FedFin Daily Briefing

Thursday, May 27, 2021

Kennedy, Cramer Resume Attack on "Political" Lending Decisions

Continuing efforts to prevent what GOP policymakers including Senate Banking Ranking Member Toomey (R-PA) have recently derided as "woke capitalism," Sens. Kennedy (R-LA) and Cramer (R-ND) yesterday introduced legislation to prohibit the federal government from entering into contracts with banks that "discriminate" against lawful businesses based solely on social policy considerations. The measure hones prior, broader bills the senators have offered (see FSM Report **SOCIALIMPACT**), with the statement accompanying the measure stating that the federal government should use its purse to power bank policy – a more modest ambition than prior legislation but one still certain to meet strong Democratic pushback. Specifically, bill prohibits the General Services Administration from awarding a contract to any bank if it does not do business with companies based solely on social policy considerations if the company is otherwise believed to be engaging in lawful commerce. The bill does not detail how social-policy decisions would be identified.

FRB-NY: Fintech PPP Lending Essential to Minority, Smaller Borrowers

A series of Federal Reserve Bank of New York blog posts takes take a deep-dive into PPP lending, concluding that PPP's impact varied greatly depending on the applicant's location and race and that fintechs were a key channel for reaching borrowers who would not otherwise have received a PPP loan. Specifically, the research finds that minority-owned firms, the smallest of small businesses, and borrowers in areas hardest hit by COVID benefited to the greatest extent from fintech PPP lending.

Looking first at revenue losses leading to the need for PPP loans, the analysis finds that revenue declines were markedly larger for small businesses in high-income counties compared to low-income ones despite similar pre-COVID revenue growth, suggesting that consumers in high-income areas disproportionately reduced their spending. This may be due to higher-income households spending a larger share of their income on pandemic-impacted activities such as recreation and travel pre-COVID, while lower-income ones spend a greater share on basic necessities and thus have less room to cut back. Higher-income areas also tend to be more urban, increasing the impacts of social distancing and other pandemic-response measures. Majority-minority areas are also more likely to be urban, resulting in similar impacts.

Establishing that small businesses in higher-income, more urban, or more racially diverse areas saw larger revenue declines, the FRB-NY then looks at how small businesses applied for and received PPP loans. Applicants seeking PPP loans from banks tended to be businesses with more employees and higher credit scores as well as having white owners and previous relationships with the bank. Conversely, once nonbanks were allowed into the program, applicants to fintechs were more likely to be Black and have lower credit scores and fewer employees. Large-bank applicants generally showed little difference along racial lines, but fewer Black and Hispanic owners applied to small banks compared to white and Asian owners. A previous relationship with the bank was a key factor in deciding to apply, with 95 percent of large bank applicants and 83 percent of small banks applicants having previous relationships. Black-owned firms applied to fintechs at more than twice the rate of white-, Asian-, and Hispanic-owned firms, often without any prior relationship. These results suggest that historical factors continue to prevent Black owners from receiving bank credit.

Fintechs also provided a significant share of the smallest PPP loans, with the post postulating that banks were often unwilling to originate them because PPP loan processing costs outweighed lender fees, which were loan-amount based. The study does not say so, but it is likely a combination of lower systems costs and the lack of regulation and significant internal controls that afforded fintechs a higher profit margin on very small loans.

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.

- **CRYPTO18**: Following an array of actions by the OCC, the FDIC has begun its consideration of the rules governing insured depository institutions (IDIs) engaged in digital-asset activities.

- **GSIB18**: As anticipated, Senate Banking progressives today excoriated big-bank CEOs for what Chairman Brown (D-OH) describes as their preference for profit over public welfare.

- **ACCESS:** The Federal Reserve's latest wellbeing survey provides important, new insights into how Americans view their financial-services firms at a time of heightened focus on access and equity.

- **REFORM206**: In the one-two punch we anticipated, Senate Banking Chairman Brown (D-OH) convened today's hearing with FRB Vice Chairman Quarles not only to lambast supervision and regulation under Mr. Quarles' watch, but also to reiterate the malign role he believes big banks play in the U.S. economy ahead of tomorrow's hearing with GSIB CEOs.

- **GSE-052521**: President Biden has issued an executive order (EO) setting in motion a series of administrative actions designed to reduce both climate risk in the financial sector and in any way financial companies make it worse.

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- **GSE-052021**: Using its formidable trove of non-public data, the Federal Reserve Bank of New York has released a series of staff reports assessing the status of mortgage forbearance.

- **REFORM205**: Although the banking agencies today tried to make as little news as possible in their appearance before the House Financial Services Committee, Members made it hard for them to leave the witness table without providing important insight into regulatory policy as a new agency line-up takes shape.

- **INTERCHAGE8:** Leaving its interchange-fee restrictions intact – at least for now – the Federal Reserve is proposing to expand on its existing requirement that all debit-card transactions must be enabled for processing on at least two unaffiliated payment-card networks for card-not-present (e.g., online) transactions.

- **GSE-051821**: As we noted yesterday in our initial assessment of FHFA's annual CRT report, its assessment of the critical 2020-21 period shows an unbending determination to quash all but the bestcapitalized credit-risk transfers no matter the pressure from Congress and other quarters to relent on grounds that risk transfers reduce GSE risk and thus spur recapitalization and privatization.

- **DEPOITINSURANCE112**: Although federal law expressly bars misrepresentation of FDIC-insurance status, the FDIC has observed increasing instances that might at the least be described as confusing, many of which led to informal enforcement actions.

- **GSE-051221**: A new Fed staff paper sharply questions an axiom of mortgage securitization: the sanctity of the TBA market.

- **SYSTEMIC91**: In this report, we assess the details of the Fed's most recent financial-stability report, focusing on policy and regulatory ramifications with near-term strategic impact.

- **GSE-051021**: As detailed in a new FedFin report, the Fed's proposal to open payment-system access is far from the technicality many nonbankers take it to be.

- **PAYMENT22**: When the Fed announced its new instant payment system in 2020, it made it clear that access would be limited to traditional insured depository institutions (IDIs) and ever since has shown no public inclination to open the system.

- **INVESTOR7**: Today's HFSC hearing on the lessons of GameStop featured SEC Chairman Gensler for his first Congressional appearance in this new role and, as detailed in this report, a lengthy list of initiatives now under way at the Commission not only on equity-market trading integrity and systemic risk, but also Archegos and digital currency.

- **GSE-050521**: Ahead of possible systemic designation for Fannie and Freddie, FHFA is barreling through the systemic rulebook, finalizing capital rules, proposing liquidity standards, and, now, finalizing living-will requirements to ensure orderly GSE resolution under even acute stress.

- **GSE-050321**: The month of May may not be merry in Washington, but it's always consequential. Legislation with any serious hope of success in this session of Congress should be showing signs of determined life by now under ordinary circumstances.

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