



FedFin Daily Briefing

Thursday, August 20, 2020

FRB-NY: Lower-Income, Minority Borrowers at Risk re Household Debt

The Federal Reserve Bank has moved on from its [assessment](#) of mortgage and student-loan forbearance to identify the distributional implications of other forms of debt in the wake of COVID's macroeconomic shock. Given that 63 percent of the population has neither mortgage nor student debt, this analysis of credit-card, auto and other debt is instructive on possible portfolio stress and macroeconomic impact in the absence of renewed fiscal stimulus. Note, however, that FRB data are limited with regard to nonbanks short-term and installment loans, suggesting that overall debt burdens may be higher and still more disproportionately burdensome to lower-income and minority communities.

The post finds that a large share of borrowers in low income, majority Hispanic, and majority Black neighborhoods will not receive direct relief from debt moratoria because they tend to have neither mortgage nor student debt, particularly when compared to mid-/high-income and majority White neighborhoods. Borrowers without mortgage or student debt are likely to be older, rural, and reside in low-income, majority Black or Hispanic neighborhoods. They are also more likely to be in financial distress and, due to higher rates of already-delinquent credit card debt, also unlikely to lean on these accounts to smooth consumption. CARES Act fiscal stimulus was thus of particular importance reducing delinquencies of non-mortgage/student debt.

Senate Democrats Escalate Refi-Fee Reversal Demand

Following a [scathing letter](#) of his own, Senate Banking Ranking Member Brown (D-OH) was joined yesterday by fourteen Senate Democrats in yet another demand that FHFA Director Calabria reverse the GSEs' recent [refi fee](#). Senate Banking Chairman Crapo (R-OH) has also [criticized](#) this fee on timing grounds, but Democrats not only now emphasize the GSEs' three-week implementation schedule, but also again take broad issue with any diminution of mortgage lending during the COVID crisis. Demanding answers by August 26, the letter asks FHFA to address the fee's impact on borrowers, the market, and the economy. Given White House support for fee reversal and Sen. Crapo's letter, we expect a strong, bipartisan move next week at the least to delay it.

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

- [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
- **[CONSUMER35](#)**: As in yesterday's Senate Banking hearing ([see Client Report CONSUMER34](#)), today's marathon HFSC session with CFPB Director Kraninger was highly contentious.
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