



FedFin Daily Briefing

Monday, October 19, 2020

Powell Reiterates Fed's Cautious Path to CBDC

At an IMF panel this morning, FRB Chairman Powell reiterated that the U.S. has made no decision about CBDC launch, echoing the cautious approach announced recently in August by Gov. Brainard ([see Client Report CBDC3](#)). Mr. Powell stated that there is high cash demand in the U.S. along with a banking system that reaches most households and, with the Fed's new instant payment system ([see FSM Report PAYMENT20](#)) will reach still more. Libra has, however, led the Fed like many central banks to think more carefully about payment-system innovation, with Mr. Powell praising actions such as the FSB's recent [stable coin policy](#). Mr. Powell said the U.S. has an obligation to lead payment-system innovation but should also get it right, not just seek to be first. Mr. Powell strongly supports BIS work in this area, with BIS head Agustín Carstens today emphasizing that CBDC is a sovereign decision, noting also that CBDC must be carefully designed to capture efficiency benefits without unintended effects.

FRB-NY: SLR Raises Market-Leverage Risk

Continuing a series on the structural impact of post-crisis rules, the Federal Reserve Bank of New York's blog [today](#) features a post on asset correlations between hedge funds and broker-dealers. The study finds that rules create incentives for BHCs via their prime brokers to take on leverage that is then transferred to large client hedge funds. This in turn increases leverage-dependent arbitrage trades, with the SLR found to be the most important rule leading to this adverse result based on pre- versus post-SLR results. The post also notes that regulators have now noted this inter-relationship and thus altered the SLR to exclude excess reserves and Treasury obligations from the denominator ([see FSM Report LEVERAGE23](#)). The post takes no position on whether this exemption should be continued in post-crisis rules; recently, Vice Chairman Quarles [suggested it be only temporary](#).

Fed CRA Deadline Ensures No New Reg Until at Least Late 2021

The *Federal Register* [today](#) includes the Fed's ANPR to craft a new CRA framework. As noted in our in-depth report ([see FSM Report CRA30](#)) the initial construct proposed is aimed at eventually crafting an inter-agency construct and thus raises many questions on which comment is requested, but also includes enough specificity to suggest that the Fed has clear views on what that should be. Comment is now due on February 16, reflecting the 120-day comment period is designed to push a proposal well into next year and delay final action until the political climate is clarified.

Clyburn to FHFA: Automate Forbearance for Delinquent Borrowers

Select Subcommittee on the Coronavirus Crisis Chair Clyburn (D-SC) [late Friday](#) sent a letter to Director Calabria urging FHFA to require mortgage servicers to automate forbearance for borrowers who are more than sixty days delinquent and produce documents he says have been withheld by FHFA. Noting an FHFA IG report finding that the GSEs lacked oversight of servicer CARES Act compliance, the letter highlights the need for FHFA to directly address what are called inadequacies in the forbearance program. Any analyses of the impact of granting automatic forbearance conducted by FHFA or the GSEs is also requested, and FHFA is asked to provide the steps needed to direct the GSEs to mandatory automatic forgiveness if possible. A response is requested by October 30.

Dems Demand Tougher Bank M&A Reviews

In separate letters sent late Friday, [Sen. Warren](#) (D-MA) and a [group of House Democrats](#) urged DoJ to toughen standards for bank mergers as it updates its bank M&A guidelines ([see Client Report MERGERS](#)). With the House letter led by Reps. García (D-IL) and Jayapal (D-WA), both demand that “already weak” merger-review standards reflect pricing, market access, privacy, and financial-stability considerations. They also warn that decreased competition may exacerbate inequality, especially among the unbanked and minority and immigrant communities, as well as in the economy as a whole. The House Democrats’ letter also warns that the “unregulated” growth of complex nonbanks increases the importance of antitrust oversight. Sen. Warren urges adoption of the additional merger-review requirements in legislation she and Rep. García introduced late last year (H.R. 5318/S. 3213, the Bank Merger Review Modernization Act). Neither letter requests a response.

Unbanked/Under-Served? Rates at Record Low, but Reversal Likely

The FDIC [today](#) released data indicating that the share of unbanked households declined to a record low in June of 2019. However, the agency also fears that the pandemic may well lead to reversal of these gains despite new technologies which Chair McWilliams in part credits this success. Mobile-banking use also increased last year, now leading all other methods of account access. Of those who remain unbanked, nearly half reported not having an account because they are unable to meet minimum balance requirements; about one-third do not have an account due to distrusting banks. While rates have improved, African-American and Hispanic households continue to be disproportionately unbanked, with unbanked rates standing at approximately 14 and 12 percent.

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

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- **[GSE-101520](#)**: Although direct mortgage discrimination based on race and ethnicity has abated in recent years, a new [study](#) from the Federal Reserve Bank of Boston shows a striking difference in prepayment rates due to refinancing-speed differences directly attributable to race and ethnicity after controlling for an array of well-accepted underwriting risks.
- **[CRA30](#)**: Following opposition to the OCC's CRA rewrite, the FRB has proposed an initial construct that takes some elements of the OCC's approach and adds further and in some cases different provisions to craft what the Fed hopes will become an inter-agency CRA construct in 2021.
- **[BIGTECH](#)**: Last week, the House Judiciary Antitrust Subcommittee released a lengthy, high-impact Democratic [report](#) calling for structural changes to the nation's biggest tech-platform companies.
- **[GSE-100820](#)**: As will soon be detailed in our in-depth report, the Federal Reserve's long-awaited [CRA proposal](#) is a comprehensive rewrite that, while preliminary, would dramatically change large bank community-focused lending and investing.
- **[CORPGOV31](#)**: In this report, we analyze the strategic implications of enforcement actions against Citibank issued late yesterday by the [Fed](#) and [OCC](#).
- **[CAPITAL226](#)**: In conjunction with numerous changes to its supervisory stress test (CCAR) for the largest U.S. banking organizations in response to COVID, the Federal Reserve is seeking comment on structural changes to current capital-planning requirements.
- **[GSE-100120](#)**: A troubling new IMF staff paper looks at U.S. housing policy since COVID to uncover some worrisome aggregate and distributional effects.
- **[CRYPTO15](#)**: Continuing Acting Comptroller Brooks' efforts to enhance innovation at national banks and federal savings associations, the agency has now authorized these institutions to hold reserves associated with certain stablecoin offerings.
- **[GSE-092820](#)**: Following its [morning meeting](#), FSOC late Friday released the staff [statement](#) expressing its near-term decision on systemic risk in the secondary mortgage market.
- **[AML132](#)**: FinCEN is beginning a process that, while apparently not revising or eliminating any existing anti-money laundering (AML) requirements, would add an over-arching principle that AML programs be efficient, "reasonably-designed," and capable of providing high-quality information to law enforcement and other government entities.
- **[COVID15](#)**: HFSC's second CARES Act-required hearing with Treasury Secretary Mnuchin and FRB Chair Powell continued to stress the theme that has become apparent ever since negotiations on a Phase IV relief bill stalled: Democrats primarily want additional direct fiscal support and

Republicans are pushing for adjustments to existing relief programs funded by unused 13(3) Treasury backstops.

- **GSE-092220**: As usual, FHFA's [new strategic plan](#) is more rhetorical than real. Still, it has a noteworthy emphasis on ending the conservatorship, promulgating new standards, and enhancing inclusion not just at the GSEs and within FHFA, but also in credit access.
- **CRA29**: Emphasizing its new focus on racial equity ahead of several Congressional hearings this week, the Federal Reserve Board today unanimously [approved a long-awaited ANPR](#) revising its CRA regulations.
- **GSE-092120**: Late last week, the [Federal Reserve Bank of New York](#) announced that the Fed bought almost \$56 billion in agency MBS over the past two weeks.
- **GSE-091720**: [As anticipated](#), today's marathon HFSC hearing with FHFA Director Calabria covered a wide-range of issues we will shortly analyze in detail due to the policy and strategic importance of several exchanges.
- **FAIRLEND8**: HUD has largely finalized a controversial fair-housing rule as proposed, with the new standards for adjudicating fair-housing disputes giving defendants numerous additional protections.
- **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.
- **COVID13.pdf**: 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](#).