



FedFin Weekly Alert

Monday, February 5, 2024

❑ SYSTEMIC SHOW-DOWN

As seems always the case, the Treasury Secretary's appearance before Congress this week reporting on FSOC's work will feature a lot more partisan wrangling than policy insight. We will nonetheless glean what we can, with snippets possibly of greater import than usual because Democrats are pushing FSOC harder than ever to be more than the "book-report club" described by CFPB Director Chopra ([see Client Report CONSUMER54](#)). We expect:

- Republicans will strongly protest FSOC's new systemic methodology ([see FSM Report SYSTEMIC95](#)) and designation protocol ([see FSM Report SIFI36](#)). A recent HFSC subcommittee [hearing](#) led to sharp GOP criticism of the designation methodology on grounds it lacks cost-benefit analyses and other protections from arbitrary action, with Republicans also demanding action on a [bill](#) to bring FSOC into the appropriations process and otherwise subject it to greater Congressional oversight.
- Democrats will demand more sooner and substantively from FSOC on AI's financial-system risk. Indeed, Sens. Warner (D-VA) and Kennedy (R-LA) have introduced legislation to force FSOC's hand ([see FSM Report AI4](#)). While the bill may not pass, it speaks to considerable frustration in both the House and Senate on FSOC's talk, not action, record, especially when it comes to AI. Secretary Yellen is likely to promise a forthcoming Treasury report; whether that suffices is to be seen.
- There will be much talk of the capital proposal, with Republicans blasting it as most recently seen at an HFSC [hearing](#) last week. Democrats such as Sen. Warren (D-MA) will demand still tougher rules, but we expect several in both the House and Senate to use the hearings to lay out concerns also evident at recent hearings and in numerous substantively-concerned comments from key [Democrats](#). We expect Secretary Yellen to support tough standards in general and defer to the regulators with regard to specifics.
- Democrats on both sides of the Capitol will quiz Ms. Yellen on FSOC's climate-risk agenda, another issue more in the book-report stage than one accompanied by specific requests to federal regulators. Republicans will press her hard on recent banking-agency principles ([see FSM Report CLIMATE17](#)), arguing that these unduly allocate capital; many Democrats will demand more intervention without necessarily making clear what they mean by that.

- We expect considerable questioning on the state of regional banks following NYCB's troubling earnings, with Ms. Yellen doing her best to say that the banking system is resilient and liquid without dousing the need for new capital and liquidity regulation. Republicans may take this opportunity to renew their call for a more generous approach to regional-bank consolidation, now taking strong issue with the OCC's proposed merger policy (see forthcoming in-depth report).
- Both sides of the aisle in both Houses of Congress are likely to raise concerns about bank exposure to Chinese market risk, possibly pressing again for the Fed stress-testing reforms recently [recommended](#) by the House Select CCP Committee. In addition to finding that U.S. investment in China poses systemic financial stability risks, the Committee's bipartisan report urged Congress to direct FSOC to regularly report on the aggregate quantities of all American-held Chinese-associated assets and to prohibit investment in Chinese companies cited on U.S. sanctions and red-flag lists.

Headlines From the Past Week's Daily Briefings

[January 29](#)

- **White House Advances AI Governance, Government Adoption** - Following the President's AI executive order ([see Client Report AI3](#)), the White House released an [update](#) following a steering-group meeting.
- **BIS Study Examines Stablecoin Run-Risk** - A new BIS [study](#) supports pending U.S. legislation and possible rules related to stablecoin reserve assets and run-risk, finding that transparency increases stablecoin stability when reserve assets are of high quality, but decreases stability when reserves are perceived to be low quality or when there are low transaction costs to convert to fiat.
- **Hsu Sets Course to New OCC Merger Policy with No Fed Companion in Sight** - In remarks emphasizing the need for a more transparent bank-merger process, Acting Comptroller Hsu [announced](#) that the OCC will release an NPR eliminating the possibility that merger applications will be approved solely by the passage of time.
- **Warren Starts the New Year with Political Pressure on Fed Policy** - [Reiterating](#) concerns about high interest rates, Sen. Warren (D-MA) along with Sens. Hickenlooper (D-CO), Rosen (D-NV) and Whitehouse (D-RI) [sent](#) a letter to Chair Powell calling on him to reverse rate hikes, citing its impact on the current affordable housing crisis.

[January 30](#)

- **FinCEN Estimates High Bank-BOI Reporting Costs** - FinCEN via the *Federal Register* [requested comment](#) on the estimated total annual reporting and recordkeeping burden for new Access Rule beneficial ownership information (BOI) reporting requirements ([see FSM Report AML135](#)).

- **Brown Puts More Pressure on Powell** - Following Sen. Warren's rate-cut demands and affordable housing [concerns](#), Senate Banking Committee Chairman Brown (D-OH) sent a [letter](#) to FRB Chair Powell also calling for less restrictive monetary policy on grounds that elevated rates negatively impact home affordability, limit the housing supply, restrict small business growth, and dampen wages.
- **HFSC Targets China Sanctions, Outbound Investments** – The HFSC National Security Subcommittee [Hearing](#) focused on China sanctions and restrictions on outbound investments.
- **GOP Demands Retraction of CFPB Tech-Payment Proposal** - Reiterating their opposition to the Bureau's pending digital-payment rule ([see FSM Report PAYMENT27](#)), HFSC Chairman McHenry (R-NC) alongside Digital Assets Subcommittee Chairman Hill (R-AR) and Rep. Flood (R-NE) sent a [letter](#) urging the CFPB to reopen and extend the comment period and reconsider finalizing the rule as proposed.

January 31

- **Senate Banking Turns to AI's Impact on Housing Finance** - The lightly-attended Senate Banking Subcommittee hearing on AI and Housing focused principally on AI governance issues including accountability, model explainability, transparency, and bias.
- **Democrats Remain Dubious About the Capital Proposal** – The Financial Institutions Subcommittee [hearing](#) on the capital rules made it still more clear that more than a few Democrats share at least some GOP concerns.

February 1

- **CRA Rules Finally Go Live** - The *Federal Register* contains the OCC, FDIC, and FRB's CRA [final rule](#) over three months after it was [approved](#).
- **Congress Takes on SEC Crypto-Custody Accounting** - As [anticipated](#), Sen. Lummis (R-WY) has [introduced](#) a resolution to overturn the SEC's staff accounting bulletin (SAB) 121 via the Congressional Review Act ([see FSM Report CUSTODY5](#)).

February 2

- **Powell, Hsu Add to Pressure on SEC Crypto-Custody Standards** - As we [noted](#), Congressional Republicans are now mounting a Congressional Review Act effort to repeal the SEC's staff accounting bulletin ([see FSM Report CUSTODY5](#)) requiring balance-sheet recognition of crypto-custody deposits at considerable cost to banking institutions.
- **Trump to Dump Powell** - As we [expected](#), Donald Trump [said](#) that, if elected, he will not reappoint Jerome Powell.

- **GOP Bill Challenges Capital Proposal** - Echoing long-held [concerns](#) of other HFSC Republicans, Rep. Ogles (R-TN) along with Rep. Donalds (R-FL) have [introduced](#) legislation (H.R. 7143) forcing regulators to withdraw the capital proposal ([see FSM Report CAPITAL230](#)).
- **Senate Presses for Anti-Hungary Sanctions** - In a statement that may lead financial institutions to review their exposures, Senate Foreign Relations Chair Cardin (D-MD) [called](#) on the Biden Administration to consider sanctions against Hungary due to its government's refusal to support EU efforts for Ukraine and its broadly anti-democratic program in general and with specific regard to pressuring the U.S. and its ambassador to Hungary.
- **HFSC Republicans Take Another Shot at FDIC** - Continuing their campaign against FDIC Chair Gruenberg, HFSC Chair McHenry (R-NC) along with Subcommittee Chairs Barr (R-KY) and Hill (R-AR) sent a [letter](#) to the FDIC questioning its decision to overhaul its innovation office's mission from fostering innovation in the financial sector in favor of internal technology improvement.

This Week

Tuesday, February 6

HFSC Hearing entitled: "The Annual Report of the Financial Stability Oversight Council." [10:00 am, 2128 RHOB]. Witnesses: **The Honorable Janet L. Yellen**, Secretary, Department of the Treasury.

Thursday, February 8

Senate Banking Hearing entitled: "The Financial Stability Oversight Council Annual Report to Congress." [9:00 am, Dirksen Senate Office Building 538]. **The Honorable Janet L. Yellen**, Secretary, Department of the Treasury.

Future Events of Note

No meetings of note.

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](#).

- [PAYMENT28](#): Today's Senate Banking Committee hearing on scams and fraud in the banking

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system focused on the rise of P2P payment app scams, the growing popularity of traditional methods of fraud executed via wire transfer and check fraud, and emerging crypto and AI risks.

- [AI5](#): Although FSOC's latest annual report highlights AI risk, it does not request any express agency action, a hands-off approach that led to bipartisan legislation demanding a more forceful approach.
- [GSE-013124a](#): Common-stock investors clearly [think so](#), but they're a notably speculative lot and more than likely wrong.
- [GSE-013124](#): We have reviewed the 2024 scorecards FHFA [released](#) for Fannie and Freddie.
- [CONSUMER55](#): The CFPB has followed up a controversial proposal to set prices for larger-bank overdrafts exempt from certain consumer standards with a proposal to simply ban certain non-sufficient fund (NSF) fees when banks decide in real time to decline a consumer-payment request.
- [GSE-012424](#): In this report, we build on our previous analyses of the [mortgage implications of the pending capital rules](#), forecasting what's next for mortgage assets as the FRB, FDIC, and OCC wrestle with the mess Karen Petrou has elsewhere [argued](#) they brought upon themselves by careless analytics and political misjudgment.
- [OVERDRAFT12](#): Building on a bulletin and circular from late 2022 warning banks about certain overdraft practices, the CFPB has now proposed a rule that would sharply and expressly limit fees for extensions of credit related to overdrawn transaction accounts unless the account comes under an array of consumer-protection requirements.
- [GSE-012224](#): A new Fed [staff study](#) uses models to conclude that government-backed mortgage securitization exacerbates financial crises, contradicting conventional wisdom that – GSE blow-ups notwithstanding – properly-regulated GSEs create a liquid, diversified asset pool for an otherwise illiquid, risky asset class.
- [GSE-011224](#): A new [staff paper](#) from the Federal Reserve Bank of New York assesses the tender topic of bank mortgage lending to minority borrowers.
- [GSE-010924](#): Based on recent dialogue with institutional investors and regulators, a new FRB-NY Teller Window [article](#) concludes that robust data collection, loan standardization, and higher volume could improve CDFI secondary market sales.
- [GSE-010824](#): It's not news to observe that things that change at the GSEs then change a lot of other things.