FedFin Daily Briefing

Friday, November 17, 2023

FDIC Special Assessment to Cost Still More

After abruptly cancelling its open meeting, the FDIC late yesterday released its final special-assessment rule. Approved on a 3-2 vote, the final rule would require an additional assessment to recoup the costs of the systemic designation of SVB and SBNY when they failed last March. The final rule continues to exempt institutions with less than $5 billion in assets as well as eliminate the assessment for the first $5 billion of uninsured deposits, a provision intended to exempt community banks that could also benefit far larger specialized IDIs. The final special assessment will last longer than the proposal (see FSM **DEPOSITINSURANCE120**) because the FDIC's resolution costs related to uninsured deposits proved higher than estimated. The base against which the special assessment is charged is also less than estimated because many banks have reduced uninsured-deposit reliance. The new assessment rate is 3.36 basis points (an annual 1.34 bps extra charge) to be collected over eight quarters beginning in the first quarter of 2024, with the FDIC retaining the right to halt or extend the assessment as needed. An in-depth FedFin analysis will follow shortly.

GOP Tries to Force Gruenberg Out

Following HFSC Chairman McHenry's (R-NC) decision yesterday to begin a formal investigation of FDIC Chair Gruenberg are not only a raft of Senate Republicans putting pressure on the increasingly-beleaguered long-time FDIC official, but also top Democrats. Senate Banking Chairman Brown (D-OH) echoed HFSC Ranking Member Waters' sharp criticism of the agency Wednesday, also calling on the FDIC's IG to investigate the agency's workplace culture. Separately, a White House official urged the Senate to confirm the Administration's FDIC IG nomination. That said, neither Sen. Brown nor the White House will permit criticism to extend to the point at which Mr. Gruenberg is forced out unless scandal rises to the point at which they would need to concede. Senate Banking Ranking Member Scott (R-SC) called for an independent review and promised rigorous oversight, also pressuring Mr. Gruenberg to consider resignation. In addition, Sen. Kennedy (R-LA) pressured the Chair to resign and sharply criticized him for what Sen. Kennedy called misleading testimony regarding a 2008 investigation for inappropriate behavior at HFSC on Wednesday (see *Client Report* **REFORM230**). Sen. Tillis (R-NC) in a tweet yesterday also strongly called on Chairman Gruenberg to resign.

Senate Dems, HFSC Intensify FDIC Scrutiny

Building on earlier comments, bipartisan scrutiny of the FDIC and Chairman Gruenberg grew this afternoon with two new letters from Democratic and Republican leaders in both chambers of Congress. Senate Banking Chairman Brown (D-OH) led a letter with all of his Committee's Democrats to Acting FDIC IG Tyler Smith calling for an investigation into the FDIC's workplace culture. The letter also requests an inquiry into the investigation of Chair Gruenberg in 2008 for what may have been inappropriate behavior. Separately, HFSC Chairman McHenry (R-NC) was joined by Reps. Huizenga (R-MI) and Barr (R-KY) in a letter to FDIC Chairman Gruenberg making clear that their investigation will use its "full arsenal of oversight and investigative tools" as well as "compulsory mechanisms" to investigate Mr. Gruenberg. The letter also raises concerns that the agency's supervisory lapses at SBNY resulted from employee retention issues stemming from its "toxic" workplace culture. No response is requested in either letter.

Chopra Wants DIF Redesign

Although the most contentious issue on the agenda for yesterday's cancelled FDIC meeting was the special assessment, the board was also to consider the Deposit Insurance Fund's status and progress on its designated reserve ratio (DRR). To ensure his views are heard, CFPB Director Chopra today issued his prepared statement on these matters. In it, he castigates banks for opposing the 2022 premium hike to restore the DRR (see FSM Report **DEPOSITINSURANCE116**), notes that progress towards the minimum ratio requires careful scrutiny, and states that the FDIC's target two percent premium may be too low. Mr. Chopra also observes that the special assessment and other DRR refills are procyclical, suggesting that the assessment system be redesigned not only to build reserves during benign periods, but also to require large banks to pay their "fair share." The FDIC is planning to revise its assessment schedule but has yet even to propose what would surely be a controversial realignment; a proposal is not likely in the near term unless current investigations end far more quickly than now seems likely.

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-111623**: As our reports on the Senate and House hearings with bank regulators made clear, our prediction that the agencies would compromise on mortgage risk-based capital requirements will prove itself in the final standards.

- **REFORM230**: Following yesterday's Senate Banking hearing (see *Client Report* **REFORM229**), today's HFSC session with top bank regulators again highlighted growing bipartisan consternation over the unintended consequences of the agencies' capital proposal (see FSM Report **CAPITAL230**).

- **PAYMENT27**: Building on its director's longstanding focus on fintech and tech-platform companies, the CFPB has proposed to extend its supervisory reach to nonbank providers of general-use digital payments services.

- **REFORM229**: Today's Senate Banking hearing with top bank regulators showcased broad bipartisan concern over the interagency capital proposal (see FSM Report **CAPITAL230**).

- **SIFI37**: In concert with finalizing a new systemic-risk methodology, the Financial Stability Oversight Council issued guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs), largely retaining its initial proposal.

- **SYSTEMIC98**: 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 finalized its bifurcated proposals to designate systemic entities and another laying 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.

- **GSE-110823**: Although FHFA calls its FHLB report a centenary event ahead of the System's 2032 birthday, the agency clearly plans structural substantive reform well before that milestone.

- **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.

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