



Wednesday, April 3, 2024

Bowman Wants Policy Review, Fed-Operational Improvements Ahead of New Liquidity Regs

Turning from [mergers](#) to the Fed's lender-of-last-resort role, Gov. Bowman today [argues](#) that new liquidity policies require careful review before any new rules are adopted. Other sources of liquidity – including FHLB advances – should, she said, precede discount-window draws and, even more importantly, any new FRB emergency-liquidity or similar facilities. Before new facilities are deployed, Gov. Bowman favors improving current ones, perhaps by extending FedWire and private payment-system operating hours and otherwise improving Fed operational readiness and resilience under stress. She also notes pending [proposals](#) to require banks to pre-position collateral for discount-window readiness, possibly allowing this collateral also to count as HQLA for liquidity-regulatory purposes. But, while doing so should be “seriously considered,” Gov. Bowman also notes that it is unlikely to remove all discount-window stigma. She also urges considering the effectiveness of the discount window as a liquidity backstop given the extent of bank activities migrating to NBFIs, an issue sure to come up as those at the Fed and OCC working on new liquidity rules bring specific proposals before the Board of Governors.

Fed Treads Carefully in New Global Money-Tokenization Project

The BIS today [announced](#) a new program exploring ways in which tokenizing central-bank and bank money for wholesale transactions on programmable platforms would benefit the monetary system. Work will focus first on cross-border payments to improve speed and integrity along with lowering costs. The Federal Reserve Bank of New York today issued a cautious [announcement](#) making clear that the U.S. central bank is participating in this project while taking no role that goes beyond research which should lead anyone to assume this project is Fed action to implement a CBDC. As we have [previously noted](#), Republicans are keen to block a retail-facing U.S. CBDC, forcing Chair Powell and other Fed officials to make clear on numerous occasions that no such CBDC will be offered without statutory revision to Fed authority allowing it expressly to do so. Chair Powell has been careful ([see Client Report FEDERALRESERVE75](#)) also to preserve greater Fed flexibility when it comes to CBDC in wholesale payments, with this seeming to arouse little direct criticism. That said, CBDCs remain a sore point with considerable political risk to the Fed as the campaign continues, doubtless contributing to the decision to participate in the BIS work to be sure the U.S. is not left behind while reinforcing the Fed's stand on CBDC.

Powell Defends Independence, Mandate Limits

In [remarks](#) today on monetary policy and Fed independence, Chair Powell was at pains to emphasize that climate risk was outside the Federal Reserve's mandate. He also disavowed Fed actions affecting other issues about which he is frequently asked on Capitol Hill such as fiscal policy, immigration, and trade. Mr. Powell's stance on climate risk is frequently mentioned when he is quizzed on Capitol Hill by Republicans about recent inter-agency climate-risk standards ([see FSM Report CLIMATE17](#)). It may contribute to Fed reluctance now to go along with more binding climate-risk standards from the Basel Committee, with press [today](#) reporting that the Fed believes these standards overstep the Committee's purpose.

FHFA Treads Cautiously Towards FHLB Reform

Issuing a minor [ruling](#) regarding Puerto Rico cooperatives, FHFA today also [laid out](#) its 2024 priorities following last year's [report](#) on the Home Loan Bank System. The announcement notes pending work

clarifying the System's mission, member eligibility, and affordable housing with no suggestion as to what might be done or by when it will be done. No substantive mention of system liquidity is made despite [indications](#) from an FHFA official that the agency is working with the Fed to clarify when Home Loan Banks may provide funding to troubled banks.

Barr Stands by CRA Rule

Responding to questions about the court injunction on the [CRA rule](#), FRB Vice Chair Barr today [stated](#) that the rules are restated expectations within the boundaries of the Act and Congress intended the agencies to update the 1977 law. Clearly, the ruling is a disappointment, but one Mr. Barr's defense can do little to overcome unless the courts come to agree with it. Mr. Barr was noncommittal as to whether the end-game capital rules will need to be repropose, saying only that comments are being considered. He did reaffirm that the Fed is content with its merger standards as finalized in [1995](#). However, he noted that the Fed is also discussing this process with DOJ and may adjust it as needed in line with working with the other agencies to set a common process. How this will be done is difficult to see given the divergent views of the Fed from the stringent proposals released by the OCC ([see FSM Report MERGER14](#)) and FDIC ([see FSM Report MERGER15](#)). Wading into a dispute on which Chair Powell touched earlier today, Mr. Barr also said that GSIB [climate risk scenarios](#) are, Mr. Barr said, firmly within the Fed's remit given their focus on financial stability.

Chopra: Merger Approval Requires Affirmative, Additive Community Benefit

Building on his [comments](#) when the FDIC board voted 3-2 to issue its merger proposal ([see FSM Report MERGER15](#)), CFPB Director Chopra today [doubled down](#) on the view that bank mergers should only be approved if there is demonstrable community benefit over an extended period of time. These strong views suggest he will fight vigorously to prevent changes to the proposal that might make it more appealing to the GOP members of the FDIC board along with widening the divide between the FDIC's position and the consensus inter-agency policy FRB Vice Chair Barr mentioned earlier today. Mr. Chopra also noted that applications reflect the expectation that the acquirer will "make more money," but goes on to say that this is an insufficient rationale for approval given the importance of accretive community benefit and the historic U.S. preference for organic growth versus M&A. CRA is not, he said, a proxy for judging community service in part because of rating delays and uncertainties about combined firm benefits based on the manner in which ratings are made by the banking agencies.

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-032924](#): Following FSOC's fulminations about [nonbank mortgage companies](#), FHFA in 2023 heightened its supervisory standards mandating GSE prudential governance of eligible seller servicers.
- [MERGER15](#): Following its 2022 request for input, the FDIC has released a formal proposal that would redefine the agency's bank-merger policy into one that will make it difficult for all but the smallest and simplest transactions within its jurisdiction to have the clear prospects for approval usually necessary in non-emergency transactions, subjecting other M&A applications to protracted review with a high likelihood of denial.

- **[REFORM231](#)**: Today's HFSC hearing on global governance featured [expected](#) Republican attacks on what they called the opaque nature of U.S. interactions with international organizations, with Chairman McHenry (R-NC) promoting a draft bill requiring regulators to report dealings with global standard-setting groups to Congress.
- **[GSIB24](#)**: Reflecting concerns expressed about banks that window-dress key regulatory data as the post-crisis framework took shape, the Basel Committee has now issued a request for views on how to prevent this when it comes to GSIB calculations related to their surcharge or possible designation.
- **[CREDITCARD37](#)**: Following a very controversial proposal, the CFPB has finalized credit-card late-fee restrictions in a final rule that does not differ significantly from the proposal on its key point: elimination of the manner in which inflation adjustments are now made by credit-card lenders when it comes to late fees.
- **[GSE-031224](#)**: The President's [FY25 budget](#) picks up FHFA's [recommendations](#), calling for statutory change to double the System's affordable-housing commitment.
- **[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](#).