



FedFin Weekly Alert

Monday, July 11, 2022

☐ RAH-RAH FOR CRA

Later this week, HFSC will convene a full committee hearing on the interagency CRA rewrite ([see FSM Report CRA32](#)) entitled “Better Together.” This is more than modestly suggestive of Democratic praise at least for the fact that the Fed, OCC, and FDIC worked together to craft the sweeping rewrite. However, Democratic enthusiasm won’t stop there – most Democratic panel Members will either support the proposal or urge the agencies to go still farther via, for example, demanding express restrictions on bank mergers if any party to the transaction is less than totally outstanding. Republicans will decry CRA as social engineering, focusing questioning on the extent to which the agencies’ proposal creates a de facto mandate for bank credit allocation or a backdoor subsidiary for community-advocacy and -activist groups. We noted in our in-depth analysis of the proposal that the agencies are rushing to finalization likely out of fear that, should Republicans gain full control of Congress in the fall, the rewrite will get a redo by way of the Congressional Review Act. Questioning now will refine this forecast as well as afford a greater sense of where the agencies are contemplating change. All that the agency heads have publicly said so far is how much they all like the [NPR](#); we’ll be listening closely and send an you an in-depth report because we don’t think Members of Congress will leave it at that.

Headlines From the Past Week’s Daily Briefings

July 4

No news of note.

[July 5](#)

- **Fed Develops a Measure of Operational-Risk Exposures** - In a research note late, Federal Reserve staff proposed a new approach to quantifying a bank’s operational-risk exposure, a timely contribution to the debate sure to rage when the U.S. advances Basel’s proposed rewrite of operational-risk-based capital requirements ([see FSM Report OPSRISK18](#)).
- **FHLB Banks Said to Pose Grave Risks, Require Reform** - A new paper from Fed staff and former Gov. Dan Tarullo [argues](#) that the Federal Home Loan Banks pose structural

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problems to federal bank regulation and systemic stability by virtue of their hybrid status and the absence of clear purpose under contemporary market circumstances.

- **FRB-New York: Digital Currencies Could Strengthen the USD** - Contrary to Congressional fears ([see Client Report CBDC13](#)), a new [blog post](#) from the Federal Reserve Bank of New York projects that digital currencies might bode well for the continued international dominance of the dollar.
- **Liang Calls for New-Age CCyBs, Open-End Fund Reform, Digital-Asset Macropru** - In remarks, Treasury Under-Secretary Liang concludes that post-2008 macroprudential standards strengthened the financial system as evidenced by its ability to support the real economy in 2020.
- **Global Regulators Find Risky Connectivity Between Banks, BigTech** - The BIS Financial Stability Institute released a [report](#) investigating what it calls the regulatory blind spot of bigtech inter-dependency, recommending that regulators develop an entity-based regulatory framework for bigtech operations in the financial sector and, while they work on this longstanding goal, use an new, indirect approach.

July 6

- **FRBNY Finds Changes to PPP Increased Credit Availability for Small Businesses** - A New York Fed blog [post](#) concludes that changes the Biden Administration made to the Paycheck Protection Program (PPP) increased credit access for non-employer firms and application take-up for minority owned firms.
- **FRB Paper: Integrated Methodologies, Better Data Needed to Calculate Climate Systemic Risk** - A new research [paper](#) from Fed staff provides extensive detail on an array of data and methodology challenges that now make it difficult, if not impossible, to calculate the systemic risk posed by climate change in the U.S. financial market.
- **Banking Agencies, FinCEN Refute Suggestions AML Rules Define Bank Offerings** - The banking agencies and FinCEN released a [joint statement](#) reminding banks to use a risk-based approach to assessing customer relationships and conducting customer due diligence (CDD), expressly mentioning that this statement does not alter current BSA/AML requirements.

July 7

- **IOSCO Releases 2022-2023 Crypto Roadmap** - IOSCO released its Crypto-Asset Roadmap for 2022-2023, outlining two work plans on crypto- and digital assets on DeFi.
- **Basel Reaffirms Proportionate Policy** - The Basel Committee released high-level ["considerations"](#) on proportionality – i.e., how to apply its standards taking account of a bank's size and complexity.
- **CFPB Demands Tighter Reporting-Data Controls** - Using another advisory to issue what some may consider a rulemaking, the CFPB threatened to pursue criminal penalties if credit-report data are not used for permissible purposes (i.e., for credit, housing, employment or insurance decisions).

- **FSB Report Promotes LEI Adoption for Cross-Border Payments** - The FSB issued a [report](#) recommending that G20 members promote Legal Entity Identifier (LEI) adoption, aiming particularly at cross-border payments.
- **Treasury Releases International Crypto Engagement Framework** - As demanded by President Biden's digital asset executive order ([see Client Report CRYPTO26](#)), Treasury in consultation with the State Department, Commerce, and USAID released a framework for international engagement on digital assets.
- **Democratic Senators Demand More from Zelle on High-Profile Fraud Allegations** - Sens. Menendez (D-NJ), Warren (D-MA), Reed (D-RI) and five Democratic colleagues ramped up their attack on the extent to which Zelle properly handles payment fraud.

July 8

- **Treasury Opens Digital-Asset Framework to Public Comment** – Following international crypto [framework](#), Treasury advanced its work pursuant to the President's executive order with a request for [comment](#) on how best to ensure digital-asset responsible development.
- **Fed's Brainard Affirms CBDC Views, Details Crypto Regulatory Priorities** - In [remarks](#), Fed Vice Chair Brainard reiterated her tentative support for CBDC outlined at a recent Congressional hearing ([see Client Report CBDC13](#)).
- **GOP demands FHFA Action to Stem New GSE Ventures** - Housing Subcommittee Ranking Member French Hill (R-AR) and nine other HFSC Republicans sent a [letter](#) to FHFA Director Thompson demanding tougher treatment and transparency for new GSE ventures.

This Week

Wednesday, July 13

HFSC Subcommittee on Consumer Protection and Financial Institutions Hearing entitled: "Better Together: Examining the Unified Proposed Rule to Modernize the Community Reinvestment Act." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: TBD.

Small Business Committee Subcommittee on Oversight, Investigations, and Regulations Hearing entitled: "Fintech and Transparency in Small Business Lending." [10:00 am, 2360 Rayburn House Office Building]. Witnesses: **Mr. Sean Salas**, Chief Executive Officer and Co-Founder, Camino Financial; **Ms. Joyce Klein**, Senior Director, Business Ownership Initiative, Aspen Institute; **Ms. Diane Paterson**, Regional Director, Twin Cities Small Business Development Center; **Dr. John Griffin**, James A. Elkins Centennial Chair in Finance, McCombs School of Business, The University of Texas.

Future Events of Note

Tuesday, July 19

HFSC Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets Hearing entitled: "Oversight of the SEC's Division of Enforcement." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: TBD.

Wednesday, July 20

HFSC Hearing entitled: "Housing in America: Oversight of the Federal Housing Finance Agency." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: TBD.

Wednesday, July 27

HFSC Markup. [10:00 am, 2128 Rayburn House Office Building]. Matters to be discussed: TBD.

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](#).

- **[CRYPTO29](#)**: Global banking regulators are trying a new, but still stringent, approach to governing bank exposures to certain types of crypto assets, revising an initial consultation to focus more on supervisory limitations than on extremely punitive capital requirements for what are deemed to be lower risk cryptoassets.
- **[CREDITCARD35](#)**: Taking the first concrete action following its new policy on "junk fees," the CFPB has sought public comment on whether and how to govern credit-card late fees and broader practices related to late payments.
- **[GSE-070122](#)**: FHFA today essentially conceded after its initial polite rebuff to an Urban Institute critique of the capital rules adverse impact on [UMBS](#).
- **[GSE-063022](#)**: The Federal Reserve Bank of Philadelphia's latest [report](#) on foreclosure risk includes a worrisome finding: the sharp rise in interest rates means that most loan-mod recipients won't actually get much relief.
- **[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.