



FedFin Daily Briefing

Wednesday, April 7, 2021

FRB Richmond: Benefits to CBDC in Long Run

Consistent with FRB [Chairman Powell](#) and [Vice Chair Quarles](#), a new [economic brief](#) from the Federal Reserve Bank of Richmond concludes that, while rapid implementation of a U.S. CBDC is problematic, CBDC may prove beneficial in the long run. However, in contrast to [recent remarks](#) from Chair Powell that CBDC should not replace cash, the paper finds that the United States might benefit from replacing most cash with CBDC. It also concludes that CBDC could increase the effectiveness of monetary-policy transmission because physical cash may create a zero lower bound on interest rates. CBDC could also enhance financial inclusion as another method for the unbanked to make electronic payments and may facilitate cross-border payments and improve financial stability as a safe means of domestic payment despite the potential for bank runs to CBDC. CBDC is also found to add new Fed costs related to cybersecurity and resilience, as well as posing a threat to private-sector innovation and crowding out intermediation if the CBDC interest rate is set too high. In order to enhance banking competition, CBDC and bank deposits would need to be close substitutes.

Tougher Mortgage-Servicer Enforcement Effective Today

As of a notice in [today's Federal Register](#), the CFPB's new mortgage-servicer enforcement policy takes effect. The agency has thus told servicers that they are now subject to tough enforcement actions if they do not dedicate sufficient resources to assisting borrowers with loss mitigation after COVID forbearance and foreclosure protections end. This comes in concert with a [proposal](#) to implement a pre-foreclosure review period and new set of streamlined mitigation options that would effectively prohibit foreclosures until at least January 1 at the earliest.

Another Central Bank Goes CBDC Slow

As we noted earlier today, many in the Federal Reserve System are cautious when it comes to CBDC. The same was not expected from the Riksbank in Sweden, but its [new report](#) makes clear that, even in a nation where cash use may be the lowest across advanced countries, CBDC introduction raises complex challenges. The Swedish central bank notes that, while its pilot blockchain experiment was generally successful, an array of issues remain unresolved. Most immediately, the Riksbank found that DLT was uncertain when it comes to handling large numbers of payment transactions and raises issues related to storage and key options yet to be addressed. The report also emphasizes concerns of Chairman Powell ([see Client Report REFORM203](#)): uncertain legal authority to issue CBDC and the need to retain physical cash. Privacy and AML enforcement also remain problematic. Still, the Riksbank has concluded that an alternative CBDC payment channel provides redundancy that enhances security. Its work on CBDC thus continues.

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](#).

- **[GSE-040621](#)**: Just to be sure servicers got the message sent last week that the CFPB has them in its [crosshairs](#), the agency yesterday [proposed](#) sweeping changes to provide far-reaching foreclosure protections on all forbore or delinquent mortgages, not just those subject to the statutory protection afforded federal loans.
- **[AI](#)**: Advancing their efforts to ensure “responsible innovation,” federal agencies have taken an initial, cautious step into assessing the prudential, compliance, risk-management, and fairness implications of artificial intelligence (AI) and machine learning (ML).
- **[HEDGE59](#)**: The stunning collapse of the leveraged family office, Archegos, and its impact on the financial system has renewed calls for an array of regulatory initiatives.
- **[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.