FedFin Daily Briefing

Friday, September 20, 2024

Trump Calls for Card Rate Cap

As has been widely reported, former President Trump last night addressed the Wednesday Fed rate cut, saying that it meant either the economy is "very bad" or the Fed is playing politics. Less noticed is Mr. Trump's call also for a "temporary" credit-card rate cut to ten percent. This is another example of the alignment between progressive and populist thinking. Interestingly, this showed itself for credit cards in the 1980s when a populist Republican senator who also happened to be chair of Senate Banking (Alfonse D'Amato) also called for a low credit-card rate ceiling. This was not enacted, but debate following the proposal led to sweeping credit-card reform in a 2009 law. More recently, Sen. Vance (R-OH) joined Sen. Warren (D-MA) on several measures, as has Sen. Rick Scott (R-FL). Regardless of who wins the White House and controls Congress, this populist/progressive alignment will be a major political force next year.

Treasury-Market Reform Consideration Continues

Ahead of today's closed FSOC meeting, the inter-agency group working to ensure Treasury-market stability released its latest report. It only summarizes actions since the group's last report (e.g., new OFR data standards, SEC clearing rules), providing no indication of future action. The report also does not further Under-Secretary Liang's call earlier this week for leverage-ratio reform.

Capital-Rewrite Update

The *American Banker* today expands on a *Bloomberg* story earlier this morning stating that the obstacle to advancing a capital reproposal is CFPB Director Chopra. He has made no public statement to this effect. Still, his likely opposition turns the 3-2 vote expected from the FDIC to a 2-3 one that dooms an inter-agency proposal if the Fed and OCC remain committed to three-way action. We remind clients that this disagreement follows a similar pattern to finalization of the Basel III rules in 2013, when the FRB and OCC issued a final rule and three agencies proceeded to a joint final rule with only minor concessions to the FDIC. Some have suggested the OCC and FDIC could proceed with a tough rule without the FRB, but Acting Comptroller Hsu reiterated his commitment to the pending reproposal this morning and, regardless, a capital rule without the Fed would have far less impact on the BHC capital distributions that ultimately decide market capitalization and group resilience at the very largest banks. Super-regionals with lead banks would face challenges under an OCC/FDIC-only rule, but these would still be markedly less than under a three-way rule because of the critical importance of Fed-only stress-testing.

Anti-Payday Loan Bill Blocks Small-Dollar Preemption

Sen. Merkley (D-OR) and Rep. Bonamici (D-OR), along with twelve Democratic cosponsors, today introduced legislation to protect consumers from payday lending practices, with the bill requiring all lenders — including banks — to follow law governing small-dollar loans. As a result, national-bank preemption governing these products could not apply. In addition, the bill allows consumers to preauthorize remotely created checks and cancel an automatic withdrawal in connection with a small-dollar loan. The bill would also ban "predatory" fees on payday lenders' prepaid cards and on "lead generator" websites, as well as require payday lenders to register with the CFPB. It stands no chance in this Congress but will likely be back next year.

Bad Fundamentals, Not Runs, Cause Bank Failure

A new Fed study sharply disputes the failure-narrative evident in virtually all recent banking-agency standards, finding via assessment of U.S. banks from 1865 to 2023 that the cause of failure is generally poor bank balance-sheet fundamentals, with runs only in recognition of imminent failure and of less importance to run risk regardless of the presence of the discount window after 1913 and deposit insurance after 1933. Although this finding challenges policy assumptions, it echoes recent research assessing the 2023 crisis similarly linking balance-sheet fundamentals to failure risk. The new study also finds that a bank's growing vulnerability to insolvency through increasing unrealized losses begins several years before failure when banks also begin to rely on high-risk liabilities. We note that these are finding that reinforce the critical importance of effective supervision perhaps along with buffers such as capital and liquidity standards not present before 2013. Failures since then reinforce the importance of balance-sheet fundamentals even though changes to some rules (e.g., re AOCI) might have been of use. Data on banks come from contemporaneous reports of the reasons for bank failures as well as, where germane, OCC examination data. Bank runs were of course more common before 1933, but the paper finds that banks, prior to FDIC insurance nonetheless, often failed in the absence of a run and runs were generally preceded by high-risk activity.

FSOC Keeps Lips Zipped

FSOC's read-out today of its closed meeting contains no information of substance. It notes various reports presented to the Council without commenting on their content or next steps. The read-out also details administrative actions such as the FY25 budget.

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-091024:** As anticipated as recently as yesterday, the next round of U.S. end-game capital proposals will include a significant win for bankers when it comes to residential mortgage origination.

- **CAPITAL236:** Noting that the Basel process reminded him of the need for "humility," FRB Vice Chair Barr today laid out next steps for the contentious end-game capital proposal.

- **PAYMENT34:** Under strong pressure from the banking industry and even Members of Congress such as Sen. Mark Warner (D-VA), the Federal Reserve is seeking comments on how to address frictions and inefficiencies that slow or even stall discount-window and intraday liquidity flows from the central bank.

- **SWF8:** The *Wall Street Journal* last night followed prior press reports that Donald Trump is considering some sort of sovereign wealth fund and that the Biden Administration now says it was also doing so well before Mr. Trump broached the idea.

- **GSE-090424:** Now that summer is almost over, several of you have asked us if U.S. banking agencies will finally get around to finalizing all the massive proposals they have wrought since August of 2023.

- **PAYMENT33:** Senior House and Senate Democrats have introduced legislation to hold financial institutions accountable when consumers are fraudulently-induced to allow a transfer of their funds, a shift that could lead to significant payment-service provider costs both directly to payor and payee entities and, based on CFPB rules, entities that facilitate payments.

- **GSE-082224:** In their new FHFA-blessed PMIERs updates, Fannie and Freddie have added a liquidity requirement atop the asset-quality standards designed to ensure not only that MIs have assets to liquidate for claims payment under stress, but also that these assets are actually highly liquid assets that can be sold without liquidity or capital destruction under stress.

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