



FedFin Weekly Alert

Monday, August 31, 2020

❑ HOW'S IT GOING SO FAR?

As noted below, Secretary Mnuchin will appear Tuesday before the COVID crisis panel chaired by Majority Whip Clyburn (D-SC). Given the Secretary's role in framing the Administration's position on the next round – should there be one – of COVID relief, this will be a high-profile, high-pressure, high-politics session. However, these will not be the only PPPs characterizing the hearing – the Paycheck Protection Program will also figure prominently along with all of the financial-sector provisions of the CARES Act ([see Client Report COVID8](#)). We'll of course provide you with an in-depth analysis of the session, focusing on:

- **PPP:** There is broad bipartisan agreement that another PPP tranche is needed along with simpler and even automatic forgiveness of outstanding loans. Members from both sides of the aisle will also push again for sector-specific loans, along with structural changes to enhance its support for asset-based sectors and to allow another borrowing round for those who have already scored PPP credit. Democrats will also press Mr. Mnuchin on assertions that banks have unduly favored large companies and/or white borrowers, with Rep. Clyburn perhaps signaling how his panel's investigation of these questions is faring and what comes next.
- **Fed Facilities:** It has not gone unnoticed that most of the \$454 billion authorized in late March for emergency financing has gone unspent. Press reports attribute this to Treasury pressure on the Fed, which will not back loans on which it fears loss without assurance of Treasury reimbursement from the Exchange Stabilization Fund. The Main Street Lending Program and the muni-bond windows will draw most of the fire here based on their slow start and constituent demand, but we expect Mr. Mnuchin to stand firm on fiscal-policy grounds. He will also, we think, continue to reject calls for a new CMBS window or other facilities, countering that those now open suffice. Democrats will renew demand that all CARES Act funding come with worker-protection strings attached and Mr. Mnuchin will again say that Congress should mandate this if it wants to.

- **Special Cases:** Following its [last meeting](#), the CARES Act Congressional Oversight Commission [launched a bipartisan investigation](#) of YRC Worldwide, demanding answers from Treasury and the Defense Department on how this firm satisfied statutory requirements that its activities rise to those of national interest. This will almost surely come up, as will disputes surrounding airline loans given recent press reports that two major airlines are laying off thousands of workers.
- **Much Else:** One can never tell where hearings such as this may wander, but it seems likely that Democrats will demand that Mr. Mnuchin support all of the funding in the House-passed relief package and that the Treasury Secretary will not do so. Democrats will also demand that Mr. Mnuchin ensure that any Administration efforts to go around Congress via executive orders do not take funds from programs they now care more than ever about such as federal emergency management. Republicans may take this opportunity to grill Mr. Mnuchin about the federal deficit – another debt ceiling looms – and of course home-town issues will surface on both sides of the aisle and across the ideological divide.

Headlines From the Past Week's Daily Briefings

[August 24](#)

- **FDIC Proposes Independent Supervisory Appeals** - Reflecting ongoing demands for independent ombudsmen and review processes, the FDIC proposed to replace its Supervision Appeals Review Committee with an independent Office of Supervisory Appeals that has authority to issue material supervisory determinations.
- **Postal Banking Absent from House USPS Bill** - Despite expectations that House Democrats would include postal banking provisions in their emergency legislation to block changes to USPS services, the bill is silent on this financial-sector priority.

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- **FSB Suspends G-SII Designations but Advances Resolution Methodology** - Building on its 2011 resolution “attributes” and on an insurance-specific set issued in 2014, the FSB issued a methodology designed to enhance the resolvability of systemic or infrastructure-critical insurance groups.
- **CFPB Opens Credit-Card Lending to a World of Change** - The CFPB released a request for information (RFI) on credit-card lending since the 2009 CARD Act, doing so under the auspices of regulatory-relief law mandating periodic review to ensure that small entities are not unduly harmed by implementing rules.
- **Senate Dems: Financial Rules Must Recognize, Reduce Climate Risk** - The Senate Democratic Special Committee on the Climate Crisis released a wide-ranging

report on building a “clean” economy, making several recommendations for federal financial regulators.

- **FHFA Concedes, Refi Fee Delayed** - Following widespread criticism from industry, Congress, and the White House, FHFA directed the GSEs to delay their refi fee until December 1.

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- **Waters: Refi-Fee Delay Not Good Enough** - Following FHFA’s decision to direct the GSEs to delay their refi fee until December 1, HFSC Chairwoman Waters (D-CA) reiterated her demand that FHFA terminate the fee altogether.
- **CECL, Dividend, CBLR Rules Go Final** - Moving numerous IFRs into final form, the federal banking agencies today finalized a rule giving institutions the option to delay the regulatory capital impacts of CECL transition for two years, followed by a three-year transition period.

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- **Fed Bends a Bit on Racial-Equity Mandate** - In a Q&A session following his prepared remarks, FRB Chair Powell announced that the Fed will look at various racial groups when considering its employment mandate.
- **Foreclosure Moratorium Lasts Until Year-End** - As expected, FHFA extended its foreclosure and eviction moratoria for GSE-backed mortgages and GSE-owned properties until December 31.
- **GOP 2020 Platform Same as 2016** - Although we planned to continue our analysis of the election with an assessment of the GOP platform, it is in fact the same in substance as the 2016 one.
- **Quantitative Denial Disparity Rates Absent from CFPB’s HMDA Review** - The CFPB today provided its analysis of 2019 HMDA data, concluding that denial disparities continue between White and Asian applicants versus Black, Hispanic, and other minority applicants even when controlling for credit score.
- **Calabria: Comment Deadline on Capital NPR is Final** - FHFA Director Calabria rejected Sen. Brown’s (D-OH) renewed request that FHFA extend the comment period on its GSE capital proposal from 60 to 120 days.

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- **Crapo Prioritizes SEC Pre-Election Action** - In a letter made public, Senate Banking Chairman Crapo (R-ID) laid out the regulatory initiatives he wants the SEC to prioritize this fall, doubtless pushing SEC Chairman Clayton – whom he praised – to execute key initiatives before the election’s outcome might throw them into doubt.

This Week

Tuesday, September 1

House Select Subcommittee on the Coronavirus hearing entitled “Examining the Urgent Need for Additional Economic Relief for Children, Workers, and Families and the Administration’s Implementation of Key Stimulus Programs” [1:00 PM, 2154 Rayburn HOB and WebEx] Witnesses: Treasury Secretary Steven Mnuchin

Friday, September 4

FSB virtual consultation workshop on the evaluation of the effects of too-big-to-fail reforms. Speakers: **Dietrick Domanski**, Secretary General of the FSB; **Claudia M. Buch**, VP, Deutsche Bundesbank and Chair, FSB evaluation working group on effects of TBTF reforms; **Paul Tucker**, Harvard University and Systemic Risk Council; **Alberto Gallo**, Algebris; **Viral Acharya**, NYU Stern School of Business; **Tomo Ishikawa**, Mitsubishi UFJ; **Maria Soledad Martinez Pería**, IMF; and **Thierry Philipponnat**, Finance Watch.

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 requests@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about GSE Activity Reports, click: http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18

- **[MORTGAGE118](#)**: Despite its pending proposal to overhaul the entire definition of loans eligible for qualified-mortgage (QM) status, the CFPB proposes also to establish an additional class of first-lien, fixed-rate mortgages that are QMs or given a rebuttable presumption of QM status.
- **[GSE-082520](#)**: The CFPB’s [proposal](#) to allow QM treatment for certain seasoned mortgages will rewrite a decade’s worth of securitized lending if macroeconomic and interest-rate conditions turn favorable.
- **[GSE-082020](#)**: A new study from FDIC staff challenges the predictive models on which much mortgage underwriting increasingly depends, discrediting both workhorse predictive models used across the spectrum of consumer credit as well as the ML-based mortgage models that fare still worse as macroeconomic, policy, and borrower conditions change.
- **[GSE-081920](#)**: Weighing into the GSE-evolution question with its formidable analytical might, CBO [today assesses](#) a likely administrative solution in which the GSEs retain all of their earnings for a limited period of time following which common stock goes

again on offer to the public and Fannie and Freddie go back to being Fannie and Freddie more or less as they were pre-2008.

- [OPSRISK21](#): Although the Basel Committee believes that its post-crisis capital and liquidity framework significantly enhanced bank resilience evident in a robust industry response to the pandemic, this crisis and other developments are said to highlight the need for additional regulatory and supervisory work to improve operational resilience.
- [GSE-081720](#): With the release late Friday of Chairman Crapo's [letter](#) to FHFA, the GSEs' [refi fee](#) announcement has taken fire from a high-impact Senate Republican along with [Ranking Member Brown](#) and [HFSC Democrats](#)
- [PAYMENT20](#): Following a request for views in late 2019, the Federal Reserve has largely finalized its plans for FedNow, initiating a Fed-owned and -operated instant-payment service for domestic transactions.
- [GSE081320](#): The GSEs' decision last night to charge a 50 bps refi fee epitomizes the impact of capital regulation:
- [FEDERALRESERVE58](#): Senior Democrats in both the House and Senate have introduced legislation that turns a general call for a "racial-equity mandate" in campaign statements by Vice President Biden into an express directive to conduct monetary, regulatory, payment system, and other policy to reduce racial and ethnic economic disparities.
- [GSE-080420](#): Earlier today, we [released](#) an in-depth assessment of a little-noticed, but ground-breaking statement [released](#) late yesterday by the Federal Financial Institutions Examination Council (FFIEC).
- [COVID12](#): The four federal financial regulators along with the CFPB and a state-regulatory representative that comprise the FFIEC have issued new principles designed to guide banking organizations and other lenders through the challenges as forbearance deadlines loom across the spectrum of consumer and commercial loans for financial institutions large and small at a time of fiscal-policy uncertainty.
- [GSE-073120](#): When we looked at the [GSEs 1Q earnings](#), we asked if it was "curtains for CRT." The question came then because of the sudden rout in CRT counterparties caused by March's market madness.
- [FAIRLEND7](#): The Bureau of Consumer Financial Protection has opened a sweeping inquiry into how credit discrimination occurs and could be averted, seeking comments and suggestions without indicating any possible policy responses.