



FedFin Weekly Alert

Monday, May 2, 2022

❑ WAITING IN THE WINGS

Although the Senate last week confirmed Lael Brainard as the Fed's new vice chair, Mr. Powell, Mr. Jefferson, and Ms. Cook remain on hold. The reason is political and powerful: the White House needs all the Democratic votes it can get to confirm Ms. Cook, several Democrats are out with Covid, and Mr. Powell's confirmation is being held hostage to hers. All this will work itself out and all of the nominees will get confirmed, but it will take time. Similarly, Michael Barr will soon get his confirmation hearing to serve as Fed supervisory vice chair and then on to confirmation absent any untoward remarks or unknown facts Republicans can use to block him.

Still, at least some of the show goes on. The Fed will likely raise rates fifty basis points this week and squeeze quantitative tightening even harder. Mr. Powell will also use an unusually long press conference to defend the Fed against growing assertions that it waited too long, missed too much, and is doing too little. It's even harder to defend an institution under fire without a confirmed chairman, but Mr. Powell is the chair presumptive and will surely do a masterful job rallying supporters and marginalizing critics to the greatest extent possible.

Much else is on hold until a supervisory vice chair takes his seat or the delay becomes so interminable that the Fed feels forced to act. At that point, it may finally deal with several big regional-bank mergers, issue the Basel IV rewrites, tackle payment-system access, issue climate-risk rules, agree to a new CRA proposal, and otherwise resume business as once it was considered usual. This list of issues is formidable and none can move quickly, and it's also not even close to all the Fed and the other banking agencies have let fall far, far behind. But, at least the play will begin.

Headlines From the Past Week's Daily Briefings

April 25

- **HFSC Revs Up Repeat-Offender Legislation** - As [anticipated](#), the HFSC [memo](#) ahead of its hearing with CFPB Director Chopra covers a wide range of issues, actions, and CFPB priorities.
- **CFPB Claims Expansive Authority over Nonbank Consumer-Finance Companies** - Invoking what it describes as "dormant" authority, the CFPB announced that it will extend

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its supervisory authority to nonbanks such as fintechs now not expressly covered by its procedures, doing so also for any nonbank consumer-finance company reasonably found by the Bureau to pose consumer risk.

- **FRB-PHL Finds Worrisome Signs of Mortgage Risk** - The Federal Reserve Bank of Philadelphia [announced](#) a monthly survey of mortgage-market risk, concluding in its first analysis that foreclosure rates are in moderate bounds but significant risk pockets are concerning.

April 26

- **Dems Demand Answers re Zelle Fraud Risk** - Although not yet publicly circulated, a [letter](#) sent by Sens. Warren (D-MA) and Menendez (D-NJ) takes sharp issue with Zelle and banks that own the payment service regarding consumer fraud risk.
- **Basel Tries Again on Crypto Prudential Standards** - The Chair of the Basel Committee on Banking Supervision, Pablo Hernández de Cos, confirmed that [Basel](#) is working on a second consultation addressing crypto assets to succeed the tough proposal ([see FSM Report CRYPTO19](#)) that led to stiff criticism in 2021, with this release due out in the next “couple of months.”
- **FSB, SEC Turn Focus on Open-End Funds** - Reflecting the systemic risks highlighted during the [IMF meeting](#), the FSB issued a report on emerging-market economy (EME) exposures in USD-funding markets.

April 27

- **Hsu Urges Collaboration, Governance Efforts for Stablecoin, AI** - In a statement, Acting Comptroller Hsu confirmed his longstanding [view](#) that stablecoins require strong governance.
- **Study Finds Benefits to Central-Bank Reserve Sanctions** - In a new research [paper](#), the Federal Reserve Bank of Minneapolis’ staff concludes that seizing reserves in the course of economic sanctions is warranted in “high-risk” scenarios in which the cost to the sanctioning country resulting from a debt default by the sanctioned nation is lower than the cost of the actions being sanctioned.

April 28

- **FinCEN Head Pleads for Funding to Advance Rulemaking, Sanctions** - Acting Director of FinCEN Himamauli Das testified at a poorly attended HFSC hearing, calling for more funding to handle not only the challenges created by the invasion of Ukraine, but also the many standards required by the 2021 AML Act ([see FSM Report AML133](#)).

- **Fraudulent-Authorization Payment Bill Advances** - At HFSC's Task Force on Financial Technology [hearing](#), Chair Lynch (D-MA) advanced draft legislation stipulating bank accountability for fraudulent authorizations under the Electronic Funds Transfer Act.

April 29

- **FSB Details Climate-Risk Next Steps** - The FSB released an interim [report](#) on Supervisory and Regulatory Approaches to Climate-Related Risks.

This Week

Wednesday, May 4

Senate Banking Subcommittee on Financial Institutions and Consumer Protection Hearing entitled: "Examining Overdraft Fees and Their Effects on Working Families." [2:30 pm, Dirksen Senate Office Building 538]. Witnesses: **Mr. Aaron Klein**, Senior Fellow In Economic Studies, Brookings Institution; **Mr. Jason Wilk**, Founder & Chief Executive Officer, Dave; **Mr. David Pommerehn**, Senior Vice President And General Counsel, Consumer Bankers Association.

Thursday, May 5

Senate Banking Hearing entitled: "Examining Student Loan Servicers and Their Impact on Workers." [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **Mr. Mike Pierce**, Executive Director, Student Borrower Protection Center; **Dr. Neal McCluskey**, Director, Center for Educational Freedom at the Cato Institute; **Dr. Jalil Mustafa Bishop**, Co-Founder and Assistant Professor, Equity Research Cooperative & Villanova University.

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-042822](#): In this note, we expand on our analysis of the CFPB's new campaign against [nonbank financial institutions](#) to look more deeply at its impact on residential-mortgage finance.
- [CONSUMER42](#): Today's HFSC hearing with CFPB Director Chopra plowed much ground broken yesterday before the Senate Banking Committee ([see Client Report CONSUMER40](#)), but several new furrows were also unearthed.
- [CONSUMER41](#): Using what it describes as "dormant" authority, the CFPB is seeking comment on a rule setting the procedures under which it expands its authority to nonbank financial companies it believes pose consumer-protection risk.
- [CONSUMER40](#): The Senate Banking Committee's hearing today with CFPB Director Chopra was a sharply partisan session with little immediate impact on what Mr. Chopra plans to do to achieve his sweeping new vision.

- **[GSE-042122](#)**: In our last CRT [analysis](#), we looked at transaction viability under the Basel IV rewrite set for rapid release once key Fed nominees are finally confirmed.
- **[GSE-042022](#)**: As we noted [yesterday](#), the IMF's financial-stability [report](#) includes a searing assessment of fintech risk.
- **[CBDC11](#)**: As [promised](#), we turn here to an in-depth analysis of a paper from global regulators on whether CBDC contributes to financial inclusion – one of the most vital arguments from those advocating CBDC in the U.S. and in many other nations.
- **[GSE-041522](#)**: Cementing her very different vision of Fannie and Freddie, Acting Director Thompson has now finalized a new strategic plan for the FHFA emphasizing the importance of both equitable and sustainable housing finance.
- **[CBDC11](#)**: Progressive Democrats in the House have introduced an alternative digital-dollar proposal ("e-cash") to the "FedAccount" construct urged by Senate progressives that mandates an electronic currency created by the Treasury Department to devise an electronic substitute for physical fiat currency.
- **[GSE-040722](#)**: FHFA has finalized new [capital rules](#) for the GSEs designed to accelerate the credit-risk transfer the agency now deems essential for a fast-acting conservatorship exit.
- **[SANCTION18](#)**: As [anticipated](#), today's HFSC hearing with Secretary Yellen largely focused on ways to sanction the Russian Federation and its allies and associates.
- **[DEFI](#)**: As [promised](#), this report provides an in-depth analysis of IOSCO's new [paper](#) on decentralized finance, one sure to advance the [FSB's](#) efforts to bring DeFi systems under greater regulatory scrutiny due to the findings we here detail.
- **[GSE-032222](#)**: As detailed in our new in-depth [analysis](#), the CFPB's [exam-manual rewrite](#) dramatically redefines the compliance-, legal-, and reputational-risk terrain for any consumer-financial company and the vendors or counterparties on which it relies.
- **[CONSUMER39](#)**: Reflecting one of its new director's top priorities as well as that of the Biden Administration, the Bureau of Consumer Financial Protection has significantly revised its examination manual when it comes to behavior that might be viewed as discriminatory in a wide range of consumer-financial products, services, underwriting, advertising, marketing, governance, and other arenas.
- **[SANCTION17](#)**: The Senate Banking Committee's hearing today on illicit finance focused as expected on cryptocurrency and suggests that targeted legislation addressing specific jurisdiction or compliance issues might advance on a bipartisan basis.
- **[GSE-031522](#)**: Although we have done extensive analysis of a U.S. central-bank digital currency (CBDC) in our sister analytical service, we have not viewed as it as an imminent strategic consideration for housing-finance agencies and financial institutions.