



Monday, March 11, 2024

## Hagerty Demands Signature-Asset Sale Answers ASAP

Sen. Bill Hagerty (R-TN) yesterday sent a [letter](#) to Chair Gruenberg questioning the FDIC's adherence to requirements in its auction process during the sale of Signature Bank's loan portfolio, accusing the FDIC of making political choices inconsistent with its least-cost mandate. The letter focuses on the agency's selection of an offer from a progressive housing agency endorsed by New York Mayor Adams over a significantly higher bid from a private real estate investment company. The letter notes that the FDIC is required by law to maximize net present value return from the sale and minimize loss, making only passing reference to the agency's statutory obligation also to preserve affordable housing and meet related objectives likely a major factor in the agency's decision. Setting a deadline of March 25, the letter asks a series of questions about the agency's auction process and political considerations likely with a goal of building a record that will put still more political pressure on Chair Gruenberg and the agency's failed-bank and asset-disposition process.

## Scott Again Calls for Gruenberg Resignation

Adding to GOP pressure on FDIC Chair Gruenberg, Senate Banking Ranking Member Scott (R-SC) yesterday [sent](#) a letter [reiterating](#) his demand that Mr. Gruenberg step down. The Ranking Member [previously](#) requested a response to allegations of FDIC's culture of workplace harassment by January 3, stating that Mr. Gruenberg's continued failure to respond demonstrates a lack of transparency and accountability, demanding a prompt reply.

## BTFF Demise if FHLB Opportunity

[As anticipated](#), the BTFF window closed today. It did so at near-record highs, indicating that regional banks have a funding backstop with NIM benefit for as long as a year based on the maturity of their outstanding obligations, a move contributing to concerns about the BTFF's arbitrage benefits even as it ceases to be of aid to troubled regional banks such as NYCB. The end of the BTFF ramps up pressure on bank discount-window readiness ahead of near-term [liquidity rules](#). FHLB short-term rates continue to offer considerable arbitrage advantage as well as a port in any storm, although FHLB advances remain somewhat costlier than core bank deposits. We are monitoring FHFA plans to impose new FHLB funding constraints and will shortly provide clients with an in-depth analysis of a new CBO [report](#) placing additional pressure on the System.

## FDIC's Hill Wants New Blockchain, Liquidity Standards

FDIC Vice Chair Hill today [said](#) there are "significant downsides" to the agency's current approach to blockchain, describing its message and that of the inter-agency policy ([see Client Report CRYPTO32](#)) as "don't bother trying." However, he said that new liquidity regulations are warranted although these should be done holistically. Although he took no stand on whether discount-window access should be included in the new liquidity standards, Mr. Hill reiterated the need to address discount-window stigma, noting that Fed standards for when secondary-window access is required are inconsistent. Additionally, Mr. Hill identified the bank merger approval process as an area in need of improvement, noting long merger turnaround times and questioning whether FHLBs should lend to struggling banks. Mr. Hill's speech also discussed tokenization, noting that instant settlement and programmability may exacerbate bank runs, thus requiring a "stop button" in the event of a bank failure. Mr. Hill also cited the risk of the US ceding influence in the

tokenization field if it falls behind other countries. Despite the continuing GOP pressure noted earlier today, Mr. Hill received no questions regarding the FDIC's internal investigation.

## Warren Tries to Divide Powell from Other Regulators to Conquer Capital Regs

Following her [grilling](#) of Chair Powell last week regarding his decision to intervene in setting the new capital rules, Sen. Warren (D-MA) yesterday sent a [letter](#) to Vice Chair Barr, Chair Gruenberg, and Acting Comptroller Hsu asking them if pressure from big banks has "weakened your resolve." The point here is clearly to get strong statements from Messrs. Gruenberg and Hsu in favor of stringent rules and to put Mr. Barr on the spot. She also wants an update on new liquidity, stress-testing, and resolution rules along with a timeline for final action. Replies are due by March 25, a deadline evident in other recent letters due to the likelihood of supervisory hearings after the Easter/Passover recess.

## GAO Wants FinCEN to Move Better, Faster

Reinforcing longstanding bank complaints about the current AML regime, GAO today [published](#) a report finding that FinCEN needs to improve transparency surrounding its progress implementing the Anti-Money Laundering Act of 2020 ([see FSM Report AML132](#)). Illustrating the need not just for transparency but also progress, GAO found that only nineteen of the 31 sections of the act had been implemented, noting also that FinCEN's surveys of law enforcement agencies' satisfaction with FinCEN products and services had low response rates and did not adjust for nonresponse bias. GAO recommends that the Treasury Secretary ensure that the Director of FinCEN institutes a communications plan concerning AML Act implementation and works with its survey vendor to improve the survey reliability. GAO also recommends that the Attorney General lead an effort with DHS and Treasury to develop a methodology for producing government-wide data on the outcomes of AML investigations.

## Biden Presses for Statutory Change Boosting FHLB Affordable-Housing Contributions

President Biden's FY25 [budget](#) today proposes that Federal Home Loan Banks double their annual affordable-housing contribution. This would raise \$3.79 billion for affordable housing over the next ten years and assist nearly 380 thousand households. However, it is most unlikely to happen given Congressional budget paralysis, leaving it to FHFA to do as much as its director would like on FHLB affordable-housing under the reform plan announced late [last year](#).

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### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [FEDERALRESERVE75](#): As [expected](#), Republicans took turns grilling Chair Powell on the Basel III endgame proposal and calling for its withdrawal, and were likely pleased with the results.
- [CONSUMER56](#): The CFPB has issued a circular essentially banning digital and perhaps all other consumer-finance comparison-shopping and lead-generation tools for credit cards and other products not covered by prior orders.

- **[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](#).