# FedFin Daily Briefing

**Tuesday, May 7, 2024**

## GAO Presses FDIC, OCC for Blockchain, Third-Party Risk Standards

The GAO today 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. As noted in last year's report, the agencies agreed with the recommendation on third-party data but had neither agreed nor disagreed on the blockchain recommendation, each flagging routine interagency engagement. No new GAO recommendations were issued today.

## 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. The paper's focus is the macroeconomic impact of the 2023 retrenchment, when the banking retreats from credit markets rivaled that of the great financial and 2020 crises. The study finds that sudden shortages in bank lending contributed 0.4 percent to end-2023 unemployment, a significant impact given the overall low unemployment rate at the time. Conversely, the inflation effects of slowing lending are "subdued," likely leading only to a 0.1 percent drop in core PCE inflation. The paper's data show that lending reductions began in mid-2022 as inflation began to spike, but its model assesses macroeconomic impact only by the causal factors it chooses to model. These assess factors such as interest rates and GDP, but the extent to which macroeconomic implications are causal or mere correlations is not made clear. The paper does not include in its model the impact in mid-2023 of proposed bank capital standards, a cause many banks have said subsequently affected the risk-taking appetite which the study says played so significant a role in this pull-back. As a result, the paper is an uncertain guide to how stringent final capital standards would affect unemployment and inflation, but its correlations suggest that the impact could be significant and long-lasting with regard to unemployment. The Fed's quantitative impact survey is due shortly, providing more insight into the Fed's thinking about the capital rules. How this QIS affects the shape of the final standards remains unclear.

## Gruenberg Faces Fight of His FDIC Life

The key policy question aroused by the independent counsel's blistering report today 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**). Although the report has little good to say about Mr. Gruenberg and the FDIC's workplace culture up to and including events reported in the past few weeks, it appears from his statement that Mr. Gruenberg intends to hold firm. It is less clear if he will be able to do so once the independent counsel brief HFSC staff later this week. HFSC Chair McHenry (R-NC) today called for Mr. Gruenberg's resignation, as did Sens. Joni Ernst (R-IA), Rick Scott (R-FL), and Bill Hagerty (R-TN). Several other GOP Members of Senate Banking did so well before this report. As we have said before, whether Democrats and the White House push back depended on the report. Our read of the report indicates that it will be hard for Democrats – usually aggressive in like-kind cases – to defend Mr. Gruenberg despite its policy impact. Much will be said, but little is likely to be done about this situation until Mr. Gruenberg appears next week before HFSC and Senate Banking, hearings at which he will face grueling questioning from Republicans and a good deal of criticism from Democrats even if key leaders such as Chair Brown (D-OH) and Sen. Warren (D-MA) demur.

## 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.

- **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.

- **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.

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