



FedFin Daily Briefing

Thursday, November 12, 2020

House Democratic Coalition Lambasts OCC's Crypto, Payment Construct

Joined by the HFSC fintech task force's chairman, Rep. Stephen Lynch (D-MA), Rep. Rashida Tlaib (D-MI) and a group of progressive and more moderate Members sent Acting Comptroller Brooks a [letter](#) sharply criticizing his plans for special-purpose payment charters. The letter surely presages harsh commentary at today's HFSC hearing; see subsequent FedFin in-depth report. The letter details objections to recent OCC actions on cryptocurrency ([see FSM Report CUSTODY4](#)) and stablecoins ([see FSM Report CRYPTO15](#)), arguing that innovation may advance financial inclusion but only if accompanied by stringent regulation. Citing objections from the ABA, the letter also demands that the OCC collaborate with other regulators and recognize the sweeping impact of its crypto-focused activities as well as the urgency of other priorities during the pandemic. The letter also asks a series of detailed questions such as the extent to which consumer protections will apply to new charters, if stablecoin transfers among banks will be considered brokered deposits, how run-risk is prevented, implications for the value of the dollar, and the extent to which the digital divide makes these new ventures adverse to financial inclusion.

Oversight Commission Again Demands SMCCF Halt

Following the Fed's announcement earlier this week that the Secondary Market Corporate Credit Facility (SMCCF) continues each day to purchase about \$20 million of corporate bonds, the CARES Act Congressional Oversight Commission on bipartisan basis [reiterated its position](#) that SMCCF purchases should be discontinued. It argues that ongoing secondary market corporate bond purchases are unnecessary since primary market investment-grade corporate bond rates have returned to pre-pandemic levels. Whether this or other Fed facilities remain in place after their year-end effective dates is a significant and sometimes partisan question on which the Fed has yet [taken no stand](#); advocates of ongoing support believe Treasury's backstops would remain through 2021, but opponents counter that the CARES Act ([see FSM Report RESCUE72](#)) authorizes backstops essential to Fed 13(3) authority only through the end of 2020.

FSB Determines GSIB Risk Reduction

Although GSIBs will be cheered by the [FSB's decision yesterday](#) generally to lower their capital surcharges, the skepticism with which [this was met](#) suggests that those in the U.S. and elsewhere demanding tough GSIB sanctions will only redouble their efforts for alternative strategies to rein in the biggest banks. Big banks will surely counter this by pointing out that, regardless of the GSIB methodology, many GSIBs proved essential to systemic resilience, a fact recognized in the Fed's most recent financial stability report ([see Client Report SYSTEMIC89](#)) and by many other central banks and regulators. The new ratings are still based on the FSB's 2013 methodology ([see FSM Report CAPITAL180](#)) even though Basel issued a new approach ([See FSM Report GSIB13](#)) in 2018. This methodology, not mandated until 2022, would have led to higher surcharges for several GSIBs. 2020 rankings include no new banks; instead rankings are generally just moved down for most covered companies. The rankings also reflect data as of December, 2019; this does not address all the changes to GSIB balance sheets that have occurred in the course of the COVID crisis. U.S. GSIB

surcharges ([See FSM Report GSIB7](#)) are gold plated compared to these global standards, with FRB Vice Chairman Quarles on Tuesday ([See Client Report RESCUE77](#)) telling Senate Banking that the U.S. methodology will not be revised until the U.S. finishes the full slate of Basel IV capital standards that, while finalized by Basel in 2017, have yet even to be proposed in the U.S.

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

- [RESCUE78](#): Today's HFSC hearing with federal regulators addressed some of the same ground as the Senate's session earlier this week ([see Client Report RESCUE77](#)), although Acting Comptroller Brooks did not come in for the shellacking on his innovative charters delivered by Senate Democrats
- [RESCUE77](#): At its first hearing following last week's election, Senate Banking today heard testimony from the federal prudential regulators which largely covered ongoing efforts to combat the COVID pandemic's impacts on the financial system.
- [GSE-111020](#): Following our in-depth analysis of the Fed's latest financial-stability report, we here focus on mortgage-specific considerations, with the most significant strategic one the Fed's conclusion that nonbank mortgage servicers and MREITs are far from out of COVID's Black Forest.
- [SYSTEMIC89](#): In this report, we go in depth into the forward-looking financial-policy implications of the Fed's latest financial-stability report.
- [GSE-110920](#): Acting at last on one of its [2019 commitments](#), FHFA has proposed a new construct sharply curtailing the GSEs' ability to launch new products.
- [ESG2](#): The Trump Administration's Labor Department has finalized controversial rules it says only clarify those previously in place under the Employee Retirement Income Security Act (ERISA) defining a fiduciary's investment duties.
- [DATA](#): In 2010, Congress told the CFPB to determine how consumer-finance providers are to give consumers access to their data.
- [GSE-110220](#): Here, we follow our in-depth analysis of the OCC's [new true-lender rule](#) with an assessment of the standards' mortgage-market consequences.
- [PREEMPT35](#): In the wake of its final rule on the "valid-when-made" doctrine, the OCC has moved quickly to finalize its controversial proposal defining when a national bank or federal savings association (FSA) is a "true lender" for purposes of state usury ceilings and consumer protection.
- [FAIRLEND9](#): Congressional Democrats have introduced legislation that formally expands civil-rights obligations to financial institutions.

- **[GSE-102820](#)**: This analysis builds on our [in-depth assessment](#) of the new inter-agency net stable funding ratio (NSFR) rule to highlight strategic implications for U.S. housing finance.
- **[LIQUIDITY32](#)**: After expectations that the U.S. might well not adhere to the Basel Committee's NSFR standards, the banking agencies have finalized their 2016 proposal, albeit in significantly revised form.
- **[GSE-102120](#)**: As we noted late last week, African-Americans and Hispanics have a heck of a time enjoying the benefit of low mortgage rates despite like-kind default risk to white borrowers.
- **[PAYMENT21](#)**: The FSB and many other global bodies have finalized a vision of cross-border payments with far-reaching implications not only for payments, but also for personal privacy, regulatory arbitrage, the role of nonbanks, cross-border resolution, monetary-policy transmission, and financial stability.
- **[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 an 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.