey of what consumers and especially bank customers think of their bank.
- **VENDOR10**: After frequently citing third-party relationships and outsourcing as worrisome risk, the banking agencies have now finalized guidance first proposed in 2021 to govern them.
- **GSE-060823**: As we will detail in a forthcoming in-depth report, the banking agencies’ new “guidance” on third-party vendors essentially brings all nonbank counterparties with whom banking organizations deal under the agencies’ enforcement thumb.
- **COMPENSATION36**: Sen. Warren (D-MA) has introduced a revised version of legislation to ensure that both the FDIC and other federal banking agencies can demand that executives and others governing failed banks refund direct and indirect compensation to the federal government.
- **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.

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