PALs WASHINGTON REPORT

FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

Introduction

Washington pols and media have been focused on the expanding investigation of Russian intervention in the last presidential election. The surprise dismissal of Federal Bureau of Investigation (FBI) Director James Comey by President Trump roiled Washington and led to Senate Intelligence Committee hearings featuring Comey and Attorney General Jeff Sessions. The appointment of former FBI Director Robert Mueller as special counsel to investigate possible Russian intervention and other related matters indicates that the issue will not fade away anytime soon. Under this “cloud,” the administration continues to try to fill key department and agency policy positions, and Republicans in both the House and Senate continue trying to accomplish their goals of repealing and replacing the Affordable Care Act, comprehensive reform of the individual and corporate tax code, and regulatory relief.

Special Elections

Republican Karen Handel won the most expensive House campaign in history, defeating Democrat Jon Ossoff. The Georgia 6th district race was considered by many a high stakes referendum on the Trump administration. The seat became vacant when Rep. Tom Price (R-Ga.) was sworn in as Health Secretary. The other special election saw Republican Ralph Norman win in South Carolina's 5th district. The seat was formerly held by Rep. Mick Mulvaney (R-S.C.), who vacated the seat to become the Director of the Office of Management and Budget.

Treasury Department Releases Regulatory Rollback Plan

On June 12, the Treasury Department released its highly anticipated report on streamlining and revamping financial services regulations. The report came after a 120 day review by the department, which included feedback from the prudential financial regulators and industry. Similar to the Financial CHOICE Act, the report includes a leverage ratio “off-ramp” from Dodd-Frank capital and liquidity requirements, provisions to limit stress test programs to institutions larger than $50 billion, and a restructuring of the financial services regulatory agencies. The report recommends that federal financial agencies coordinate their supervision and exam activities, and consider a policy where only one regulator leads enforcement related to a single incident or set of facts. Regarding community financial institutions, the report recommends the creation of a “consolidated examination force” to streamline overlapping exams from multiple regulators. It also calls for exempting banks under $10 billion in assets from the Volcker Rule, streamlining call reports, and increasing the Small Bank Holding Company Policy Statement asset threshold to $2 billion. For credit unions, it suggests a capital leverage test to replace the risk-weighted capital rule for institutions over $100 million. The report also recommends that Congress adopt legislation to make the position of Consumer Financial Protection Bureau (CFPB) director removable at will by the president, or changed to an independent bipartisan commission, and to subject the CFPB to the congressional appropriations process. It also advocates for limiting the bureau’s enforcement powers. Treasury Secretary Steven Mnuchin has indicated that a significant portion of the proposed reforms may be implemented administratively, while others would require legislative action.

Financial CHOICE Act Approved by the House

On June 8, the House passed the Financial CHOICE Act (CHOICE 2.0) by a vote of 233-186. One Republican member of congress, Walter Jones (R-N.C.), voted against the bill, and all Democrats who were present in the House chamber also voted against the bill. The CHOICE Act, introduced by Chairman Jeb Hensarling (R-Tex.), seeks to effectively repeal and replace the Dodd-Frank Act. Further, the bill seeks to provide regulatory relief for smaller banks and credit unions, curb the supervisory authority of the Federal

Reserve, and create bankruptcy procedures for large financial firms that fail. Regarding the FHLBank system, as it does with the CFPB, the bill makes the Director of the Federal Housing Finance Agency (FHFA) removable by the president at will, subjects the FHFA to the appropriations process, and requires the agency to conduct a cost benefit analysis as a requirement for issuing regulations. The bill originally included a repeal of the Durbin debit interchange amendment, but that provision was removed after it was clear there was not sufficient support for the amendment within the Republican caucus. Dropping the amendment cleared a path for consideration of the bill on the House floor. Although the bill will move to the Senate, it is not expected to be considered for a vote in that chamber due to lack of Democratic support. Senate Banking Committee Chairman Mike Crapo (R-Idaho.) has repeatedly stated that he is interested in smaller regulatory relief measures that could attract Democratic support, including regulatory relief focused on regional and community financial institutions.

Senate Banking Hearings on Economic Growth

On June 15, the Senate Banking Committee held a hearing focused on economic growth and mid-sized and regional banks. In his opening statement, Chairman Crapo observed that mid-sized and regional banks are subject to costly regulations that are designed for larger institutions. He further stated his belief that rules based on asset thresholds do not adequately assess the systemic risk of financial institutions, and he was generally supportive of some of the recommendations in the Treasury regulatory rollback report. Ranking Member Sherrod Brown (D-Ohio) said he was concerned that many observers have forgotten about the last financial crisis, which resulted in 10% unemployment and thousands of people losing their homes. He opined that living wills and increased capital requirements help prevent megabanks from failing and disrupting the larger economy. He did, however, state that he was optimistic about tailored regulations for regional and mid-sized banks, but that deregulation should not compromise safety and soundness or consumer protection.

On June 8, the Banking Committee held a similar hearing focused on economic growth and community financial institutions. Crapo and Brown generally agreed that regulatory review of smaller institutions is imperative, but should not hinder lending. Brown went on to state his view that the economic recovery has been unequal and that some communities are being left behind. Crapo questioned the hearing witnesses about the effect of the Volker Rule on small institutions. Brown focused his inquiry on the estimated cost of regulatory compliance and used the opportunity to criticize the president's proposed budget cuts to federal housing and economic development programs, which the panelists stated were valuable to their communities.

House Bill on FHLBank Membership

On June 14, Rep. Randy Hultgren (R-Ill.) and Rep. Gwen Moore (D-Wisc.) introduced a bill to allow captive insurance companies who belonged to an FHLBank before the promulgation of the 2016 membership rule to remain members. The rule required FHLBank captive insurer members that joined prior to FHFA's proposed rule up to terminate their membership within five years, and those that joined after issuance of the proposed rule up to terminate within one year. In a press release, the bill sponsors stated they introduced the legislation "to restore the membership of lenders in the Federal Home Loan Bank System if they joined before the [FHFA] proposed its recently finalized membership rule and if they can demonstrate a commitment to residential mortgage activities."

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