FedFin Daily Briefing

Friday, March 1, 2024

Fed Emergency Powers Back on Senate Docket

Just before the Senate passed the stopgap bill to avert a shutdown, Sen. Paul (R-KY) forced a vote on an amendment to prevent the Fed from buying debt from states and municipalities. Sen. Paul argued that Congress never intended to grant the Fed this power, while Sen. Smith (D-MN) countered that the Fed's ability to assist state governments provides stability, calling the amendment "dangerous and unnecessary." The Senate voted 37-53 to reject the amendment, but the support behind it signals ongoing GOP challenges to the scope of Fed emergency facilities (see *Client Report* **LIQUIDITY34**). The issue was highlighted earlier this week in a column arguing strongly against the implicit power the Fed used in 2020 to backstop troubled state and local governments, arguing that doing so puts federal support behind profligate entities. Critics have also strongly argued that municipal support is far outside the Fed's mission, creating a precedent for the "people's Fed" progressives long argued should use a balance sheet to support the public good, not just monetary policy.

DOJ Goes After "Gate-Keepers"

In remarks late yesterday, Assistant AG Jonathan Kanter highlighted the impact of new DOJ/FTC guidelines (see FSM Report **MERGER13**) and enforcement efforts with regard to "gate-keepers" – i.e., "monopoly chokepoints" so powerful that they control entry and pricing in a key sector in which they also often compete. This focus is expressly evident in the new guidelines with regard to platform firms, and Mr. Kanter extended it to DOJ actions following the President's AI order (see *Client Report* **AI3**). However, the policy outlined also makes it clear that, as FedFin's analysis noted, gate-keepers need not be technology firms. Thus, by inference, a major bank that could be found to control a key financial-market segment could be considered a "gate-keeper." This will of course be a key issue should the FRB and OCC decide to approve the controversial CapOne/Discover merger.

Fed Seems a Bit Warier of Banking-System Stress

The Fed monetary-policy report submitted today ahead of Chair Powell's testimony next week includes a financial-stability analysis largely derived from the FRB's most recent financial-stability report (see *Client Report* **SYSTEMIC97**) and the update provided earlier this week by a key FRB-NY official. Doubtless due to ongoing NYCB worries and related regional-bank stress, the report does somewhat hedge the banking-system resilience point now by saying the system is "generally" resilient with pockets of stress that warrant monitoring. These are not detailed, but the report does note fair-market value declines at some banks that undermine risk-based capital buffers, with the industry also generally experiencing funding-cost increases. Funding vulnerabilities outside the banking system "remain notable," with the Fed reiterating its longstanding concern about hedge-fund leverage. As noted, the new exploratory stress tests now focus in part on hedge-fund exposures (see *Client Report* **STRESS32**), a risk also highlighted recently by Acting Comptroller Hsu. The private-credit sector is now cited as a risk not identified in the Fed's previous stability report, with comments here echoing those from Mr. Hsu and a recent Fed staff study. CRE problems are noted without any new expressions of alarm.

White House Steps in to Comfort NYCB Worries

At close of business, NYCB shares had sunk to levels not seen since 1997 following the release of still more bad news on Thursday. Notably, regional-bank indices took only small losses and even some weak regionals were relatively resilient – a sharp contrast to the battering the entire sector took a year ago this month. That said, the White House today felt compelled to issue a short statement reiterating that, "broadly speaking" the banking system is resilient and Treasury and the banking agencies are carefully monitoring the situation even as the White House is "super-mindful" of it. We continue to expect the banking agencies to give NYCB as much space as markets will allow to resolve itself, perhaps via an emergency merger executed by the parties without any direct federal intervention. However, the bank will need to stay resilient through at least the weekend, perhaps making use of the discount window and/or BTFP to shore up its liquidity in the face of continuing funding outflows. FedFin will continue to monitor the situation throughout the weekend in the event policy intervention takes place with broader strategic implications.

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.

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