



FedFin Daily Briefing

Friday, March 26, 2021

PPP and PPPLF Encouraged Small Business Lending

Ahead of imminent extension of the PPP, the Federal Reserve Bank of San Francisco has released a [paper](#) finding that participation in the PPP and PPPLF increased both small-business and farm lending growth in the first half of 2020. Bank participation also stimulated growth in overall small business lending, while participation in both programs expanded bank balance sheets without increased risk (a finding surely due to the full-faith-and-credit USG guarantee on PPP exposures and PPPLF support). Small-bank business models are found to allow for greater participation in PPP, and small banks thus experienced higher small-business lending growth than medium or large banks. Participation in PPPLF also significantly influenced lending by small- and medium-sized banks, which the authors conclude aligns with the PPPLF's rationale. Using Call Report data from the fourth quarter of 2019 and the second quarter of 2020, the authors used an instrumental variables approach based on measures of the intensity of bank interaction with the SBA in 2019.

McWilliams: Interagency RFI on AI Coming Soon

As expected ([see Client Report CONSUMER36](#)), federal bank and consumer regulators will shortly launch significant policy work on AI, with FDIC Chair McWilliams [today](#) confirming that work on an interagency RFI is already underway. Feedback will be sought on how financial institutions use AI and manage associated risks, as well as on whether additional regulatory clarity is needed. Ms. McWilliams highlights in particular the importance of AI to small businesses and those owned by women and minorities, noting many of these do not have long credit histories and thus are unable to obtain credit using traditional creditworthiness measures. Novel measures incorporating AI and alternative data such as income streams could, she says, provide critical access to capital, particularly during difficult times. These comments thus may signal not only a cautious approach to greater AI use, but also expansion of the preliminary guidance on alternative data ([see FSM Report FCRA29](#)) issued by the banking agencies in 2019.

Dems Push FFIEC to Address Housing-Appraisal Disparities

A group of over thirty Democratic lawmakers led by Sens. Klobuchar (D-MN), Warnock (D-GA) and Rep. Cleaver (D-MO) [today urged](#) the FFIEC to work with the housing appraisal industry to address home-valuation disparities. Directing their request to CFPB Acting Director Uejio, members emphasized the value of homeownership to intergenerational wealth and requested action to reduce the racial appraisal gap and the undervaluation of neighborhoods of color. Members also urged the CFPB, FRB, FDIC, OCC, and NCUA to consider reforms to reduce racial bias in home valuations. No deadline for any of this action is set nor does the letter specify any specific actions. As a result, we would expect FFIEC work on appraisals to continue largely as before.

CBC Increases Pressure on Biden to Pick Baradaran for OCC

Adding to the already-contentious debate regarding President Biden's nominee for Comptroller of the Currency, Rep. Jamaal Bowman (D-NY) and thirty-three other members of the Congressional Black Caucus [today urged](#) President Biden to nominate Mehrsa Baradaran to lead the OCC, saying this would be "transformative." Members cited her work on racial and economic inequality and her postal banking

proposal as evidence of an innovative, consumer-focused mindset. They argue Ms. Baradaran is the best choice for Comptroller because she has devoted her career to understanding and narrowing the racial wealth gap while other proposed candidates instead have ties to “internet-savvy lenders” who have “exploited vulnerable consumers.”

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](#).

- **REFORM204**: Following yesterday’s HFSC session ([see Client Report REFORM203](#)), Secretary Yellen and Chairman Powell today faced Senate Banking and, as before, a raft of questions with little to do with the hearing’s ostensible focus on CARES Act programs.
- **REFORM203**: At today’s HFSC hearing on pandemic-relief programs, Members asked also about key financial-policy questions.
- **GSE-032321**: Last week, [we analyzed](#) a Federal Reserve study showing that unemployment is still inexorably linked to mortgage-default risk.
- **GSE-032221**: As [we predicted](#), federal banking agencies didn’t back down: the [SLR exemption](#) for central-bank reserves and Treasuries is no more as of April 1.
- **GREEN7**: Today’s Senate Banking Committee hearing on climate risk made it clear that the partisan divide evident earlier this week on housing ([see Client Report MORTGAGE119](#)) and much else extends to what financial regulators should do about climate risk.
- **GREEN6**: Reflecting views of the Biden Administration and those of its nominee to chair the SEC, Acting Chair Allison Herren Lee is requesting public views ahead of more formal proposals revising the climate-risk disclosures to be required of publicly registered companies.
- **GSE-031721**: As our in-depth report makes clear, the Senate Banking (and Housing!) Committee’s hearing yesterday showed the wide partisan chasm between what Democrats and Republicans want of the GSEs.
- **MORTGAGE119**: Reflecting Chairman Brown’s (D-OH) prioritization of the “housing” jurisdiction under Senate Banking, the panel’s hearing today addressed not only GSE reform, but a sweeping range of rental and affordable-housing considerations in concert with lending discrimination and housing finance.
- **UDAP7**: Continuing the quick reversal of numerous Trump-era policies, the CFPB has ended a controversial policy statement providing consumer-finance companies with considerable protection from assertions of abusive acts or practices.
- **GSE-031621**: A new [FEDS Note](#) unpacks the unprecedented patterns of mortgage default risk during the pandemic to find that unemployment will tell the default tale.

- **[REFORM202](#)**: At a wide-ranging hearing, HFSC today launched its inquiry into racial equity in the financial system. Democrats offered a sweeping array of solutions, with witnesses alleging discrimination in lending and the failure of the banking system for people of color.
- **[GSE-031021](#)**: As previously [noted](#), the CFPB has decided to restore the DTI-based QM along with the patch without withdrawing its price-based QM or the seasoning rule, essentially allowing mortgage lenders to do pretty much anything and sell as much of their volume as Fannie and Freddie will bear.
- **[INVESTRO16](#)**: While Senate Banking's GameStop hearing today continued many of the partisan battles fought when HFSC held its [first hearing](#) on the matter, at least one area of consensus emerged today: the need to decrease settlement times.
- **[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.