



Wednesday, May 8, 2024

FedFin Assessment: Gruenberg's Fragile Hold

As [promised](#), we here update our analysis of Marty Gruenberg's political risk following yesterday's blistering [report](#). As we noted then, the report's findings put Democrats in a difficult position, caught as they are between wanting Mr. Gruenberg to stay to further desired banking policy and their longstanding and public commitment to aggressive enforcement following sexual-harassment allegations. These appear to be a particular challenge for the White House, with a [statement](#) yesterday refusing to take a stand on Mr. Gruenberg's tenure even as it supported promised [reforms](#). Importantly, Republicans cannot force Mr. Gruenberg out absent an impeachment unless – and this is the unknown – pressure builds high enough to force Mr. Gruenberg to do so or the White House requires it. Next week's House and Senate hearings thus will be at least as critical as we forecast yesterday. Democratic allies of Mr. Gruenberg are bolstering his chances with a [focus](#) on his Republican predecessor's failures to act on allegations in the report under her tenure and attacking perceived conflicts of interest at the law firm conducting this review. We think all of this will be aired during next week's hearings, but the report also has significant assertions directly about Mr. Gruenberg and the FDIC under his leadership that undermine their political traction. Ultimately, how much Democratic support Mr. Gruenberg retains and whether this case gains any political traction outside the banking sector will determine whether the White House stands by the embattled FDIC Chair.

FinCEN Warns re Iran-Proxy Transactions

In a de facto warning to financial institutions, FinCEN today issued an [advisory](#) on detecting illicit transactions associated with Iran-backed terrorist organizations. The advisory outlines Iran's international sources of revenue and explains how Iranian government agencies and state-sponsored actors channel money to terrorist proxies using front companies and overseas financial institutions acting wittingly or unwittingly as intermediaries. The advisory also provides a list of red flags such as key terms in P2P transfer notes that are associated with terrorist organizations, transfers to jurisdictions known for terrorist activities with vague stated purposes such as "travel expenses" or "aid," and IP address data to assist in identifying illicit activity.

FRB-KC: Core-Provider Concentration Threatens Small-Bank Competitiveness

Continuing critical Federal Reserve Bank [attention](#) to core payment-service providers, the Kansas City Fed today [released](#) a brief reinforcing prior findings about the adverse impact of core-provider concentration on payment-system innovation. This paper looks specifically at instant payments, observing that core-provider vertical integration powers fintechs and other new entrants taking advantage of open banking and other technology advances. This will heighten concentration and lead depository institutions to lose additional market share, although smaller banks are found to accelerate this trend by the slow pace of their readiness to send instant payments.

Cook Says Powell Makes the End-Game Call

FRB Gov. Cook today largely reiterated findings in the Fed's most recent financial-stability analysis ([see Client Report SYSTEMIC99](#)), but under questioning highlighted several emerging issues. Although the report discounts private-credit risk despite worrisome Fed [analyses](#), Ms. Cook indicated she will be monitoring its contribution to the overall leverage of the business sector and growing interconnections with

traditional financial intermediaries. She also differed a bit from the report by noting growing consumer delinquencies and BNPL. With regard to pending rules, she indicated that Chair Powell is first to reveal any changes to the end game rule's status, further proof that the Chair has taken this issue away from the Vice Chair for Supervision, Michael Barr. Ms. Cook also said that discount-window efficiency could be improved, but banks are still encouraged to preposition collateral.

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.