



FedFin Daily Briefing

Monday, September 14, 2020

FedFin Daily Alert: NCUA Expands Credit-Union Market Reach, Flexibility to Exclude Certain Areas

Effective today, the NCUA has [revised controversial rules](#) making it considerably easier for federal credit unions to deem defined geographic areas with fewer than 2.5 million inhabitants as a well-defined community with a “common bond” for purposes of its operations. This reflects a recent NCUA court victory over protests from the banking industry, as does another aspect of the rule which permits credit unions not to serve certain parts of their geographic base as long as the NCUA is convinced doing so does not discriminate against minorities or other protected populations. Unlike its rulings on the common bond, the earlier court decision did not affirmatively uphold the NCUA’s action on the core-community exclusion, demanding instead that the NCUA better explain it. This new rule does so, but perhaps not to the satisfaction of those opposed to an expanded NCUA mission. The new provisions defining core service areas with anti-redlining controls reflect the NCUA’s judgment that Congress expressly exempted credit unions from the Community Reinvestment Act to permit greater flexibility in how credit unions serve lower-income communities within their market reach. The NCUA also argues that its action permits greater banking services for under-served communities because credit unions may serve non-members and offer business loans in these core areas under certain circumstances. Noting that credit unions are subject to anti-discrimination law, the NCUA also rejected arguments that authorization to exclude core service areas will allow credit unions to serve only wealthy customers. We doubt this action will quell controversy or even litigation; issues germane to the extent to which credit unions now serve low-and-moderate income communities are addressed in a 2019 [FedFin study](#).

U.S. Expands AML Regime to Banks without Federal Regulators

FinCEN today [finalized a rule](#) first proposed in 2016 imposing AML, customer due-diligence, and beneficial-ownership standards on banks without a federal functional regulator (i.e., private banks, certain trust companies). Effective sixty days after Federal Register publication and with a 180-day compliance deadline, the rule mandate steps such as internal controls, implementation of a compliance program and employee training, and independent audits. The final rule implements a request from the Financial Action Task Force, thus bringing the U.S. into greater compliance with global standards in order to forestall identified instances in which current exemptions promote illicit activity. Most commenters generally supported the rule but sought transition periods of as long as two years.

Senior House Dems: GSEs Must Do Better on Diversity, Inclusion

HFSC Chairwoman Waters (D-CA), Oversight Committee Chairwomen Maloney (D-NY), and HFSC Diversity and Inclusion Subcommittee Chairwoman Beatty (D-OH) [late Friday](#) highlighted [GAO findings](#) they say show that Fannie and Freddie have made insufficient progress on diversity and inclusion. Although Wednesday's HFSC hearing is on [FHFA's capital proposal](#), diversity will surely come up for any official witnesses. Lack of workforce, supplier, broker-dealer, senior management, and board diversity is highlighted, with the chairwomen specifically emphasizing that the percentage of senior management roles held by women of color at both companies remained in the single digits from 2011 to 2019. The GSEs' female share of employees also lags that of private-sector firms, declining from 2011 to 2018. Chairwoman Waters is also concerned by GAO's failure to make recommendations to FHFA on how oversight could be improved. Absent such recommendations, Rep. Beatty urged leadership at Fannie and Freddie to review the report's findings and take decisive action.

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-091020](#): As we [noted yesterday in our in-depth analysis](#), a CFTC subcommittee has issued a landmark [report](#) laying out an array of climate-change risks it urges policy-makers to prioritize to prevent systemic and sector risks
- [COVID14](#): Today's Senate Banking hearing on the status of emergency Fed facilities showed even more clearly the dividing lines between Democrats and Republicans on changes to the Main Street Lending program than the CARES Act Congressional Oversight Commission's [recent hearing](#).
- [GREEN4](#): In this report, we analyze an influential and possibly even game-changing [paper](#) released today by the CFTC's Climate-Related Market Risk Subcommittee.
- [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

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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.
- [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.