



## Weekly Update

Public Policy Network  
FHLBank Pittsburgh

### **Policy Update January 15, 2010<sup>1</sup>**

With both the Senate and House in session next week and the health care debate coming to some sort of conclusion, financial services issues are assuming greater prominence in Washington's collective consciousness. The opening of hearings by the Financial Crisis Inquiry Commission, President Obama's renewed calls for executive compensation restrictions and a possible bank tax, continuing work in the Senate on financial services reform, and increasing activity in the upcoming GSE debates underscores how busy this year will be for those with a stake in financial services issues.

#### **President Obama Proposes Bank Tax**

The Obama Administration has called for a tax on large banks' liabilities to recover losses from the Troubled Assets Relief Program (TARP). The fee would apply to firms with more than \$50 billion in assets and would charge a 0.15 percent tax to institutions' covered liabilities (covered liabilities = assets - Tier 1 capital - insured deposits) for a period of ten years.

Under this definition, FHLBank members would essentially have to pay a fee on FHLBank advances. According to third quarter data from the FHFA, 52 FHLBank members hold more than \$50 billion of assets, holding a combined \$285 billion in advances. This could lead to more than \$420 million in possible fees on members' advances in the first year. Details are still sketchy on this proposal which would require congressional approval.

#### **The Financial Crisis Inquiry Commission Holds First Public Hearings**

Executives from the nation's largest banks, as well as federal regulators, testified before the bipartisan Financial Crisis Inquiry Commission on the causes of the financial meltdown. The bank executives offered little new information. Several panel members were clearly unsatisfied with the lack of changes being made by banks to ensure another crisis will not happen again, and several heated exchanges between the executives and panel members occurred.

One point of interest in testimony from the regulators came as FDIC Chair Sheila Bair assigned blame to the Federal Reserve for not acting quickly enough in response to the

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<sup>1</sup> For additional information call Peter Knight (202.347.2666) or Michael Bourgeois (202.638.3021).

crisis and for keeping interest rates too low. This assertion continues the battle between regulators as each tries to ensure their powers are not limited as the reform process moves forward.

### **Chairman Frank Includes FHLBanks in Statement Touching on GSE Reform**

House Financial Services Committee Chairman Barney Frank (D-MA) issued a press release announcing a hearing on executive compensation and detailing possible items that will receive attention by the committee this year. While Chairman Frank set no timeline for his agenda, he stated his intention to examine housing finance, which “includes the GSEs, the Federal Home Loan Banks, Fannie Mae, Freddie Mac.” It comes as no surprise that FHLBank issues will be open for debate, but the majority of GSE proposals from outside groups up to this point have focused exclusively on Fannie Mae and Freddie Mac.

### **Federal Deposit Insurance Corporation (FDIC) Request Comment on Advance Notice of Proposed Rulemaking (ANPR) for Safe Harbor for Securitized Assets**

The FDIC this week posted for comment to the Federal Register an ANPR concerning standards for the safe harbor for securitized assets. As reported in previous Updates, a new rule by FASB forces banks to report securitized assets on their balance sheets for financial statements. The FDIC agreed to grant securitized assets of institutions a “safe harbor” from seizure in the event of a bank’s failure until April 2010, but the assets must meet certain proposed standards. Many of the 35 questions for comment revolve around the paperwork and logistics of implementation, but the main objective of the ANPR is to see if “future regulation should apply different conditions to different asset classes.” According to the ANPR, the difficulties in the residential mortgage-backed securities may require a more focused approach when dealing with the RMBS of failed institutions. The posted ANPR includes preliminary regulatory text that could be considered to set specific standards for such a safe harbor.

Link to ANPR: <http://frwebgate1.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=579289134135+0+2+0&WAISaction=retrieve>