



# FedFin Weekly Alert

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Monday, May 13, 2024

## ❑ READING FOR RAUCOUS HEARINGS

Bank-regulator appearances before Congressional committees have become increasingly lively of late what with all the Basel, merger, process, and CRA battles. However, the sessions this week will be marked by unusual drama due to the devastating report filed [last Tuesday](#) on the FDIC's internal culture and employee reports of ongoing sexual harassment, discrimination, and insularity. As we [noted](#), Republicans are united in demanding that Chair Gruenberg resign or be forced out, but Democrats with the exception of Rep. Bill Foster (D-IL) are either biding their time or supporting him on grounds he is mounting needed corrective action and many problems were not on his watch. The White House carefully positioned itself to side with Democrats without at the same time expressly backing Mr. Gruenberg, a nuanced stand essential given the President's commitment early in his term to oust any federal employee accused of serious workplace misconduct. Republicans will surely try to catch Mr. Gruenberg in a misstatement or misstep in order to force the White House to dismiss him, but Mr. Gruenberg in fact still can only be dismissed if the White House comes to this view or, a lot less likely, the GOP tries to impeach him. All this will take a lot of hearing bandwidth, but there will still be time for critical issues such as the end-game capital rule's status, forthcoming liquidity rules – if any – and the OCC's and FDIC's merger proposals (see FSM Reports [MERGER14](#) and [MERGER15](#)). We'll provide updates during these hearings as needed and analyses upon conclusion, perhaps differentiating our analyses of the FDIC's outlook from those for substantive regulatory and supervisory developments.

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## Headlines From the Past Week's Daily Briefings

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### May 6

- **OFR Mandates OTC-Repo Reporting** - The Office of Financial Research [adopted](#) a final rule requiring daily reporting by certain brokers, dealers, and financial companies with large exposures to the non-centrally cleared bilateral repo (NCCBR) market.
- **Incentive-Comp Standards Take Halting Step Forward** - [As anticipated](#), agencies favoring incentive-based compensation constraints issued a new proposal advancing the standards mandated in the 2010 Dodd-Frank Act ([see FSM Report COMPENSATION30](#)).
- **NCUA on Board With Comp Proposal; Chopra Presses Hard for Action** - The NCUA has now [joined](#) the other agencies that asked for comment on the incentive-compensation [proposal](#).

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## May 7

- **GAO Presses FDIC, OCC for Blockchain, Third-Party Risk Standards** - The GAO issued its annual reports to the [FDIC](#) and [OCC](#), stating that the agencies had failed to implement two of last year's priority [recommendations](#) on the coordination of blockchain policy and policy clarifying how banks must handle third-party relationship's use of alternative underwriting data.
- **SF Fed: Less Bank Lending, Fewer Jobs** - A new [study](#) from the San Francisco Fed looks at why banks curtailed lending in 2023, attributing about half of this to re-evaluating their ability to take on risk without analyzing why this internal decision might have been made.
- **Gruenberg Faces Fight of His FDIC Life** - The key policy question aroused by the independent counsel's blistering [report](#) on the FDIC is whether Chair Gruenberg can survive it and, if not, what happens next to an FDIC board likely to be tied on key questions such as finalizing all the capital standards and the agency's particularly stringent merger policy ([see FSM Report MERGER15](#)).

## May 8

- **FedFin Assessment: Gruenberg's Fragile Hold** - As [promised](#), we here update our analysis of Marty Gruenberg's political risk following the blistering [report](#).
- **FinCEN Warns re Iran-Proxy Transactions** - In a de facto warning to financial institutions, FinCEN issued an [advisory](#) on detecting illicit transactions associated with Iran-backed terrorist organizations.
- **FRB-KC: Core-Provider Concentration Threatens Small-Bank Competitiveness** - Continuing critical Federal Reserve Bank [attention](#) to core payment-service providers, the Kansas City Fed [released](#) a brief reinforcing prior findings about the adverse impact of core-provider concentration on payment-system innovation.
- **Cook Says Powell Makes the End-Game Call** - FRB Gov. Cook largely reiterated findings in the Fed's most recent financial-stability analysis ([see Client Report SYSTEMIC99](#)), but under questioning highlighted several emerging issues.

## May 9

- **Crypto-Custody Battle Back in Bank Regulators' Laps** - The House voted 228-182 to approve H.J. Res. 109, a GOP motion under the Congressional Review Act to revoke the SEC's Staff Accounting Bulletin 121 requiring additional disclosures and balance-sheet recognition related to cryptoasset custody ([see FSM Report CUSTODY5](#)).
- **GOP Tries to Place Gruenberg Blame on President Biden** - The GOP leadership of the House Oversight Committee sought to escalate the political focus on FDIC Chair Gruenberg, [writing](#) to the White House to demand all communications with Mr. Gruenberg and others related to workplace conduct.

- **Brown, Scott Take Usual Stand on “Junk,” Credit-Card Fees** - The Senate Banking Hearing focused on “junk fees.”
- **Waters Focuses on FDIC Report, Not Gruenberg** - Without directly supporting FDIC Chair Gruenberg, HFSC Ranking Member Waters (D-CA) [pointed](#) to aspects of the Cleary report that focus narrowly on Mr. Gruenberg rather than all recent FDIC Chairs.
- **CFPB Heightens Attack on Credit Card Rewards** - At CFPB-DoT’s hearing on credit card rewards, Director Chopra [indicated](#) that the agency will protect points against currency devaluation, stop “bait and switch” scams, examine exclusive deals, and promote interest rate competition.
- **Climate Scenarios Show Significant Challenges** - At close of business, the Federal Reserve [released](#) the results of the climate risk exploratory stress test imposed on six of the largest banks.

## May 10

- **Bowman Again Targets Pilot Climate Scenario Analysis** - FRB Gov. Bowman [criticized](#) the Fed’s pilot [climate scenario](#) exercise as a “regulatory distraction,” again also warning against the cumulative effect of recent banking regulatory proposals.
- **Fed Takes Tougher Attitude to Bank Supervisory Rating, Finds Significant Weakness in Large Banks** - Reiterating its concern about CRE, the Fed’s semiannual supervisory [report](#) indicated that the number of large financial institutions receiving satisfactory or better ratings went down from about a half to about a third during the second half of 2023.
- **FSOC Demurs on Nonbank Mortgage Designation, Recommends Statutory Change Instead** - Although FSOC last November ([see Client Report FSOC29](#)) indicated that nonbank mortgage companies were a prime target for systemic activity and practice designation, the Council decided instead to [recommend](#) a series of substantive, structural changes to Congress.

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## This Week

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### Wednesday, May 15

HFSC Hearing entitled: “Oversight of the Prudential Regulators.” [10:00 am, 2128 RHOB]. Witnesses: **The Honorable Michael Barr**, Vice Chairman for Supervision, Board of Governors of the Federal Reserve System; **The Honorable Martin Gruenberg**, Chairman, Federal Deposit Insurance Corporation; **The Honorable Todd Harper**, Chairman, National Credit Union Administration; and **The Honorable Michael Hsu**, Acting Comptroller, Office of the Comptroller of the Currency.

CFPB Consumer Advisory Board Meeting. [10:30 am, webcast]. Matters to be discussed: TBA.

## Thursday, May 16

Senate Banking Hearing entitled: "Oversight of U.S. Financial Regulators: Accountability and Financial Stability." [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **The Honorable Michael Barr**, Vice Chairman for Supervision, Board of Governors of the Federal Reserve System; **The Honorable Martin Gruenberg**, Chairman, Federal Deposit Insurance Corporation; and **The Honorable Michael Hsu**, Acting Comptroller, Office of the Comptroller of the Currency.

HFSC markup on easing bank regulation. [TBA].

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## Future Events of Note

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No meetings of note.

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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](#).

- **MERGER16**: At today's HFSC Financial Institutions Subcommittee hearing on bank mergers, Democrats said that larger mergers pose numerous risks while Republicans criticized the application-and-approval process as opaque and time-consuming.
- **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.