FedFin Daily Briefing

Tuesday, April 30, 2024

Changes to Fed Reporting Requirements Augurs Shift in M&A Policy

The Federal Reserve has proposed two changes to reporting requirements related to merger-and-acquisition transactions. While these do not mark a formal change in Fed policy, the details indicate additional issues of concern sure to be addressed in pending transactions even before the new reporting requirements become official. The first notice affects U.S. BHCs and requires a series of reports on potential control questions. These include additional requirements that applicants provide a breakdown of pro forma equity and identify any management official of the applicant who is also a management official at another depository institution and additional questions regarding groups acting in concert such as individuals with ten percent or greater ownership or companies with five percent or greater ownership of the applicant and the integration of the target into the applicant. The changes also tighten disclosures related to financial projections. The second notice governs foreign banking organizations. It would add a question on the integration of the target into the applicant, include a footnote clarification regarding Interagency Biographical and Financial Reports, and make technical amendments. Comments on both notices are due by July 1.

Basel Rewrites Global CCR Standards

As anticipated, the Basel Committee today issued proposed counterparty credit risk (CCR) standards. These follow a review in which global regulators determined that Archegos, commodity-market stress, and other recent close calls exposed significant CCR-management weaknesses. The proposed approach thus would mandate extensive and continuous due diligence, board-level governance, strong contractual commitments, and risk-sensitive margining. The consultation also presses for exposure limits although single-counterparty limits are already applicable under Basel standards (see FSM Report **CONCENTRATION5**). Much of what Basel mandates is already required under 2011 inter-agency guidance in the U.S. (see FSM Report **CCR**). As a result, it remains to be seen if the U.S. will revisit its standards once the global ones are finalized. Comment on them is due August 28.

CFPB Price Complexity Study May Presage Action on Credit Cards, Mortgages, Savings Accounts

The CFPB today issued a report finding that increasing price complexity leads to higher transaction and total costs and increased consumer errors, with this not offset by increased competition. CFPB reports often presage regulatory action, but those previewed in the release accompanying the study focus on two sectors already under the CFPB gun – credit cards and mortgages, adding savings-account pricing as a possible new regulatory target. Credit cards are said to have multiple APRs that vary by credit score along with overly-complex rewards systems. Mortgage lenders are targeted for new issues including ARM structures and a large number of separate closing costs. Overdrafts – a longstanding CFPB target – are also noted as contributing to the complex structure of checking and savings accounts, with the agency now also highlighting complex tiered interest rates based on account balances said to block comparison shopping. As noted, the Bureau has already targeted digital marketing and lead generating related to credit cards it believes undermines effective comparisons and consumer choice (see FSM Report **CONSUMER56**).

House Oversight Subcommittee Considers CRE Risk

Today's House Oversight Health Care and Financial Services Subcommittee hearing on commercial real estate focused on preventing systemic risk. Chair McClain (R-MI) argued that the CRE market is generally strong, encouraging Congress and the Fed to eliminate red tape. Drawing comparisons to the great financial crisis, Ranking Member Porter (D-CA) characterized this period of CRE market uncertainty as "the calm before the storm," urging politicians and regulators not to ignore the CRE market's critical warning signs. She also stated that extending repayment deadlines worsens long-term risk, repeating progressive concerns that high interest rates also create risk. In testimony, Jeffrey DeBoer of the Real Estate Roundtable criticized Fed rate hikes and argued that banks should be encouraged to restructure existing loans with new equity which should be classified as new performing loans. Jeffrey Weidell representing the MBA called for a re-proposal of Basel III and said that multi-family and commercial property loans should be exempt from HMDA and Section 1071 reporting. Doug Turner of the Center for American Progress highlighted the existing housing supply shortage and discussed conversion of vacant CRE properties as a potential solution.

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-043024:** In conjunction with releasing its new fair-housing rule, FHFA yesterday also created a new office of "Public Interest Examination."
- **ASSETMANAGEMENT8:** As we noted, the FDIC board late last week faced the unusual and perhaps unprecedented situation of a staff resolution supported by its Chair and one Democratic Director that was countered by a different proposal from Republican Directors, with both options finally tabled due to objections from the Acting Comptroller.
- **SYSTEMIC99:** The latest Federal Reserve financial-stability assessment continues the Fed's practice of detailing vulnerabilities without drawing bottom-line conclusions; the Board once did so, but ceased this practice after opining that the financial system's risk was "moderate" shortly before the 2020 crash.
- **MORTGAGE122:** Although there was no need for further evidence that campaign season has begun, today's Senate Banking housing hearing surely confirmed it.
- **GSE-041724:** Just as the CFPB readies its assault on cashout-refi discount fees comes FHFA's request for views on a new Freddie Mac product that would give borrowers access to their locked-up equity without a new first lien at a higher rate or a traditional home-equity second riding piggyback atop the first lien.
- **RESOLVE51:** In its first public statement since 2013 about how it would execute an SPOE resolution (see FSM Report **RESOLVE23**), the FDIC yesterday released a report Chair Gruenberg described as demonstrating the FDIC's readiness to resolve a U.S. GSIB and the process it has developed for doing so under the orderly liquidation authority (OLA) provided in the Dodd-Frank Act (see FSM Report **SYSTEMIC30**).
- **GSE-041024:** *Bloomberg* today reports that the CFPB may simply ban consumer payment for lender title insurance.
- **AML137:** Senate Banking Committee's Hearing with Deputy Secretary Adeyemo reviewed the Administration's request for additional digital asset AML/CFT authority.
- **GSE-040824**: It wasn't hard for us to forecast that, after NEC Director Brainard endorsed CFPB Director Chopra's jihad against mortgage "junk fees," that the discount points that received particular opprobrium would be moved up the priority ladder for federal restriction.