



FedFin Client Report

Thursday, January 13, 2022

Brainard Navigates Troubled Waters; Looks Like Smooth Sailing for Thompson

Client Report: **FEDERALRESERVE68**

Executive Summary

At today's confirmation hearing, Gov. Brainard took a lot of the heat on inflation Republicans only mildly mentioned during Mr. Powell's Tuesday confirmation hearing ([see Client Report **FEDERALRESERVE67**](#)). As we anticipated ([see Client Report **FEDERALRESERVE66**](#)) this reflects the fact that the GOP is united in opposition to her appointment as Fed vice chair; should she hold Sen. Manchin (D-WV) she will be confirmed; if not, perhaps not. Ranking Member Toomey (R-PA) also used the occasion to signal – again unsurprisingly – GOP opposition should Sarah Bloom Raskin be nominated as the Fed's supervisory vice chair. Acting FHFA Director Thompson took no fire beyond an opening Toomey statement about "radical" housing policy. Her confirmation seems likely, with Chairman Brown (D-OH) and Sen. Toomey also indicating interest in GSE-reform legislation. The extent to which this could proceed on a bipartisan basis and, even then, given the Congressional session is at best unclear. Reflecting Chairman Powell's interest earlier this week in SLR reform, Gov. Brainard said she supports extending SLR-denominator relief related to central-bank reserves beyond just custody banks.

Analysis

Opening Statements

Chair Brown praised Gov. Brainard for her leadership on CRA modernization and work with Chair Powell on pandemic relief. He said as vice chair she will need to work to close racial wealth and income gaps and ensure that economic growth benefits all Americans. He also noted several initiatives Ms. Thompson has implemented as FHFA's Acting Director, saying she is the right person to lead the agency's critical work.

Ranking Member Toomey lambasted Gov. Brainard for Fed statements suggesting inflation would be transitory, saying she authored and advocated for the Fed's

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monetary policy framework rewrite. He also attacked her dissents on rulemakings implementing regulatory relief and her support for an “activist” role for the Fed on climate change. Sen. Toomey also criticized Acting Director Thompson for not prioritizing the end of the GSEs’ conservatorships.

Testimony

Gov. Brainard's formal testimony was short, emphasizing her commitment to accommodative policy as well as to fighting inflation. Doubtless expecting heavy fire from the GOP on climate-risk and other efforts they deem outside the Fed's mandate, Ms. Brainard also avowed her commitment to an independent, non-partisan central bank

Ms. Thompson's statement largely detailed her family, education, and career. She also emphasized that accessible, fair lending is not antithetical to safe and sound credit; indeed, she said that is essential for it.

Q&A

Gov. Brainard

- **Climate Change:** Sens. Toomey, Crapo (R-ID), and Cramer (R-ND) questioned the validity of conducting stress tests for climate change, citing risks they said are greater than are not independently stress tested. Gov. Brainard said they are scenario tests for general risk. Sen. Lummis (R-WY) asked if community banks would be hurt by climate risk stress testing; Ms. Brainard said that it was not directed at community banks. Sen. Reed (D-RI) asked if she had seen the BOE’s recent regulation mandating short and long term climate stress testing; Gov. Brainard has not.
- **Gun and Fossil Fuel Lending:** Sen. Kennedy (R-LA) asked if federal agencies including the Federal Reserve have authority to discourage private banks from lending to oil and gas companies or gun manufacturers; Gov. Brainard said it was not within the Federal Reserve’s authority.
- **CRA Reform:** Sen. Menendez (D-NJ) asked about minority-group input on changes to the CRA; Gov. Brainard said the Fed continues to hear many groups do not have similar access to credit and face increased barriers, particularly in rural areas. She highlighted support for MDIs and CDFIs. Sen. Menendez also asked

Gov. Brainard to commit to timely issuance of an interagency CRA rewrite proposal; she did.

- **SLR:** Sen. Rounds (R-SD) again called for SLR relief; Gov. Brainard said she supported the removal of reserves from the LR for custodial banks and is open to exploring similar relief across the banking system while maintaining strong capital.
- **FedNow:** Sen. Van Hollen (D-MD) said low-income individuals are seriously hurt by the lack of an RTP system, asking if FedNow is on track to start next year; Gov. Brainard said it is.
- **CBDC:** Sen. Lummis stated that China's digital yuan can be used for retail banking and surveillance, asking if a U.S. CBDC would ever be used for retail or only for wholesale banking purposes; Gov. Brainard said the Fed would defer to Congress.
- **SPDI:** Sen. Lummis stated that she had a "keen interest" in her state's Special Purpose Depository Institution applications, asking again if the Fed is making progress on the supervisory and legal issues surrounding them; Gov. Brainard said it is.
- **Independence:** Senate Republicans continued to emphasize that the Fed needs to stay independent and apolitical in order to follow its mandate.
- **Diversity:** Sen. Menendez once again expressed concerns about lack of Latino Fed representation, and Sen. Van Hollen mentioned black unemployment outpacing white unemployment.

Acting Director Thompson

- **GSE Reform:** Sen. Brown urged reaching bipartisan consensus, suggesting a return to that which emerged pre-pandemic – i.e., the utility-style GSE regulation advanced [towards the end of the Obama Administration](#). Sen. Toomey pointed to his [principles for GSE reform](#) from last year, which Sen. Crapo also supported.
- **Housing Shortages:** Sens. Tester (D-MT), Reed, and Ossoff (D-GA) asked Ms. Thompson what measures could be taken to address issues of housing shortages and prices, with Sen. Ossoff asking if increasing units and housing density would be a key to the solution. Ms. Thompson stated that her agency's tools to address housing shortages were limited but the GSEs can and do invest in affordable housing, utilize affordable housing tax credits, and work with other institutions.

- **FHLB Oversight:** Sen. Cortez Masto (D-NV) expressed concerns that the citizens of Nevada are not receiving investments from the FHLB of San Francisco, asking Director Thompson for a commitment to improving this and if she would ensure that community lending programs are reviewed and appropriate for the needs of their communities; Ms. Thompson agreed.
- **Diversity:** Sens. Tester and Smith (D-MN) both expressed concerns over racial wealth gaps and disparities in regards to homeownership, which Sen. Smith blamed on the legacy of old federal policy, asking what steps Ms. Thompson would take to improve this. She pointed to Fannie Mae's new methods of nontraditional credit scoring. Sen. Cortez Masto also expressed concern with the treatment of tribes in community reinvestment funding.