



Friday, February 23, 2024

FDIC's OIG: Agency Faces Severe Staffing, Resolution Challenges

The FDIC's Office of the Inspector General (OIG) late yesterday [issued](#) an assessment of ongoing FDIC challenges. These only indirectly address the workplace-culture inquiry now gripping the agency and [Congress](#), focusing principally on the extent to which the agency has made progress addressing the significant internal failings identified in its reports on Signature Bank's failure ([see Client Report REFORM222](#)) and that of [First Republic](#). These are significant – key divisions have staff shortages of fifteen to twenty percent along with an ongoing retirement “wave” – but the FDIC's supervisory reach is less systemic than that of other federal regulators. However, it has unique authority over resolutions once these are authorized, and the OIG's report continues to cite major failings in this still more-critical arena. These include not only an ongoing inability to close systemic entities under OLA despite the OIG's wearier [warning](#), but also an inability to spot emerging risks that might precipitate failure or to address impediments to less-systemic resolutions and receiverships. The report does cite a raft of pending inter-agency and FDIC proposals to demand more from IDIs in their resolution planning (see *Client Reports* in the **RESOLVE** series). The OIG also believes the agency has made OLA progress, leaving it unclear if the commitments the FDIC made after the last OLA report are underway. The OIG report remains critical of FDIC's understanding of financial innovation – a key GOP [concern](#) – along with cryptoasset prudential and consumer-protection risk.

Progressive Dems Argue that De-Risking is Discriminatory

Late yesterday, Sens. Warren (D-MA) and Sanders (D-VT) alongside Reps. Omar (D-MN), Tlaib (D-MI), and Pressley (D-MA) sent [letters](#) to the heads of JP Morgan Chase, Wells Fargo, Bank of America, and Citibank criticizing the banks for what they describe as shutting down consumer accounts as part of AML de-risking practices. Calling this harmful to consumers and a threat to equitable access, Muslim-Americans and other minority communities are said to be disproportionately affected in violation of Treasury policy. The letter also notes the CFPB's recent fine of Citi for Armenian-American customer discrimination as further evidence of banks' unfair practices. Members ask for information on account-closure policies, notice practices, dispute processes, and relevant regulations. Responses are demanded by March 14.

Basel Head Continues Capital-Reg Defense, Work on NBFi Standards

The head of the Basel Committee, Pablo Hernández de Cos, today [reiterated](#) his defense of the global capital rules, spending much of the talk arguing against those seeking to roll them back and those who consider bank capital “idle money.” The talk also emphasized the inter-connected risk to banks highlighted by new exploratory Fed stress tests ([see Client Report STRESS32](#)), Acting Comptroller Hsu's [speech](#) earlier this week, and FSOC's systemic methodology ([see FSM Report SYSTEMIC98](#)), noting that the Committee will be consulting on updated supervisory guidance for NBFi risk management later this year. The talk also reiterated longstanding views on the need to address digitalization, which Basel will address in a report in coming months, and climate risk, which the committee will continue to address using a “holistic approach.”

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-021624](#)**: In this report, we build on our in-depth analysis yesterday of the Fed's new stress-test scenarios to focus on their mortgage-market impact.
- **[STRESS32](#)**: In this report, we assess the strategic and policy implications of the Fed's new [stress-test regime](#).
- **[LIQUIDITY34](#)**: Today's HFSC Financial Institutions hearing on emergency liquidity featured much discussion of reform, but few indications of any action Congress will take to advance it apart from support for pending agency efforts to enhance discount-window [readiness](#).
- **[FSOC31](#)**: Treasury Secretary Yellen's hearing today before Senate Banking followed the path set in Tuesday's HFSC session ([see Client Report FSOC30](#)), with Ms. Yellen refusing to take a stand on matters such as the capital rules and banking-agency supervisory effectiveness.
- **[FSOC30](#)**: As [anticipated](#), today's HFSC hearing with Treasury Secretary and FSOC Chair Yellen showcased sharp Republican criticism of the Council's nonbank designation authority ([see FSM Report SIFI36](#)), with Chairman McHenry (R-NC) and Financial Institutions Subcommittee Chairman Barr (R-KY) citing the guidance as yet another example of regulatory politicization, calling FSOC a "rogue" and "roving" regulator.
- **[MERGER14](#)**: Although all of the banking agencies have for years promised a new bank-merger policy, none has proposed one until this OCC rulemaking.
- **[PAYMENT28](#)**: Today's Senate Banking Committee hearing on scams and fraud in the banking 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.