



Tuesday, December 14, 2021

Thompson Takes the Prize

As [we anticipated](#), President Biden today [nominated](#) Acting FHFA Director Sandra Thompson to a full term. We expect this appointment to be roundly praised by Democrats and community-advocacy groups. It will draw GOP fire, but likely not serious enough to deter her confirmation next year absent any new facts. Although mortgage-industry entities are concerned with aspects of the Thompson agenda, they strongly support her work rolling back former director Calabria's privatization agenda and likely fear that an alternative nominee might be still less sympathetic to their worries on other matters. With this nomination, Ms. Thompson shows that her focus on equitable finance, fair lending, and a strong GSE role in the markets has White House and Treasury support. We thus expect continued efforts on these issues along with renewed work on climate risk to shore up that aspect of her record prior to confirmation hearings next year.

RFI in Limbo, Substantive FDIC Decisions Up in Air

Although fireworks were [anticipated](#) at today's FDIC open meeting, Board members kept discussion regarding the [merger RFI](#) to procedure before moving into an executive session at which the matter was surely debated. After the meeting, Director Chopra issued a [statement](#) laying out his view on FDIC-governance standards, for the first time providing formal indication that Acting Comptroller Hsu stands with Mr. Chopra and Director Gruenberg. Mr. Chopra's statement also suggests that the three directors will continue to demand not only action on merger policy, but also concessions on many other key issues for FDIC business to proceed. However, Mr. Hsu issued his own statement shortly after Mr. Chopra's, confirming that he voted for the RFI out of financial-stability concerns, but suggesting he will not obstruct FDIC action with which he concurs. Despite this uproar, the FDIC Board today unanimously agreed to approve the proposed 2022 operating budget and staff's DIF restoration plan update.

OCC Restores Prior CRA Framework Over Industry Objections

Largely as [proposed](#), the OCC today finalized its rule rescinding its controversial 2020 CRA rewrite ([see Client Report CRA28](#)) and reverting to the prior CRA framework. The agency generally rejected industry arguments that rescission is burdensome given that banks have already implemented the revised framework and expect soon to implement yet another revised interagency framework ([see FSM Report CRA30](#)). However, the OCC did provide longer transition timelines than initially proposed for certain provisions (e.g., public filings and notices, data requirements). The final rule also does not adopt the proposal to reinstate separate rules for national banks and savings associations, maintaining the integrated framework established in the 2020 rule. However, the integrated rule has separate provisions to address differences between national banks and savings associations where these are relevant. The rule is effective January 1, with compliance generally due that same day except in the limited circumstances where transition dates were extended.

FinCEN Slow Walks Structural AML/CFT Rewrite

As required by law earlier this year ([see FSM Report AML133](#)), FinCEN today [issued an RFI](#) seeking views on ways to enhance AML/CFT regulation. We will shortly provide clients with an in-depth analysis of this RFI, which highlights the importance of a risk-based U.S. system that adapts to emerging illicit-finance trends. A key goal of the inquiry is also to make it easier for financial institutions to provide "highly useful" information on which law enforcement can act rather than the data dumps many believe now are required under applicable rules. Although FinCEN has pledged to advanced its regulatory overhaul as quickly as possible, the nature of this inquiry – an RFI, not specific proposal – suggests it will take considerable time to finalize. Comments should be submitted by February 14, 2022.

IMF Demands Tough Rules for Stablecoin, Other E-Money

A [new IMF blog post](#) calls for comprehensive standards akin to those Democrats today demanded (see forthcoming alert) for electronic money such as stablecoins. Based on [an in-depth paper](#), the staff press for operational-risk governance and management standards, barriers to retail lending, account segregation and safekeeping rules, stringent reserve requirements, and extensive disclosures. E-money also poses systemic risk, with nations told to assess how this may occur in their own jurisdictions and not to count on deposit insurance-equivalent schemes to prevent runs or similar risks, a conclusion that may run counter to the PWG's recommendation ([see Client Report CRYPTO21](#)) seeking to house stablecoin issuance in insured depositories to address these hazards.

Banking Dems Green-Light PWG Stablecoin Recommendations

Like Democrats at HFSC's hearing last week ([see Client Report CRYPTO23](#)), Senate Banking Democrats today made it clear that they want banking and market regulators to proceed with stablecoin rules along lines contemplated in the PWG report ([see Client Report CRYPTO21](#)). Chairman Brown (D-OH) attacked stablecoins on many grounds, arguing that they have led to wild financial speculation and a potential asset bubble that could soon end in disaster. He also lambasted stablecoin issuers for failing to respond substantively to his [recent inquiry](#), saying that this failure shows that consumers have few rights with regard to the funds that back their coins.

In sharp contrast, Republicans today continued to press for a light-touch regulatory approach and new law where needed, with Ranking Member Toomey (R-PA) issuing principles for a [new law](#) and arguing against requiring issuers to become banks or applying bank-like rules. Although stablecoins should be able to obtain a bank charter if they choose, Sen. Toomey said issuers should also have the option of a stablecoin-specific charter or to be able to register as a money transmitter.

Sen. Warren (D-MA) challenged claims that stablecoins are fully backed 1:1, arguing that, if this were true, Tether would be among the fifty largest U.S. banks, going on to say that less than ten percent of the assets backing stablecoins are likely real dollars.

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-120921](#): On Tuesday, [HUD](#) and the [CFPB](#) opened the door to [special-purpose mortgage finance](#). Now, we expect FHFA to use this safe harbor to mandate express GSE equitable-finance programs and for banks to take much of what's left in all their commitments after George Floyd's murder and turn it into mortgage and other community-finance products.
- [CRYPTO23](#): As [anticipated](#), today's HFSC hearing was a marathon session at which industry witnesses defended their business model, Republicans liked it fine, and Democrats worried about a wide array of policy challenges.
- [COVEREDFUNDS3](#): The OCC is "clarifying," but also in many respects rescinding one aspect of controversial 2020 rules expanding the "covered funds" under which banks may make equity

investments as provided by the Volcker Rule.

- **GSE-120621**: As we noted on [Friday](#), Senate Banking Ranking Member Toomey asked SEC Chairman Gary Gensler a trick question about GSE [obligations](#) at the very end of a lengthy letter focused principally on cryptography.
- **GSE-120221**: Two recent studies add fuel to the fire we first spotted [late last year](#): demands for ARMs that only go down.
- **FEDERALRESERVE65**: Continuing the partisan and often-acrimonious tone of the Senate Banking hearing ([see Client Report FEDERALRESERVE64](#)), HFSC today heard from Chairman Powell and Secretary Yellen.
- **CRYPTO22**: Although the OCC joined other agencies issuing a non-committal "roadmap" for future cryptography actions, the agency at the same time and far more decisively stated that crypto activities are permissible only if they are also safe and sound.
- **FEDERALRESERVE64**: Most of the news at today's Senate Banking hearing revolves around Chairman Powell's concession that inflation may not be transitory and economic growth is now so robust that quantitative tightening might proceed more quickly than planned, pandemic permitting.
- **GSE-113021**: Unsurprisingly, [FHFA today raised](#) the GSEs' conforming loan limit to about \$647,000 and the high-cost limit to nearly \$1 million.
- **GSE-112421**: Because FHFA tends to take its cue from both the Basel Committee on Banking Supervision and its U.S. cousins, we here drill down to look at the housing-finance implications of the proposed global framework we assessed in a [recent in-depth report](#).
- **CLIMATE12**: Following the UN's COP26 climate-risk summit, the Basel Committee has proposed high-level principles guiding risk management and supervision related to both physical and transition climate risk.
- **REFORM210**: [As expected](#), today's hearing with Comptroller-nominee Saule Omarova included an unprecedented amount of fireworks for what is normally a low profile appointment.
- **FAIRLEND10**: The CFPB has followed a study earlier this year finding significant mortgage product and price discrepancies based on race or ethnicity with a request for input (RFI) on the HMDA data on which the study was based.
- **GSE-111721a**: FHFA's [new scoring system](#) for the GSEs and CSS is a startling, if unsurprising, mission rewrite.
- **GSE-111721**: As [noted](#) yesterday, the CFPB has opened its HMDA rules to a raft of changes
- **GSE-111521**: As we [noted on Wednesday](#), the CFPB highlighted Director Chopra's competition focus when it joined other agencies [renewing](#) their mortgage-servicing supervisory and enforcement standards.
- **GSE-111221**: As [Mark Calabria made clear earlier this year](#), reform of the Treasury market has direct, major impact on that for agency debt and MBS.
- **TMARKET2**: In this report, we build on [our initial analysis](#) of Monday's [report](#) from the Inter-Agency Working Group on Treasury Market Surveillance (IAWG).

- **[SYSTEMIC92](#)**: Late yesterday, the Federal Reserve [released](#) its most recent financial-stability report. As in its predecessor earlier this year ([see Client Report SYSTEMIC91](#)), this report takes a cautious view, counting on continuing bank resilience to counteract old worries, such as asset-price bubbles, along with containing at least some new fears.
- **[CRYPTO21](#)**: As [noted yesterday](#), the President's Working Group on Financial Markets (PWG) was joined by the OCC and FDIC yesterday issuing a report calling for prompt Congressional action to regulate stablecoins and, even in its absence, also for fast action by federal regulators and the FSOC.