FedFin Daily Briefing

Monday, March 8, 2021

Fed Closes Most Emergency Windows

The Fed this morning announced that it will continue its PPP liquidity facility until June 30, three months beyond its scheduled closing at the end of this month. Unsurprisingly, Treasury concurred with this action as required for any funds disbursed through Fed 13(3) programs; it was also approved unanimously by the Board. However, three other Fed facilities – those for commercial paper, MMFs, and primary dealers – will be terminated this month. The Fed differentiates the funds being closed only by noting that they have had low use since last summer. The split decision thus provides no insight into how the Fed sees the U.S. financial system now and if it will retain the SLR exemption – also set to end on March 31 – to protect systemic liquidity as many large banks have urged it to do.

Fed Must Act Fast for CBDC, Against Stablecoin

Late Friday, a letter was released from Chairman Brown (D-OH) to Chairman Powell and Gov. Brainard strongly endorsing a U.S. digital dollar. Reviving his calls for FedAccounts (see FSM Report **CBDC**), Sen. Brown urges the Fed to take a strong, leadership position on digital currency to prevent "private actors" from "dominating" the payment system, calling for quick action from Treasury and the Fed on a CBDC timetable without detailing his preferred completion dates. This would, he said raise monetary-policy and financial-stability risk. Chairman Brown specifically calls out Libra, urging the Fed to move more quickly on standards to govern stablecoins, with the letter noting an array of equality and consumer-protection concerns with digital currency on which Sen. Brown also demands Fed action.

HFSC Dems Target Narrow Fixes for First Racial-Equity Hearing

Ahead of its hearing racial-equity later this week, HFSC today released a sweeping memorandum detailing barriers to capital, credit, and financial services faced by minority borrowers and communities. Despite an array of stark disparities, legislative proposals to be considered at the hearing are narrowly focused, omitting for now legislation introduced last year in both the House and Senate to expand civil-rights obligations to financial institutions (see FSM Report **FAIRLEND9**) or expanded CRA coverage.

Instead, bills include Rep. Green's (D-TX) Fair Lending for All Act (H.R. 166), which would expand ECOA to prohibit discrimination based on sexual orientation, gender identity, or applicant's location based on zip code or census tract. HFSC will also examine draft legislation from Rep. Green requiring Federal banking regulators to include a diversity and inclusion component in CAMELS ratings and to mandate diversity reporting. Draft legislation from Rep. Meeks (D-NY), the Making FHA Work for Borrowers with Student Debt Act, would revise the treatment of student loan debt so that covered educational liabilities reflect actual required monthly payments. Draft legislation from Rep. Velázquez (D-NY) would reinstate HMDA reporting requirements on loans to minority borrowers, leaving the exemption in place only for institutions with less than $30 million in assets.

Atlanta FRB: Electronic Payments at an "Inflection Point"

The Federal Reserve Bank of Atlanta last week released a paper showing that, at least up to 2019, most Americans preferred cash over electronic payments in P2P payments. The paper nonetheless concludes that P2P electronic payments are now at an inflection point, a conclusion based on the sharp uptick in electronic use – from ten percent in 2015 to 26 percent in 2019. Even so, the Fed staff model also finds that, while two-thirds of consumers prefer cash for P2P payments, 93 percent rank electronic technologies second. However, there are sharp distributional differences in cash, check and electronic media use. The Fed staff model shows that when controlling for income, payers with more education are more likely to favor electronic technologies over cash. However, younger payers with a lower income will use cash for payments over $121, while a payer of the same age with a higher income will use checks. Payers favor cash over other payment methods regardless of income if the transaction is under $121. Checks remain the preferred method for high-value payments across the spectrum of payees, but are particularly popular among older payers.

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 info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click here.

- **REFORM201:** Although today's Senate Banking hearing on Wall Street's role was poorly attended, it nonetheless captures the theme Chairman Brown (D-OH) intends to guide his work this Congressional session: "Wall Street" incentives adversely affect equity, equality, economic growth, and social welfare and thus require structural, sweeping reform.
- **INVESTOR15:** The Senate Banking Committee today took up two of the more contentious nominations so far to come its way: those for Gary Gensler to chair the Securities and Exchange Commission and for Rohit Chopra to head the CFPB.
- **GSE-030221:** Critics of FHFA policy are finding still more affordable-housing ammunition to add to their anti-PSPA armament.
- **GSE-022521:** In a new paper, Lew Ranieri, who needs no introduction, and Mike Calhoun of the Center for Responsible Lending float an important new idea along the way to turning the GSEs into the utilities presaged by actions under the Trump Administration to recast the conservatorship.
- **FEDERALRESERVE61:** At today's HFSC hearing, Chairman Powell not only delivered the same testimony, but faced many of the same questions to which he provided the same answers. He would not, for example, commit to ending the SLR exemption (see FSM Report **LEVERAGE23**) or to condition any continuing exemption on capital-distribution restrictions.
- **GSE-022421:** As anticipated in an earlier FedFin report, we confirm that U.S. banking agencies plan to turn quickly to U.S. implementation of the 2017 "Basel IV" package.
- **FEDERALRESERVE60:** As usual, Senate Banking's hearing today with Chairman Powell strayed from monetary policy and post-pandemic prospects to a range of financial-policy critical questions.
- **REALESTATE24:** Continuing the OCC's recent actions to expand national-bank powers into unprecedented arenas, the OCC has now proposed major liberalization of the ways in which federally-chartered organizations may use commercial real estate owned as bank premises.
- **GSE-020121:** While it will take time for the swamped Biden Administration to craft U.S. housing policy, elements of it emerged last week during stimulus negotiations, the President's statement, and HUD-nominee Fudge's appearance before Senate Banking.

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- **CAPITAL227:** Although the FRB in its proposal indicated that this rulemaking would also begin consideration of the U.S. large-bank capital framework post-COVID, its final rule largely confines itself to aligning stress-test standards with the 2019 tailoring rule and stress capital buffer (SCB) for Category IV banking organizations.

- **GSE-012221:** The failure of yet another Administration and Congress to conquer the conservatorships does not augur well for constructive policy action anytime soon.

- **INVESTOR14**: In this report, we expand on prior forecasts to assess broad financial-regulatory and structure issues under the SEC's jurisdiction under what seems likely: a Chairman Gensler. His will be an activist SEC, one sure to throw broker-dealers, asset managers, and investment funds from the relative comfort of the last four years.

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