



FedFin Weekly Alert

February 14, 2022

❑ THE IMPACT OF AN EQUITABLE EMPHASIS

Although all of the U.S. financial regulators to one degree or another now espouse adherence to the President's equitable [objectives](#), none has done so with the immediacy and force of the Federal Housing Finance Agency under its Acting Director, Sandra Thompson. To be sure, CFPB Director Chopra is a big equity fan, but this goal is often incorporated into broader consumer-protection and competition proposals such as his new "junk-fee" initiative ([see FSM Report CONSUMER38](#)). Further, Ms. Thompson isn't just proposing; she's doing. Building on last year's forceful realignment of FHFA as an agency focused on equitable [finance](#), Ms. Thomson last week took two little-noticed steps with far-reaching importance not just for U.S. housing finance, but also for consumer banking writ large:

- First, FHFA has gone far beyond the musings of the other U.S. financial regulators when it comes to the use of artificial intelligence (AI) and machine learning (ML) ([see FSM Report AI](#)). In a sweeping set of supervisory pronouncements [last week](#), the agency combines a set of standards not just for risk management, but also for equity, diversity, and inclusion. As our in-depth analysis made [clear](#), these put Fannie Mae and Freddie Mac in a category all their own -- companies expressly allowed to use AI and ML even for mission-critical tasks, but also companies bound to do so with an eye not just on fair finance, but also correction of social, cultural, historical, and a raft of other biases the agency believes afflict us to this day. This would surely benefit equality and equity, but it could also expose the GSEs to a raft of compliance, legal, and reputational uncertainties that might well slow innovation. How they and their regulator strike this tricky balance will have precedent-setting impact.
- Second, the FHFA last week outlined its own new strategic [plan](#). Just as it demands much in the way of equity from those it governs, so the FHFA has also now defined a series of objectives and actions to ensure it along with housing finance live up to a lofty mission. FHFA's authority directly extends only to Fannie Mae, Freddie Mac, the Home Loan Banks, and two ancillary organizations providing core GSE services, but this \$11 trillion market is not exactly a little-bitty corner. The loans the GSEs purchase, the advances the Home Loan Banks make, and the affordable-housing programs all the GSEs extend will now not only continue to define mortgage finance, but also key products and services sure to put pressure on financial institutions outside FHFA's reach to do the same.

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880

E-mail: info@fedfin.com www.fedfin.com

© 2022. Federal Financial Analytics, Inc. All rights reserved.

Headlines From the Past Week's Daily Briefings

February 7

- **FDIC Takes New, Unsurprising Direction** - Upon taking office, Acting FDIC Chairman Gruenberg released a [new set of agency priorities](#).
- **Fed Lawyers Press for Regulated Crypto Prior to Payment-System Access** - In sharp contrast to the economic and often then even theoretical focus of many Fed research papers, Fed lawyers [released a note](#) assessing the legal underpinnings of U.S. money and the issues they present for rapid evolution in tandem with increasing digitalization.
- **Toomey Heightens Raskin Opposition** - Following up on the contentious hearing ([see Client Report FEDERALRESERVE69](#)), Senate Banking Ranking Member Toomey (R-PA) sent Vice Chair-nominee Raskin a formal request for information on her relationship to a fintech company that unusually obtained a Fed master account.
- **Fed Reiterates Anti-DLT Construct for CBDC** - As we [noted](#), the FRB's CBDC technology team known as Project Hamilton has determined an array of significant CBDC benefits but also found that DLT is not its preferred system infrastructure.
- **HFSC to Debate Stablecoins, Not Start Action on Them** - The HFSC staff [memo](#) makes it clear that the hearing will be a platform for both Congressional — or at least Democratic — support for the PWG's stablecoin report ([see Client Report CRYPTO21](#)).

February 8

- **Fed Study Attempts to Address Scope of U.S. Macroprudential Risk** - Building on prior FRB research on the increasingly porous regulatory [perimeter](#), a new FRB staff [study](#) crafts quantitative measures of the U.S. financial system to assess growing macroprudential risk.
- **FRB-NY: Stablecoins Won't Last** - The Federal Reserve Bank of New York [posted a paper](#) concluding that stablecoins are not likely to prove a lasting part of the U.S. financial system.
- **Democrats Detail Beneficial-Ownership Regulatory Standards** - Sen. Brown (D-OH) and Reps. Waters (D-CA) and Maloney (D-NY) [released their comment letter](#) to [Secretary Yellen on FinCEN's initial beneficial-ownership standards](#).
- **Basel Chief Pleads for Tough III/IV Standards** - The Basel Committee's new chair, Pablo Hernández de Cos, [told the European Parliament](#) that jurisdictions must quickly finalize the Basel III/IV package of capital reforms.

February 9

- **Global Regulators Demand Fast Capital Rewrite** - Reinforcing his chairman's [comments](#), the Basel Committee and its supervising panel of central bankers [stressed](#) the need for national action on the Basel III/IV package.
- **Senate Ag Ready to Engage on SEC/CFTC Crypto Jurisdiction** - The Senate Agriculture Committee held a hearing examining the CFTC's authority to govern cash digital assets, with Members on both sides agreeing that it is vital to clarify the distinctions between securities and commodities law to ensure that the CFTC can intervene where appropriate to ensure stability and consumer protection.
- **IMF Discounts CBDC Inevitability** - The IMF [released a comprehensive report](#) on [CBDC](#), the results of which led Managing Director Kristalina Georgieva to conclude that a central-bank digital currency is not an inevitable outcome of digital transformation.

February 10

- **KC Fed: 2020 Capital-Distribution Constraints Worked** - Touching on a subject of considerable sensitivity as well as a policy issue subject to change under a new Fed, the Kansas City Federal Reserve Bank has released a [study](#) arguing that 2020's limits on [capital distributions](#) contributed to greater systemic resilience.
- **FHFA Leads Way on U.S. AI/ML Standards** - FHFA [issued](#) the first U.S. financial-agency supervisory guidance on AI/ML use by Fannie Mae, Freddie Mac and Common Securitization Solutions (not also the FHLBs).
- **Toomey Takes on the Entire Reserve-Bank System** - In [remarks](#), Senate Banking Ranking Member Toomey (R-PA) heightened his critique of the Federal Reserve's regional banks, suggesting that the System needs a sweeping overhaul.
- **CFPB Assesses Overdraft-Fee Marketplace** - Reflecting the CFPB's continuing critique of overdraft fees ([see FSM Report CONSUMER38](#)), the Bureau [posted](#) a chart of overdraft and NSF fees at the largest banks, calling recent changes "encouraging."

February 11

No news of note.

This Week

Tuesday February 15

Senate Banking Hearing entitled: “Examining the President’s Working Group on Financial Markets Report on Stablecoins.” [10:00am, Dirksen Senate Office Building 538] Witnesses: **The Honorable Nellie Liang**, Under Secretary For Domestic Finance, Department of the Treasury

Senate Banking Executive Session. [2:15pm, Capitol Building 115] Council to vote on the following nominations: **The Honorable Jerome H. Powell**, of Maryland, to be Chairman of the Board of Governors of the Federal Reserve System; **The Honorable Lael Brainard**, of the District of Columbia, to be Vice Chairman of the Board of Governors of the Federal Reserve System; **The Honorable Sarah Bloom Raskin**, of Maryland, to be Vice Chairman for Supervision and a Member of the Board of Governors of the Federal Reserve System; **Dr. Lisa DeNell Cook**, of Michigan, to be a Member of the Board of Governors of the Federal Reserve System; **Dr. Philip Nathan Jefferson**, of North Carolina, to be a Member of the Board of Governors of the Federal Reserve System; and **Ms. Sandra Thompson**, of Maryland, to be Director of the Federal Housing Finance Agency.

Wednesday, February 16

HFSC Hearing entitled: “An Unprecedented Investment for Historic Results: How Federal Support for MDIs and CDFIs Have Launched a New Era for Disadvantaged Communities.” [12:00pm, webcast] Witnesses not yet available.

Thursday, February 17

Senate Banking Hearing entitled: “The State of the American Economy: A Year of Unprecedented Economic Growth and Future Plans.” [10:00am, Dirksen Senate Office Building 538] Witnesses: **Dr. Cecilia Rouse**, Chair, Council of Economic Advisers; **Dr. Jared Bernstein**, Member, Council of Economic Advisers; and **Dr. Heather Boushey**, Member, Council of Economic Advisers.

HFSC Subcommittee on National Security, International Development and Monetary Policy Hearing entitled: “The Role of the IMF in a Changing Global Landscape.” [12:00pm, webcast] Witnesses not yet available.

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-021022](#): Moving far ahead of the banking agencies [AI](#), FHFA [today](#) released a series of

supervisory AI/ML standards for Fannie, Freddie, and CSS, perhaps leaving the FHLBs alone because none so far does much within this arena or nobody cared.

- [GSE-020922](#): Continuing her very different vision of Fannie and Freddie, FHFA Acting Director Thompson [today](#) has released a new strategic plan for the agency emphasizing the importance of both equitable and sustainable housing finance.
- [CRYPTO24](#): Today's HFSC hearing on stablecoins makes it clear that the bipartisan legislation Chairwoman Waters (D-CA) prefers is at best a long way off.
- [FEDERALRESERVE69](#): As this report details, all three Fed nominees before the Senate Banking Committee today emphasized the vital importance of Fed independence and their anti-inflation zeal to quell GOP opposition and cement it among moderate Democrats.
- [CONSUMER38](#): Taking action to advance President Biden's competition order, the CFPB is seeking views on fees which it believes exploit consumers by virtue of unfair competition.
- [GSE-020122](#): Nothing could do as much damage to a business based on fee revenue as a determined CFPB inquiry into fee revenue.
- [CBDC10](#): Months after initially promising to release a discussion draft on central bank digital currency (CBDC), the Federal Reserve is now seeking comment on whether and how it might create one.
- [GSE-012422](#): A new Federal Reserve Bank of Atlanta [study](#) adds another element to those [prior research argues](#) are evidence of widespread racial discrimination in U.S. mortgage finance.
- [GSE-011422](#): As noted in our in-depth analysis of Acting FHFA Director Thompson's confirmation hearing, it's clear that Democrats and Republicans are thinking hard about resurrecting statutory changes to the GSEs' charters.
- [FEDERALRESERVE68](#): 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](#)).
- [REFORM211](#): As promised, FedFin begins our 2022 forecasts with this in-depth report on bank regulation.
- [FEDERALRESERVE67](#): As promised yesterday ([see Client Report FEDERALRESERVE66](#)), we listened closely today to gauge the extent to which Chairman Powell faces a serious challenge to reconfirmation.