FedFin Daily Briefing

Monday, November 25, 2024

Fed: What Me Worry?

Late Friday, the Federal Reserve released its latest semiannual financial-stability assessment, continuing the process of identifying worrisome risks without making clear how worried the Fed actually is. Like its predecessor report (see *Client Report* **SYSTEMIC99**), this one says the banking system is fundamentally sound and discusses "notable" risks in areas such as highly-leveraged hedge funds, life insurance, and CRE valuations. Outside experts the Fed consults are now less worried than they were by inflation, monetary tightening, and "generalized policy uncertainty" (a risk which at least to us seems to be considerably higher than it was in the spring). Outside experts remain worried about fiscal sustainability, the Middle East, and a U.S. recession. The Fed's report makes clear why these risks might in fact prove serious but offers nothing as to what the Fed thinks of their probability or possible risk mitigation.

Durbin Chastises OCC Debit-Card Fee Preemption

Following his hearing last week on credit-card interchange fees, Senate Judiciary Committee Chair Durbin (D-IL) returned to debit-card interchange fees in a late Friday letter to Acting Comptroller Hsu questioning his stand on federal preemption. The letter is particularly focused on the OCC's brief supporting the case brought by banks against Illinois' new fee restrictions, saying that interchange fees are set by Visa and Mastercard in a "collusive" arrangement over which banks have no control even though Mr. Durbin also says that other agencies have punished bank efforts to evade this amendment's limits (see FSM Report **INTERCHANGE7**). Saying that the OCC "either misunderstands or misrepresents" debit-card interchange fees, the letter lays out its interpretation of the manner in which fees are charged and asks the OCC to "clarify" its thinking. No response deadline is set.

Bowman Urges Balanced AI Policy

In remarks Friday night, FRB Gov. Bowman urged a measured response to AI that recognizes its benefits and addresses risks as use cases begin to identify them more clearly. She also lays out the need for clear definitions germane to the different ways in which AI is now and will be used, saying that many definitions may work but all need clearly to identify how they are constructed and for what they are intended. Ms. Bowman also details various ways in which AI broadly defined has potential benefits, including catching check fraud and other unstructured-data threats such as money laundering. That said, Ms. Bowman is not an unalloyed AI fan, noting its risks but also urging that, as in her broader approach to innovation, regulators get out in front of these risks in order to ensure that benefits are also realized. The speech also notes ways AI may benefit monetary policy, including by remedying some recent problems resulting from problematic data.

CCP Committee Leadership Presses Hong Kong Sanctions

Pushing for new sanctions on Hong Kong, House Select Committee on the CCP Chair Moolenaar (R-MI) and Ranking Member Krishnamoorthi (D-IL) today released a letter to Treasury Secretary Yellen sharply questioning preferential treatment for its financial sector. The letter cites Hong Kong's expanding role as a financial hub for money laundering, sanctions evasion, and other illicit financial activities and official statements that Hong Kong will "laugh off" U.S. sanctions. The Members request an official briefing on U.S. banking relationships with Hong Kong banks, U.S. policy, and contemplated sanctions or other restraints. Although Hong Kong players in what is believed to be illicit Russian arms sales are already under sanction, the letter presses for considerably more that could prove very challenging to Hong Kong, especially if accompanied by secondary sanctions. Pressure in this arena is sure only to ramp up in the next Administration and Congress regardless of the briefing's outcome.

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.

- **MERGER21:** As promised, this post-election forecast looks at bank-merger policy, providing a cautionary note in response to the go-go, game-on forecasts for new mergers often touted by investment bankers.

- **CONSUMER60:** As with merger policy (see forthcoming FedFin report), consumer-finance regulation will be crafted in the Trump Administration by complex pull-backs of current, progressive standards and pull-forward of populist goals which often parallel progressive ones.

- **FEDERALRESERVE78:** In a recent client brief, we provided our forecast of what might happen to Federal Reserve independence, process, powers, and personnel under either a Harris or Trump presidency.

- **CRYPTO47:** One of the more striking results of the election is the enormous win crypto firms got for their $135 million of Congressional-campaign spending: victories so far in every race it entered.

- **GSE-110724:** Markets are ablaze with expectations that Trump II will bring back Fannie/Freddie 1.0.

- **ELECTION27:** Given the likelihood of a Trump win, we turn in this report to our outlook for federal financial policy in a very different Administration than the one that has set it for the last four years.

- **ELECTION26:** FedFin will continue our practice of providing in-depth analyses in this tumultuous election once key races are decided.

- **DATA5:** The CFPB has finalized in largely unchanged form its very controversial proposal requiring banks, fintechs, and certain other parties holding retail-customer personal data to share that data with third parties such as data aggregators following a consumer's request.

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