FedFin Client Report

Thursday, May 16, 2024

Gruenberg Stands His Ground

Client Report: REFORM233

Executive Summary

Faring somewhat better than he did yesterday (see *Client Report* **REFORM232**), FDIC Chair Gruenberg weathered repeated calls from Democrats to reform the agency's culture without being subjected to direct demands that he resign. That said, Ranking Member Scott (R-SC) called for a separate hearing on the Cleary report; he will not get one in the Senate, but this request suggests the one HFSC Chair McHenry (R-NC) mentioned yesterday may well be in the works. If it is, then this may prove challenging to Mr. Gruenberg, who otherwise seems unwilling to resign and is not yet facing dismissal from the White House. Senate Banking Republicans were as scathing as their House counterparts, with Sen. Kennedy (R-LA) comparing Mr. Gruenberg's efforts to fix the FDIC to "asking Alec Baldwin to conduct a course in gun safety." Sen. Warnock (D-GA) asked for and received a commitment for a ninety-day progress report on FDIC reform. Acting Comptroller Hsu also took tough questioning today from Republicans such as Sen. Britt (R-AL), although he does not face demands for resignation. Chair Brown (D-OH) also pressed Vice Chair Barr to join the FDIC and FRB in issuing a formal merger policy, but Mr. Barr again demurred, saying that the FRB is working with the OCC, FDIC, and DOJ on an inter-agency effort Mr. Hsu also acknowledged under questioning. Mr. Barr also acknowledged the need to issue an incentive-compensation rule but declined to say if the FRB might join the FDIC and OCC (see FSM Report **COMPENSATION38**) if changes are made.

Analysis

Opening Statements

Chair Brown called on FDIC Chair Gruenberg for clear answers and decisive action addressing workplace culture issues. Mr. Brown also called for end game finalization, noting that the GSIB CEOs stated that their banks were able to meet proposed capital levels when they appeared before the committee (see *Client Report* **GSIB23**). The Chair also called for the Senate to pass his clawback legislation (see FSM Report **COMPENSATION37**). Ranking Member Scott called for Chair Gruenberg to resign, quoting President Biden as Chair McHenry did yesterday (see *Client Report* **REFORM232**) to suggest that the reason the President has not fired Mr. Gruenberg is because of his importance to the Administration's economic agenda.

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Testimony

The regulators' testimony was the same as that delivered to HFSC yesterday.

Q&A

- **Incentive Compensation**: Sens. Brown, Warren (D-MA), and Van Hollen (D-MD) praised the FDIC and OCC for reviving incentive-compensation restrictions and pressed the Fed to join the NPR. Mr. Barr replied that the Fed is committed to following the law to implement a rule, but further analysis is required; Sen. Van Hollen replied that some have lost their patience.

- **Mergers:** Sen. Warren also asked the OCC to strengthen its merger proposal (see FSM Report **MERGER14**) to address competition in the same way the FDIC's proposal does (see FSM Report **MERGER15**). Mr. Hsu replied that the OCC is working with the other agencies on that aspect of the proposal.

- **Discount Window:** Sen. Warner (D-VA) again discussed plans to introduce a bill to reduce discount window stigma by requiring test borrowing with exceptions for institutions under $1 billion. The bill would also require greater coordination between the Fed and the home loan banks; Mr. Hsu expressed his office's commitment to working with the Senator.

- **Insurance Risk**: Sen. Smith (D-MN) asked Vice Chair Barr if rising property insurance rates could be an issue for financial institutions managing climate change risk; Mr. Barr referenced the Fed's pilot climate scenario analysis, identifying the GSIBs' incomplete information about property insurance coverage as a critical issue. Sen. Smith then urged regulators to consider systemic risk implications.

- **First Republic's Sale**: Sen. Vance (R-OH) again took issue with the FDIC's decision to sell First Republic Bank to JPMorgan, accusing the FDIC of not being forthright with his office on the issue. He accused the FDIC of grossly overestimating losses in First Republic's single-family residential portfolio, which changed the outcome of the least-cost test to favor JPMorgan instead of a regional bank or liquidation. Mr. Gruenberg responded that the FDIC has tried to respond to the Senator's office but is open to engaging further.

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