FedFin Daily Briefing

Wednesday, July 6, 2022

FRBNY Finds Changes to PPP Increased Credit Availability for Small Businesses

A New York Fed blog post today 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. However, the paper also found a continuing gap in approval rates between white and minority owned firms perhaps due to application rates. Using data from the Fed's 2021 Small Business Survey, the post observed that applications rates dropped across the board from 2020 to 2021. However, small businesses, especially non-employers, and minority owned firms saw the smallest drops, suggesting the changes to the program succeeded in increasing credit to these groups. In addition, non-employer businesses were the only group that achieved a higher PPP application approval rate in 2021, but Black owned businesses experienced the largest drop in application approval rates, likely due to a larger application pool.

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. The paper provides a literature review of research on climate-related financial stability risks, seeking to identify methodologies that comprehensively link climate risk with financial stability. It finds that no single methodology can address the research challenges. It thus recommends that regulators integrate multiple methodologies, including equilibrium, statistical, and agent-based models and climate VaR. It also recommends that regulators use scenario analysis, stress testing, and sensitivity analysis to evaluate financial system resilience under carbon tax or acute climate shock scenarios. However, even here, the paper's recommendations are tentative because adequate financial and climate data are lacking and the existing research literature is correspondingly limited.

Banking Agencies, FinCEN Refute Suggestions AML Rules Define Bank Offerings

The banking agencies and FinCEN today 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. Reflecting ongoing GOP concerns that bank regulators are directly or indirectly pressuring banks to avoid doing business with certain clients, the statement also reiterates that nothing in the agencies' standards requires banks or indeed permits banks to refuse to do business with customer or market segments based on generic AML-risk considerations. Rather, each relationship should be judged in a risk-based fashion. The statement thus reminds banks that no single group of customers presents a uniformly higher AML risk rather it encourages banks to mitigate risks based on customer relationships. It also urges banks to understand the nature of customer relationships in developing risk profiles and to conduct ongoing monitoring to identify and report suspicious transactions when conducting their CDD.

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.

- **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.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

- **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.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com