FedFin Daily Briefing

Tuesday, July 12, 2022

FRB-NY Staff Target Consumer-Welfare Problems with Numeric Scores

A new post from Federal Reserve Bank of New York staff concurs with a recent GAO study and Senate Democratic concerns about consumer risks resulting from numeric scores for purposes other than credit reporting. GAO called for consumers to have the same transparency and error-correction rights related to scores such as those judging purchasing power or deposit activity as mandated under the FCRA for credit scores. This post appears to back that up by concluding that broader scores have market-segmentations purposes for so many aspects of daily life as to make them at least as important as limited-use credit scores. Adverse effects cited include the risk that a consumer who makes a large purchase will thereafter face higher prices, with the paper supporting this fear by finding evidence of score-based price discrimination. The paper also concludes that transparent scores enable customers to make strategic use of pricing data to optimize purchasing power, but we suspect this is likely only for sophisticated consumers able to manage the demands of understanding complex scoring systems without the aid of an econometric model along lines deployed by the FRB-NY staff. Converting complex "affluence" or other scoring methodologies into simple numbers backed by a clear methodology a consumer could deploy might allow consumers to maximize the welfare benefits of numeric scores, but the challenges of doing so with credit scores to us suggests difficulties here in the absence of over-arching standards. These would make different systems for similar market-segmentation purposes more amenable to consumer influence, but considerable thought would need to be given to how best to protect the proprietary value and market benefits of numeric scores. This may soon become an industry priority – as we noted, the CFPB is looking more at prohibiting certain data uses than at authorizing consumer-data ownership. We have tagged numeric scores as a possible target; this study will give the Bureau more evidence should it choose to do so.

Treasury Reposts Crypto RFI

As Treasury for some reason today reposted its request for comment on digital assets. The release is the same as last week's which we analyzed in today's in-depth report (see FSM Report **CRYPTO30**).

OFR Report Finds CBDC Reduces Run-Risk

The Office of Financial Research today released a report concluding that – counter to many fears – a CBDC could reduce banking system run-risk. This is because a CBDC during normal times is said to lead to less maturity transformation (i.e., less intermediation), as well as the government resolving weak banks more quickly due to greater information signaling of a run evident in CBDC flows. To ensure a positive outcome, the paper also recommends several CBDC design choices: individual CBDC holding caps that would not be binding in normal times, a fully-liquid CBDC, and high transactions fees. The paper is based on a model in which banks perform maturity transformation, comparing the effects of a liquidity shock if a CBDC is introduced to a model without one. The possibly negative and perhaps even systemic implications of reductions in bank financial intermediation are not discussed.

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.

- **CRYPTO30:** As part of its response to the President's digital-asset executive order, the Department of the Treasury is seeking views on the broad policy questions on which it believes answers might guide the Administration's next steps.
- **GSE-070822:** A new Fed staff note contains startling statistics on how much the housing market has changed in just a few months at grave cost to lower income households.
- **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.

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- **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.

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