FedFin Daily Briefing

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FRB-NY Staff: Mandatory Flood Insurance Harms LMI Households

A New York Fed blog post today points to another important, unintended consequence of well-meaning regulation: the adverse impact of mandatory flood-insurance coverage on LMI households. Looking at NFIP using HMDA data and FEMA flood maps, the paper finds that areas which experience a growth in flood-zone coverage have a decrease in loan approvals and loan size, with this most evident in LMI households. Although Congress was aware of this issue and thus enacted the Homeowner Flood Insurance Affordability Act of 2014 to mandate an affordability framework, FEMA has not received appropriated funds for the program and thus has not implemented it. The paper thus concludes that affordability should be considered when introducing mandatory standards such as flood insurance, noting that this does not speak to the overall welfare-effects of requiring insurance or updating flood maps.

FRB Atlanta Staff Bolsters Proposed Cash Acceptance Mandate

A blog post today from the Federal Reserve Bank of Atlanta strengthens the case for the mandate for retailer cash acceptance recently approved by the House Financial Services Committee. It details the importance of cash to LMI and rural households, noting that – while cash remains the financial medium on which a significant share of households rely – access difficulties have accelerated since the beginning of the pandemic. Although digital access may to some degree offset cash importance, the post also finds that lack of access to broadband or a smartphone likely precludes many from digital banking services. It attributes growing cash shortages to the decline in bank branches due to bank consolidation and KYC requirements that have led many banks to curtail relationships with independent ATM operations or sharply hike the cost of doing business with them, actions that exacerbate cash shortages and the cost of basic banking services and thus demonstrate yet again the unintended economic-inequality consequences of well-meant financial regulation.

Kansas City Fed Finds Persistent Commodity-Market Price Hikes, Volatility

Reflecting concerns in a recent Petrou op-ed, the Federal Reserve Bank of Kansas City today released a report differing from the FOMC's optimistic inflation forecasts at least as far as they relate to commodities. The report details the impact of the Russian invasion across food and energy commodities, noting that supply-chain, agricultural-cycle, and futures-pricing indicators suggest persistent price increases through at least the rest of this year. Significant disruptions across commodities markets are thus also likely to continue despite the changes in both consumer behavior and EU energy policy also described in this research. No policy recommendations are provided.

HFSC Tackles Disability Rights

Tomorrow's HFSC Subcommittee on Diversity and Inclusion hearing on disability rights will focus not only on housing access, but also on the extent to which a broad range financial services are easily accessible to persons with disabilities. The main piece of legislation to be considered is a draft bill from Chairwoman Waters (D-CA) mandating public-company disclosures of employee disability status in annual shareholder reports. Another draft bill without a sponsor would add persons with disabilities to those protected under ECOA. While this is also a major initiative, the lack of sponsor suggests that it may not quickly advance. We will provide clients with a report on this hearing tomorrow morning.

Fed Survey Shows Significant LMI Investment in Payment, Investment Crypto

The Fed today released a report on household well-being in 2021, detailing an array of survey findings that generally show Americans feeling remarkably prosperous and satisfied. The Fed cautions that this may no longer pertain, but the data do suggest what may be more than a passing rebound in economic resilience for at least some families. For example, the percentage of Americans able to handle a $400 financial surprise is 68 percent, up from 64 percent in 2020 and the 50 percent finding when the study began in 2013. With regard to banking, the survey for the first time includes data on overdrafts and crypto, finding that one in ten individuals paid at least one overdraft fee in 2021, with low-income households three times more likely to have used overdraft services. This will surely spur the CFPB to continue its campaign against overdrafts despite sharp changes in industry practice (see FSM Report **CONSUMER38**). The survey also found that the under/unbanked – especially those with no credit cards or retirement savings – are much more likely to use cryptocurrencies for transactions and that low-income users make up 29 percent of those that hold cryptocurrencies as an investment. LMI households are also much more likely to use BNPL products, with over half responding that they could not afford a purchase without BNPL. Again, this will likely spur CFPB intervention. Finally, the Fed found that the rate that households were denied credit or received less than expected fell by three percent. White borrowers were the least likely to face this outcome, followed by Hispanic and then Black borrowers at every income level.

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.

- **DEPOSITINSURANCE113:** Using a new approach to issuing enforcement edicts – a circular – the CFPB has made use of its controversial decision to bring nonbanks under its ambit to bolster the FDIC's efforts to enhance consumer understanding of which funds are entrusted to FDIC-insured depositories and which may be at greater risk in other hands.

- **CRYPTO27:** Sharp disruptions in cryptoasset markets, and especially those for stablecoins, have energized calls for rapid U.S. statutory and regulatory action along lines initially laid out by the President's Working Group on Financial Markets (PWG).

- **CRA32:** Following much talk about the need to update Community Reinvestment Act (CRA) rules since this was last done in 1995, federal banking agencies have finally agreed on a proposed redesign of standards essential to banks that wish to expand or acquire as well as those seeking strong community ties and the policy and political benefit these afford.

- **GSE-051622:** As we noted last week, the federal banking agencies sighed a mighty sigh and heaved up a massive inter-agency proposal rewriting decades-old standards detailing which activities earn the Community Reinvestment Act (CRA) points essential for any bank's strategic objectives and national reputation.

- **FSOC27**: With stablecoin markets even more distressed than earlier in the week, today's HFSC hearing with Secretary Yellen was even more emphatic than senators two days before on the need for action (see *Client Report* **FSOC26**).

- **FSOC26:** Today's Senate Banking Committee hearing with Secretary Yellen renewed calls for federal legislation based on recent algo-coin losses and resulting digital-currency market volatility.

- **SYSTEMIC93:** In this report, we assess the new Federal Reserve financial-stability report.

- **CRA31:** The FDIC today led the way with release of a long-awaited inter-agency proposal updating decades-old CRA regulation.

- **CLIMATE13:** The FSB's report is aimed at establishing global standards that prevent fragmentation along national or regional lines as well as ensuring that regulatory and supervisory actions mitigate climate risk to the greatest extent possible in the face of an array of data and measurement challenges.

- **INTERCHANGE9:** As anticipated, bankers and card networks squared off with merchants at today's Senate Judiciary hearing addressing credit-card interchange fees.

- **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.

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