



# *FedFin Daily Briefing*

---

Wednesday, June 29, 2022

## **FRB-Cleveland Study: Small-Business Finance Availability Shows Continuing Disparate Impact**

The Federal Reserve Bank of Cleveland today published the [results](#) of the Small Business Credit Survey, finding that small businesses owned by people of color were far less likely to have recovered to pre-pandemic levels than their white counterparts, due in part to continuing gaps in financial access. Small business owners of color were more likely to apply to traditional financing than white owners yet were half as likely to receive the amount of desired funding, even as owners of color generally sought less funds. This trend held for small businesses applying to both bank and nonbank lenders. White borrowers were also much more likely than their counterparts of color to report a satisfying experience with lenders, with experiences at large banks facing the largest disparity. However, the study also found that firms owned by people of color were twice as likely to describe their businesses' financial condition as "poor" and that every racial group felt credit availability was less of a financial challenge than paying operating expenses, weak sales, or uneven cash flow.

## **GOP Renews Demand for Reserve Bank Reform**

Picking up on the GOP's serious concern about Federal Reserve Bank governance expressed when Chairman Powell came before them last week ([see Client Report FEDERALRESERVE70](#)), Senate Banking Republicans [today](#) sharply criticized the head of the Kansas City Fed for what they call her unresponsiveness and even untruthfulness related to how Reserve Trust achieved payment-system access. During the session, Sen. Tillis (R-NC) – sitting in for Ranking member Toomey (R-PA) – also argued that this incident underscores the need to ensure that Reserve Banks are properly accountable to Congress via Presidential appointment and Senate confirmation. Chairman Powell was not given a chance to address this question, which the Board has previously answered with a strong defense of current practice. We expect legislation to be introduced shortly on Reserve Bank governance, but no action on it is likely in this Congress.

## **CFPB Report: Credit Line Reductions Harm Vulnerable Borrowers**

Continuing the CFPB's assessment of credit-card [finance](#), Bureau staff today issued a [report](#) about the adverse impact that credit line reductions or withdrawals have on consumers, especially those under stress. The study finds that reductions resulted in a dramatic loss in available credit for subprime and below borrowers, who are less likely to have additional cards on which to continue debt than their prime and above counterparts. It also finds that reductions resulted in a significant credit score decrease, as reductions increase the utilization rate of the card even if the balance remains unchanged. However, the report makes no policy recommendations nor does the release include a policy statement from Director Chopra. Instead, the researchers call for further research comparing line-reduction caused by consumer risk with those driven by institutional risk management, the influence of regulatory change, the role of adverse-action notifications on card transparency, and how credit-line management practices vary across card issuers. The Bureau has an outstanding RFI on adverse-action notices ([see FSM](#)

[Report FAIRLEND11](#)) via which additional action on this issue may occur despite the study's call only for research.

## HFSC Homeownership Session Fans Partisan Flames

Today's HFSC hearing on homeownership and inequality was a largely partisan session where each side repeated policy and macroeconomic arguments along party lines about the best ways to govern the nation's housing market. Democrats focused on racial homeownership disparities and discrimination; Republicans excoriated the Biden Administration and House Democrats for what they deem recklessly inflationary spending policies. These differences have characterized recent HFSC sessions and do not bode well for bipartisan action during the remainder of this session or enactment of much Chairwoman Waters (D-CA) hopes to advance. Chairwoman Waters today reiterated the importance of the Build Back Better Act and various housing programs, but called out Wells Fargo for denying Black and Latino refinancing applicants at what she said are much higher rates than their white peers. Ranking Member McHenry (R-NC) said that recently passed Waters legislation assisting first-time homebuyers with downpayments would exacerbate inflation, calling for the restoration of what he deemed proper oversight of the FHA and FHFA. As [noted](#), Republicans have singled out FHFA Director Thompson's agency as unduly "woke."

## IMF Calls for Improvements to Capital Market Regulation

The IMF issued a [report](#) today on capital-markets regulation calling for new market liquidity backstops, strengthened CCP risk management, and greater attention to emerging risks to strengthen the regulatory perimeter focus. The report found considerable regulatory gaps in asset management, noting that many countries lack sufficient liquidity management tools to minimize stress in investment funds. It also recommends greater stress testing for CCP margin models, investigating the viability of CCPs directly access central bank liquidity, and enhancing international cooperation. It then highlights cyber resilience, fintechs (especially those in the DeFi space), and climate risk as emerging issues that need prioritization. The report concludes that on all issues regulators need to consider the appropriate size of the regulatory perimeter, ensuring that they have the proper tools and scope to address these challenges.

## Waters Renews Demands to Break Up Big Bad Banks

Following the hearing earlier today, HFSC Chairwoman Waters (D-CA) released a [letter](#) sent to federal agencies citing what she believes to be an array of continuing abuses at Wells Fargo and calling on them to sanction a "repeat offender." The letter went not only to the FRB, FDIC, and OCC, but also to HUD and the CFPB, where Director Chopra has announced his own initiative against institutions he believes to be [scofflaws](#). Suggesting that other "megabanks" are also recidivists, Rep. Waters plans shortly to reintroduce legislation ([see FSM Report GSIB11](#)) that would force regulators to break up a very large bank following repeated consumer offenses. The bill stands no chance of enactment in this Congress, but this letter may encourage Mr. Chopra to attempt to impose sanctions such as demanding that a bank cease certain activities or even lose FDIC insurance. His chances of success on such an ambitious objective are uncertain in the absence even of a CFPB enforcement action, but this discussion will create ongoing political risk not only for Wells Fargo, but also for other GSIBs as they come before Congress in the fall for their

regular hearings at HFSC and Senate Banking (where Chairman Brown has also [been critical of Wells Fargo](#)).

---

### 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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-062922](#): In response to a request from its [Inspector General](#), FHFA renewed the commitment to fourth-party supervision.
- [DEPOSITINSURANCE114](#): The FDIC is proposing to raise base Deposit Insurance Fund (DIF) assessments by two basis points (BPS) to replenish the DIF by the statutory deadline to reflect deposit inflows that the FDIC no longer expects to be temporary.
- [GSE-062722](#): A new Fed [paper](#) analyzes the striking differences between mortgage-market liquidity – or the dramatic lack thereof – in the great financial crisis of 2008 and the pandemic crisis of March, 2020.
- [FEDERALRESERVE71](#): At today's HFSC hearing, Chairman Powell encountered the same political headwinds evident at yesterday's Senate Banking session ([see Client Report FEDERALRESERVE70](#)), reinforcing and even heightening his commitment to fighting inflation in concert with hopes that a soft landing may still be possible.
- [GSE-062322.pdf](#): Following a sharp critique of GSE capital standards earlier today [from the Urban Institute](#), FHFA Director Thompson [today acknowledged](#) Fannie and Freddie's new 50 bps fees when one of the GSEs guarantees the other's collateral for UMBS purposes.
- [FEDERALRESERVE70](#): As we [expected](#), today's Senate Banking session with Chairman Powell is a preview of broader national debate ahead of the midterm election.
- [CLIMATE14](#): The Basel Committee has finalized its proposed climate-risk management principles largely unchanged from its proposal, establishing over-arching goals at which both banks and their supervisors are asked to aim.
- [CONSUMER43](#): Combining some of its outstanding initiatives and adding new ones, the CFPB is seeking information on how well larger banks and credit unions serve consumers and what steps may be needed to make them do better.
- [GSE-061522](#): Today's report to Congress is FHFA's first foray into expressing a statutory opinion since Sandra Thompson took over, a change doubtless due to her newly confirmed status and the will to tackle hard questions in which Congress has only nominal interest in the absence of another crisis.
- [CRYPTO28](#): After protracted negotiations and much public attention, bipartisan senators have introduced a far-reaching bill designed to encourage digital-asset use without undue risk to consumers, investors, or the financial system.
- [GSE-060922](#): When Sandra Thompson earlier this year enunciated a new equitable-finance mission, we [forecast](#) that Fannie and Freddie would undertake an array of new activities that significantly expand their footprint along with their equity and equality impact.

- [GSE-060722](#): FHFA released its first-ever [report](#) on the extent to which Fannie, Freddie, and the FHLBs meet their statutory mission.
- [GSE-060222](#): Following on the heels of new [capital disclosures](#), FHFA has [finalized](#) a planning process designed to ensure that GSEs have something good to say when they post these reports, reassuring markets and perhaps even speeding the way out of conservatorship.
- [GSE-060122](#): As detailed in our [new in-depth report](#), the CFPB has issued another sweeping rule by way of a seemingly innocuous circular not subject to public notice and comment.