



FedFin Daily Briefing

Thursday, February 10, 2022

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. The paper tracks both share buy-backs and dividends over recent years, noting that GSIBs often distributed more than their income. Repurchases succeeded dividends as the principal capital-distribution medium since the great financial crisis, a shift found to give banks more flexibility to adjust distribution levels without significant investor backlash. The paper also finds that the 2020 restrictions materially increased bank capitalization even taking better-than-expected income into account. However, redistribution restrictions still reduced stock-price returns due to investor expectations of additional supervisory scrutiny, but the resilience benefits of higher capital are found to outweigh any negative policy implications. The paper does not, however, evaluate what might have happened if capital-distribution constraints combined with lower-than-expected or even scant earnings, a scenario in which bank capital buffers would be particularly critical but adverse market-capitalization could also prove systemically problematic.

FHFA Leads Way on U.S. AI/ML Standards

FHFA today [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). This goes well beyond the 2020 RFI released so far by the banking agencies ([see FSM Report AI](#)), with the standards also reflecting FHFA's new equity [focus](#) in supervisory guidance specific to inclusive considerations. Reflecting the ongoing nature of AI/ML use, FHFA's supervisory standards are principles-based. However, they identify three high-risk concerns: model, data, and operational risk. FedFin will shortly provide clients with an in-depth analysis of both of these actions, which will have significant impact not only on U.S. housing finance, but also on standards expected shortly from the federal banking agencies.

Toomey Takes on the Entire Reserve-Bank System

In remarks [today](#), 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. Sen. Toomey built on prior letters to [Reserve Banks](#), arguing that the Reserve Banks now play so small a role in monetary policy that they are expanding into non-mandate arenas to justify their existence. Issues he believes the Reserve Banks should eschew include climate risk and social justice, with the senator also using his concerns about the Kansas City Fed in connection with [Ms. Raskin](#) also to demand greater transparency and Congressional accountability.

Structural System change will not be mandated by the current Congress and Sen. Toomey will not serve in the next one, but we note this for clients as yet another indication of growing GOP discontent with the U.S. central bank. If the GOP takes control of Congress, then we expect some of these proposals to advance absent more pressing priorities.

CFPB Assesses Overdraft-Fee Marketplace

Reflecting the CFPB's continuing critique of overdraft fees ([see FSM Report CONSUMER38](#)), the Bureau [today](#) posted a chart of overdraft and NSF fees at the largest banks, calling recent changes

"encouraging." However, the release does not retract recent allegations about their anti-consumer or -competition impact, noting only continuing Bureau concern and inviting consumer complaints.

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.

- [FEDERALRESERVE66](#): Many of you have asked us to forecast key policy implications ahead of two high-powered hearings this week considering President Biden's top Fed nominees.
- [GREEN12](#): Issuing the first formal U.S. climate-risk proposal, the OCC is seeking comments on high-level risk-management principles to set the context for additional, more binding action governing larger U.S. banking organizations.
- [GSE-010322](#): New [economic commentary](#) from the Federal Reserve Bank of Cleveland assesses several recent studies on homeownership from an investment perspective.
- [MMF19](#): In the wake of noncommittal statements from global regulators on ways to address money-market fund systemic risk, the Securities and Exchange Commission has proposed sweeping changes to the 2014 standards adopted after the 2008 crisis.
- [GSE-122721](#): Late last week, the NCUA put a small addition into the Christmas stockings already stuffed by the regulator over the past few months with numerous regulatory liberalizations.
- [MERGER10](#): Just days after the FDIC chair refused to advance a request for comment on bank-merger policy, the Department of Justice released one signaling agreement with many of the concerns Democrats aired in concert with the RFI.
- [GSE-122021](#): As [noted](#) on Friday, the Biden Administration's first FSOC systemic-risk hit list reiterates Trump Administration fears about [nonbank mortgage companies](#).
- [GSE-121721](#): As [noted](#) on Thursday, FHFA continues to tread carefully through the big-bank rulebook, adopting standards said to be like-kind that aren't quite so similar when it comes to critical details.