



Monday, November 6, 2023

FRB-NY Finds Bank Vulnerabilities Worrisome, But Manageable

Federal Reserve Bank of New York staff [today](#) released their latest assessment of the U.S. banking system's vulnerability, updating its methodology now to include unrealized losses – clearly a lesson the FRB-NY analysts learned the hard way earlier this year. Although some measures of systemic risk hovers around 2008 levels, the FRB-NY capital-stress model remains at historically low levels compared to 2008 stress. However, incorporating unrealized losses “the 2023 scenario” finds banks at “somewhat elevated” levels compared to historical norms. Notably, the 2023 scenario assumes funding stability even though this did not happen in 2023's actual failures, with the analysts noting that bank capital vulnerability might thus be more than estimated in the 2023 model. A separate fire-sale scenario captures unrealized losses and funding risk, with risk here found to be still elevated compared to the last ten years. “Connectedness” risk is higher due to greater system leverage, liquidity shortfall risk is higher due to reliance on less liquid and stable funding sources, and run risk is also found to increase due to the combination of volatile funding sources and large unrealized-loss exposures.

Cook Points to Emerging Systemic Worries

FRB Gov. Lisa Cook today [said](#) that the U.S. financial system is considerably more robust than it was in the mid-2000s, basing her analysis on the Fed's most recent financial-stability assessment ([see FSM Report SYSTEMIC95](#)). Much in her talk echoes the Fed's report, with Gov. Cook noting she is particularly focused on NBF1 leverage and, going beyond the Fed's current thinking, also the systemic risk AI may pose. No specifics are provided on an issue sure to feature in the FSOC's forthcoming annual report due in part to Gary Gensler's deep [concerns in this arena](#).

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](#).

- [CLIMATE17](#): The banking agencies have joined together to issue inter-agency climate-risk guidance based on proposed standards from the FDIC, OCC and FRB.
- [INTERCHANGE12](#): As suggested when the Fed last year finalized controversial new debit-card routing requirements, the central bank is now proposing a sharp reduction in the cap mandated on debit-card interchange fees under the Dodd-Frank Act's Durbin Amendment for debit-card issuers with over \$10 billion in assets.
- [AI3](#): In this report, we assess the detailed [executive order](#) (EO) issued late Monday afternoon after days of private showings of selected versions.
- [DATA4](#): Following a request for information that was a de facto advance notice of proposed rulemaking, the CFPB has now proposed a preliminary, but binding framework for consumer data rights covering consumer “transaction” accounts offered by banks, credit unions, and – a departure from the initial outline – nonbanks/fintechs.

- **[GSE-102323](#)**: As noted in our report [earlier today](#), the Federal Reserve's latest financial-stability [report](#) expresses deep misgivings about complex securitizations.
- **[SYSTEMIC97](#)**: As [promised](#), this in-depth report assesses Friday's semiannual financial-stability report from the Federal Reserve.
- **[DEPOSITINSURANCE122](#)**: Bipartisan senators have introduced legislation to provide FDIC coverage for certain noninterest-bearing transaction accounts, a move designed to prevent the stress and potential systemic risk evident when Silicon Valley and Signature Banks failed in March.
- **[GSE-101723](#)**: [As we noted](#) earlier this month, the Federal Reserve inserted a significant capital provision for credit-linked notes in an otherwise-obscure FAQ.
- **[GSE-101623](#)**: The White House today rolled out a [new housing plan](#) that smacks mightily of many old housing plans.
- **[GSE-101323a](#)**: With smaller lenders [today](#) joining MBA, NAR, and HomeBuilders' [campaign](#) to squeeze the 30-10 spread, we take a look at the odds the White House, Fed, or Treasury will do as hoped.
- **[GSE-101323](#)**: As we noted yesterday, OMB's Office of Information and Regulatory Affairs (OIRA) has pronounced a new pro-competition standard for all existing and prospective federal regulations.
- **[CONSUMER52](#)**: Using its advisory process to issue guidance that may lead to enforcement actions, the Bureau has for the first time set standards for the obligations of large banks and credit unions to respond to certain consumer inquiries.