



FedFin Daily Briefing

Wednesday, August 12, 2020

Banking Dems Demand GSE Capital-Rule Delay

Following requests from many industry and advocacy interest groups, a [letter](#) late yesterday spearheaded by Senate Banking Ranking Member Brown (D-OH) signed by most Banking Democrats demanded that FHFA extend the comment period on its [GSE capital proposal](#). They also demand FHFA and GSEs analyses of the rule's impact on homeowners, renters, lenders, and other participants in the broader housing market. Arguing that the complexity of the proposal and its significant differences compared to FHFA's 2018 proposal necessitate careful review, the senators say the 60-day comment period is inadequate. The senators do not request a specific timeframe for the extension, asking only that time be provided for all interested parties to comment. FHFA Director Calabria has previously said he will not extend the comment period, arguing that it is closer to a 90-day period due to delayed *Federal Register* publication.

FRB-NY: Digital Currency Can be Token and Account-Based

In a [post today](#), Federal Reserve Bank of New York staff argue that distinctions between “token” and “account-based” digital currency are often unnecessary because many digital currencies have attributes of both types of money. The post draws no policy conclusions from this observation nor does it address key CBDC considerations. A recent [EconomicEquality blog post](#) places this question in the policy context, expressing a preference for a token-based system – i.e., one with cash-equivalent functionality – due to the importance of cash to lower-income households. However, like this post, we do not posit a hard barrier between token and account-based CBDC because this form of digital currency represents fiat currency. The post suggests that bitcoin is a good example of a non-fiat digital currency that is both token and account-based but goes on to note that its token value is subject to considerable “validity” risk – i.e., whether anyone will agree to the token's value or even its standing as a true representation of a certain value.

Rosengren Reiterates Support for MSLP As Is

In a [speech](#) today also offering a grim economic forecast, Federal Reserve Bank of Boston President Eric Rosengren renewed his defense of the Main Street Lending Program administered by his Reserve Bank. As [noted](#) last week, this program took a drubbing from Members of the COVID-19 Congressional Oversight Commission and private-sector witnesses. However, Mr. Rosengren testified then and reiterates now that it is an essential metronomic backstop the use of which has begun to grow steadily as lenders and borrowers better understand it. Mr. Rosengren also notes that the best solution for troubled borrowers may not be more debt, signaling no interest in revising the MSLP's terms to increase lender participation and borrower use.

Philly Fed: CARD Act Harmed Non-Prime Borrowers

Finding that one more pro-consumer effort had unintended consequences, a new [Philadelphia Fed working paper](#) concludes that the 2009 CARD Act significantly reduced credit-card borrowing limits, doing so disproportionately for non-prime borrowers. The Act ([see Client Report CREDITCARD34](#)) reformed credit-card marketing, late fees, and numerous other practices that advocates believed put borrowers, especially vulnerable ones at undue risk of unsustainable debt and/or predatory fees.

Looking at data from 2006-2016, the study finds that the average ratio of credit limit on cards to total consumer debt declined for non-prime borrowers relative to prime borrowers after introduction of the legislation that became the CARD Act. This trend was not present in the six quarters immediately preceding introduction of the bill, beginning upon introduction and presumably due to anticipation of enactment. The decline persisted through all implementation phases of the Act and in its immediate aftermath and was economically significant through 2016.

The paper also rejects several alternative explanations for the reduction. Although the freezing of securitization markets during the crisis may have reduced issuance of credit cards, data indicate that credit card receivables did not suffer to a greater extent than other types of loans as liquidity dried up. Adoption of new accounting standards for securitizations in 2010 is also dismissed as credit declines occurred earlier than possible if the accounting-standard changes were causal. Both explanations are also dismissed due to the authors' contention that neither event would disproportionately influence prime versus non-prime borrowers.

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

- **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.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

- **[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
- **[CONSUMER35](#)**: As in yesterday’s Senate Banking hearing ([see Client Report CONSUMER34](#)), today’s marathon HFSC session with CFPB Director Kraninger was highly contentious.
- **[GSE-073020](#)**: Fannie Mae’s and Freddie Mac’s 2Q earnings statements reveal for the first time that FHFA on June 17 imposed a new liquidity regime akin in some respects to the banking agencies’ LCR and never-finalized NSFR along with various other liquidity and resiliency standards for GSIBs.
- **[CONSUMER34](#)**: As expected, Democrats led by Ranking Member Brown (D-OH) sharply criticized CFPB Director Kraninger at the contentious Senate Banking hearing, citing a lack of enforcement actions and pandemic measures on [credit reporting](#) and mortgage forbearance.
- **[GSE-072720](#)**: In recent in-depth analyses, we assessed the OCC’s new valid-when-made doctrine and its latest proposal to define who is deemed a “true lender.”
- **[PREEMPT34](#)**: As promised by Acting Comptroller Brooks, the OCC has quickly followed up its controversial valid-when-made rule with a proposal defining “true lender” to facilitate the partnerships between banking organizations and other financial companies sometimes called “rent-a-bank” charters.
- **[GREEN3](#)**: Building on its 2017 [climate-change disclosure work](#), the FSB issued what it describes as a “stocktake” – i.e., a survey combined with next steps – in this increasingly critical area.
- **[GSE-071720](#)**: A new Federal Reserve Bank of New York staff paper sheds timely light on the impact of foreclosure-mitigation efforts on long-term housing markets and household wealth.
- **[SBA39](#)**: In this report, we assess the financial policy implications of the wide-ranging House Small Business Committee hearing with Treasury Secretary Mnuchin and SBA Administrator Carranza.
- **[MORTGAGE117](#)**: In this report, we assess the HFSC Oversight and Investigations Subcommittee hearing on mortgage servicing.