FedFin Daily Briefing

Tuesday, April 12, 2022

FRB-Dallas Targets Renewable Energy Credit Risk

Venturing farther into politically-contentious territory, the Federal Reserve Bank of Dallas today issued a report finding that lenders with credit exposure to commercial renewable energy projects face unique and evolving risks that may adversely affect credit performance. It bases this conclusion on numerous risk factors such as a lack of vertical integration seen in traditionally regulated markets, underperformance relative to forecasts, counterparty and merchant risk, and transmission challenges. The Reserve Bank thus warns banks and nonbanks to establish prudential standards and vigorous risk management programs with ongoing credit monitoring to mitigate these risks and update credit-risk ratings. We expect other Fed supervisors to heed this warning and make inquiries of the banks and BHCs they supervise. These findings also point to the challenges of creating climate-risk scenarios and stress tests because the kind of projects advocates favor – e.g., renewable energy – may well present risks not now recognized in public discourse.

CFPB Takes Promised Tough Enforcement Action

Acting promptly on his recent threat to sanction "repeat offenders," the CFPB today went after TransUnion and a former executive for what it asserts are continuing violations of law that warrant civil money penalties, injunctive relief, and consumer compensation. This is the first significant enforcement action filed by Director Chopra and signals that, as we forecasted, the Bureau will act quickly on his new policies.

The Transunion violations alleged relate to "deceitful dark patterns" of obtaining continuing subscriptions to its credit-reporting services through products offered in one of its subsidiaries. The Bureau also alleges other violations of law that include UDAAP, a broad category of violations that it does not believe are cured only by "technical" compliance with the law (see FSM Report **CONSUMER39**). The Bureau also contends that these "dark" subscription practices were expressly precluded by the company's 2017 enforcement agreement and spotted by CFPB examiners as a continuing problem in 2018. The Bureau notified TransUnion of this finding in 2019 but found in 2020 that it continued uncorrected, and the now-former executive remained well-compensated for running the TransUnion subsidiary until, according to the Bureau, he was "separated" from the company. None of these assertions is confirmed absent court acceptance, although the Bureau also invites consumers to comment not only on this case, but also on anything they dispute related to TransUnion.

BIS Presses CBDC's Financial-Inclusion Upside

Continuing its advocacy for "two-tier" CBDCs (see *Client Report* **CBDC6**), the BIS today released a study arguing that financial inclusion benefits are among the most important that should lead central banks to offer a fiat digital currency. The findings are based on interviews with central bankers rather than academic analysis, but the report nonetheless argues that, because CBDC will be designed by a public authority, it can solve financial-inclusion gaps that cannot be addressed solely by private-sector action despite the progress attributed to nonbank payment-system providers. The report also says that offline CBDC benefits are likely to include faster national build-out of digital infrastructure and increased consumer-data portability that also affords numerous social-welfare benefits. Emerging markets could also create CBDC unions that provide numerous benefits without the need for hard-currency integration. Still, the report details numerous design challenges, including financial-literacy barriers to adoption and AML and cyber-security considerations. The Biden Administration believes financial inclusion is among the reasons the U.S. may well need CBDC (see *Client Report* **CRYPTO26**), but the Fed's own, cautious approach is far less certain (see FSM Report **CBDC10**).

Toomey Continues Calls for Reserve Bank Reform

Renewing his attack against Neal Kashkari, head of the Minneapolis Federal Reserve Bank, Senate Banking Committee Ranking Member Toomey (R-PA) today also ramped up demands for structural Federal Reserve System reform. As before, he states that Mr. Kashkari's efforts on behalf of a Minnesota provision designed to increase equality education are outside the Fed's charter and staff rules, calling for the FRB to be subject to FOIA requirements, Reserve Bank presidents to be appointed via the Presidential nomination and Senate confirmation, and Congressional review of whether the current system is still appropriate. He also suggests either eliminating Reserve Banks entirely or consolidating them and giving each remaining Reserve Bank a permanent FOMC vote. We do not expect this legislation to advance in this Congress, but GOP control in the next could well lead to action on it, even in Sen. Toomey's absence. This might even be on a bipartisan basis, given Democratic support in the past for greater control over Reserve Bank appointments.

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.

- **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.

- **CRYPTO26:** We follow our initial client alert here with an in-depth analysis of President Biden's long-

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awaited executive order laying down steps intended quickly to construct a U.S. digital-asset policy construct.

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