



# *FedFin Daily Briefing*

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Thursday, September 3, 2020

## **BoE Demands Social-Good, Not Just Payment-System, Considerations Ahead of CBDC**

[Speaking today](#), BoE Governor Bailey laid out a vision of digital currency with significant impact not only in the U.K., but also for the way global regulators develop the stablecoin regime on which they recently sought comment ([see FSM Report CRYPTO14](#)) and for numerous [multi-currency CBDC](#) efforts. Mr. Bailey lays out the like-kind functional framework also established in the FSB stablecoin consultation, noting that low risk does not mean no risk and insisting that payment providers must be no risk to ensure payment finality. Unlike the Fed's [approach](#) to CBDC and even to its own instant-payment service ([see FSM Report PAYMENT20](#)), Mr. Bailey also says that the exchange of money is far more than an exchange of value.

Stating that money has social – not just financial – consequences, the BoE governor says that new forms of money and a new infrastructure raise transparency, resiliency, and consumer-protection questions. Noting concerns recently laid out in an [EconomicEquality blog post](#), Mr. Bailey also points to the privacy challenges inherent in central-bank control of personal information in CBDC models and the risk that private companies could use personal information for undue purposes in private-sector digital currencies. Transparency could facilitate AML enforcement, but also create the risk of what others have called “surveillance capitalism.” Encouraging inclusion and enhancing competition are other critical social-good questions about digital currency that, he says, must be resolved by policymakers, not central bankers.

## **OCC, Fed Approve Innovative Charter, BHC**

Continuing his fast-paced efforts to transform banking, Acting Comptroller Brooks today announced approval of an application by a fintech start-up, Jiko, to acquire a small Minnesota federal thrift converted into a national bank for this purpose. Mr. Brooks' comments are in no official OCC statement of which we are aware, instead provided to [CNBC](#) and [Axios](#). The Federal Reserve Bank of San Francisco also [approved](#) Jiko's application to become a BHC. As a result, the transaction is significant not only with regard to Mr. Brooks' efforts to increase national-charter innovation, but also as a precedent for the non-traditional activities that may gain payment-system access and, at the parent level, that may also win Fed approval.

Reportedly, Jiko has yet to serve customers beyond a few insiders. As we noted when Jiko launched in 2017 ([see Client Report FINTECH16](#)), the company essentially offers a reverse-sweep product we said at the time could be precedent-setting as a new form of non-intermediation focused deposit-taking aimed principally at payment-system access. Typically, brokerage customers allow excess funds to be swept from a brokerage account into an FDIC-insured account. However, in Jiko's case, insured deposits are swept into brokerage accounts that then invest only in Treasury obligations. The yields FICO cites for these investments is large enough to suggest that Treasury obligations are

laddered across maturities, but the extent to which liquidity is assured is not made clear nor is the extent to which custody accounts ensure the immediate liquidity associated with insured deposits. Debit-card interchange fees are the principal source of company revenue according to prior Jiko statements, with Jiko planning to have its newly-acquired bank provide the infrastructure for debit-cards and a range of other, unspecified services at less cost than a traditional bank with considerably greater efficiency. Payment-system access was critical to Jiko's initial design, which contemplated products such as virtual payment cards, large-payment merchant cards, and individual-specific payment products. It is unclear if FDIC-insured accounts at the bank or sweeps from payment instruments into the brokerage account would fund these cards and, if the latter, how they would be regulated to ensure finality and compliance with various standards applicable to bank cards. The activities approved for the Jiko BHC are limited only to data and brokerage services, but Jiko's new bank is an insured depository and thus clearly eligible for payment-system access.

### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [requests@fedfin.com](mailto: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](http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18)

- [GSE-090320](#): As noted in our three summaries of key FHFA comment letters, FHFA was not exactly overwhelmed by heartfelt praise for its GSE capital rule. However, stripped of the asks FHFA cannot or will not grant -- i.e., an explicit guarantee, a total rewrite treating the GSEs as insurers -- we see numerous areas in which at least some commenters will have their way.
- [COVID13.pdf](#): Little Agreement on Phase Four COVID Relief, But Strong PPP Support - As anticipated, today's House Select Subcommittee on the Coronavirus Crisis hearing with Treasury Secretary Mnuchin reflected contentious negotiations over a phase four rescue package.
- [GSE-090120](#): In this analysis, we continue our assessment of comment letters to FHFA on the [capital proposal](#).
- [GSE-083120a](#): In this report, we begin our assessment of the comment letters on FHFA's [capital proposal](#) that we believe carry the most weight in terms both of FHFA's final rule and what Congress may care to do about it.
- [GSE-083120](#): A new Fed staff study finds wide disparities among the mortgage rates borrowers pay on exactly the same loan that has nothing to do with risk and apparently everything to do with borrower sophistication.
- [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.

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- **[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.