



FedFin Daily Briefing

Friday, November 13, 2020

FRB-Atlanta: Digital Payments, Not Bank Accounts, Key to Financial Inclusion

A new [paper](#) from the president of the Federal Reserve Bank of Atlanta and a team of researchers counters views about the benefits of bank accounts to financial inclusion, arguing that un- and under-banked consumers would be better served by new digital payment vehicles rather than traditional bank accounts. This is, they say, because years of policy have not resolved the equality problems confronting the underbanked and ongoing challenges to full banking access (e.g., minimum deposit requirements, the need for short-term/small-dollar loans, slow payment speeds). Confirming [our analysis](#) of the importance of cash to LMI households, the paper is part of a broader Atlanta Fed program aimed at developing safer payment methods that meet LMI and minority needs given the overall market transition away from cash acceptance and the disproportionate, adverse impact this has on LMI and minority households.

The paper explores three policy options. First, it considers mandating continued cash acceptance, concluding that the social-welfare and federal-budget costs of doing so exceed the benefits of consumer choice and increased accessibility. Given this, the paper's second option is temporary maintenance of cash while digital payment options expand; doing this would, the paper concludes, require better understanding of the incentives needed to convince cash users to change, perhaps via creation of a "public bank utility," an idea similar to the Democratic "Fed account" legislation ([see FSM Report CBDC](#)), postal banking ([see FSM Report POSTAL9](#)), and various state or local [public-bank initiatives](#). The paper's third option is a cashless future, laying out steps to make this happen after the digital divide is resolved. Although unsurprisingly supporting the Fed's instant-payment system ([see FSM Report PAYMENT21](#)), the paper differs from the FRB, arguing that instant payments through only the banking system would adversely affect LMI households.

FSB Announces New Plans for Bond-Market, Central-Bank Facility, Procyclicality, Buffer-Use Analysis; NBF/MMF Review Under Way

In this alert, we assess the forward-looking conclusions in the [annual Financial Stability Board report](#) to the G20 delivered today. Key outstanding issues on the post-2008 agenda are implementing resolution regimes for CCPs and insurers and reforming derivatives margining practices. Reflecting [prior FSB statements](#), the new report also focuses on MMFs and NBFs more generally, but this report does not provide any insights into the NBF-specific report planned for the G20 this month or on the broader, "holistic" review now underway to address systemic liquidity stress. The report includes for the first time of which we are aware an announcement also that the FSB will assess recent central-bank facilities and the extent to which these may have changed market conditions and participant expectations. Going forward, the FSB will also assess the extent to which banks are using the buffer flexibility granted to them in the crisis and why limited use and thus reduced macroeconomic support seems to have occurred. Work is now also planned on core-bond market liquidity, structure and resilience; on potential sources of procyclicality in financial regulation; and on crisis-management frameworks.

The report reiterates both prior FSB statements and those in the Fed's new financial-stability report ([See Client Report SYSTEMIC89](#)) finding that large banks are proving a stabilizing force in this crisis rather than amplifying stress as was the case between 2007 and 2009. FMUs, including CCPs, also functioned well despite acute stress.

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.