FedFin Daily Briefing

Wednesday, October 4, 2023

Bowman Unbending in Demands for Better Reg Analytics, Community-Bank Mergers

In what might have been only perfunctory introductory remarks, FRB Gov. Bowman today instead continued her all-out campaign to force far more independent research before the Fed finalizes pending rules. She also reiterated that her focus on research does not mean that she is opposed to all the pending rules, but rather that she fears unintended consequences without far better understanding of the root causes of recent failures and the impact of pending proposals. Focusing now also on community banks, Gov. Bowman pointed to the importance of relationship banking as evidenced by research to reinforce the need for smaller banking institutions, noting that credit unions seeking to replace community banks do not have small-business business models. Community-bank consolidation is, she said, better than M&A policy that leads to a sharp reduction in the number of community-focused, regulated banks. Reiterating prior M&A comments, Ms. Bowman pressed for clear FRB M&A policy that takes nonbank and credit-union competition into account, more rapid application approval in the absence of novel activities, and better understanding of rural markets. No timing for the long-awaited new Fed policy is provided.

Brown Asks for No Wells Fargo Mercy

Senate Banking Chairman Brown (D-OH) today sent a letter to FRB Vice Chair Barr and OCC Acting Comptroller Hsu taking serious issue with what he calls unfair labor relations practices, consumer abuses, and compliance failures at Wells Fargo, urging the regulators to take stronger action to change the bank's culture. The chairman here is likely pushing back suggestions that the agencies might soon ease Wells Fargo's growth constraints, using labor disputes as evidence of continuing risk-management and governance weakness. No response is requested nor are hearings threatened.

McKernan Counters Gruenberg on Endgame's Nonbank Effects

Fleshing out official comments made in dissent against pending rules, FDIC Board member Jonathan McKernan today countered Chair Gruenberg's recent comments that any migration of bank activities to nonbanks due to the capital rules should not be considered in the regulatory process. Mr. McKernan stated that the agencies do not even know how migration might proceed because the capital proposal's rationale is still unclear. Further, Basel has given little to no rationale for its operational risk standards nor the calibration of the profit loss attribution test, leaving US regulators to take "a big leap of faith." He also asserts that the "dual stack" credit risk weighting approach is unduly complex. Regarding the LTD proposal (see FSM Report **TLAC9**), Mr. McKernan noted that, while he broadly supports it, requiring regionals to issue debt at both the parent and IDI level may make it difficult for regionals to develop resolution plans that preserve the franchise value of their nonbank businesses and could result in shielding GSIBs.

Gruenberg Reiterates His Top Risk Worries

As with Gov. Bowman earlier today, FDIC Chair Gruenberg used his remarks later in the day to emphasize continuing concerns: in this case, uninsured deposits, maturity mismatches, and rapid growth. Mr. Gruenberg does not, however, focus on how best to address these beyond reiterating conclusions in the agency's recent recommendations for deposit insurance reform via targeted coverage increases for certain business accounts (see *Client Report* **DEPOSITINSURANCE119**). Mr. Gruenberg also reiterates the FDIC's summary of second-quarter industry results, noting that significant challenges remain even for the community banks that Mr. Gruenberg thinks are likely to prove more resilient than larger institutions.

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-100223:** As we noted earlier today, the FRB has issued a seemingly technical FAQ liberalizing the treatment of certain credit-linked notes.

- **GSE-092523:** In her Congressional testimony last week, FedFin managing partner Karen Petrou focused on the unintended consequences wrought by new banking proposal based on their cumulative impact.

- **GSE-092023:** Or maybe it is, but not everyone has heard.

- **LIVINGWILL23:** Although a pending FDIC/FRB proposal imposes a raft of new requirements for resolution plans from IDIs with over $100 billion in assets, the FDIC has also issued a freestanding proposal doing the same, also setting information-filing standards for IDIs below $100 billion but above $50 billion.

- **CAPITAL235:** With HFSC Chairman McHenry (R-NC) leading the way, GOP Members of the panel's Financial Institutions Subcommittee today blasted the banking agencies' end-game proposal (see *Client Report* **CAPITAL234**).

- **LIVINGWILL22:** In conjunction with proposing a new long-term debt (LTD) requirement for categories II, III, and IV banks, the Fed and FDIC are pursuing other ways to enhance resolvability.

- **TLAC9:** Building on an advance notice of proposed rulemaking, the banking agencies have issued several proposals to enhance the resolvability of large banking organizations not covered by stringent GSIB standards.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com