



FedFin Daily Briefing

Monday, March 29, 2021

Toomey Attacks Fed Financial Independence

Continuing his strong attack against the Fed's focus on climate change ([see Client Report GREEN7](#)), Senate Banking Ranking Member Toomey (R-PA) today released a [letter](#) to the San Francisco Federal Reserve Bank asking for documents on its ESG-related work. Criticizing what he sees as the Fed's recent foray into social policy, Sen. Toomey noted its "politically-charged research" on ESG topics such as climate change and racial justice. Some Reserve banks, he said, have shifted from their monetary-policy mandate to "bitterly partisan" social research, using federal resources that could be directed elsewhere and jeopardizing the FRB's independence. Despite this implicit threat, Reserve Banks are, like the Board, funded via Fed earnings, not direct appropriation. However, Congress in 2015 expropriated Reserve Bank earnings for fiscal purposes ([see Client Report FEDERALRESERVE27](#)); Sen. Toomey's focus now on Fed funding and independence suggests he may try to do the same. With Democrats controlling both chambers, use of Fed funds as punishment for climate-change or other work is not likely. However, as Congress desperately seeks funding for the forthcoming infrastructure and related bills, the Fed could well find itself under fire from both sides of the aisle, especially with regard to continuing payments of interest on reserves. Sen. Toomey requested a briefing the week of April 12th from the FRB-SF.

State Supervisors Try Again for Vendor Authority

Reps. Williams (R-TX) and Meeks (D-NY) late last week reintroduced legislation to allow state and federal banking regulators to coordinate technology service provider (TSP) examinations. The bill has been introduced as bipartisan legislation in prior Congresses, with Sens. Cramer (R-ND) and Warren (D-MA) among those doing so in the last session. Opposed by federal regulators reluctant to give state supervisors primary responsibility for state-chartered banks' TSP supervision, the measure would allow federal and state regulators to share the results of a TSP's examination. Supervisors are directed to coordinate examination "to the fullest extent possible" and to avoid duplication of examination activities, reporting requirements, and requests for information. The bill was passed in the last Congress by the House but failed to receive a vote in the Senate. However, a recent statement from CSBS indicates Sens. Cramer and Warren will soon begin another push and, while unlikely to advance as a stand-alone bill, bipartisan, bicameral support at least keeps the measure in play.

Boston Fed: Main Street Increased Credit Supply

The Boston Fed today [released findings](#) that show that the Main Street Lending Program over which it had authority added "substantially" to the supply of credit to medium-sized borrowers, although its maximum leverage ratio impeded access for many smaller borrowers. The volume of loans equaled about sixty percent of the volume of comparable loans made outside the program and firms with less than \$50 million EBITDA accounted for ninety-nine percent of loans. Although 600 banks registered for Main Street, only half actually originated loans. Smaller banks (those with less than \$1 billion in assets) originated a little less than a quarter of loan volume, while banks with assets of \$1 billion to \$50 billion accounted for 58 percent. While the largest banks did not participate in a substantial way, the loans they made were large in dollar volume, accounting for approximately 17 percent.

Agencies Begin Work on AI/ML Rules

As anticipated [late last week](#) by FDIC Chair McWilliams, the federal banking agencies, CFPB, and NCUA [today](#) requested information on AI/ML use. RFIs are a preliminary step to possible U.S. regulatory action, with global regulators already expressing concern about new SIFIs outside the regulatory perimeter, increased interconnectedness, and personal privacy ([see Client Report FINTECH15](#)). The RFI asks about matters such as how AI/ML is used in customer interfaces; appropriate governance, risk-management, and other controls; and whether there is a need for agency clarification on prudent AI use. Reflecting [growing Congressional concern](#), the agencies also ask about fair lending. Comment is due sixty days after *Federal Register* publication. We will shortly provide clients with an in-depth analysis of the RFI.

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.