



FedFin Daily Briefing

Wednesday, July 13, 2022

Small Business Committee Urges Fintech Transparency, New CFPB Role in Fintech Lending

Today's Small Business Subcommittee on Oversight, Investigations, and Regulations hearing on fintech transparency focused on financial practices that may harm small businesses' access to credit. In his opening statement, Subcommittee Chairman Phillips (D-MN) praised fintech's potential to serve small businesses in underserved communities and stated that small businesses appreciate their speedy approval processes, diversity in product options, and alternative means to assess creditworthiness. However, he is also concerned with fintech financial practices, warning that high-cost loans, unclear terms, and lack of transparency in automatic underwriting may be taking advantage of small businesses. Ranking Member Van Duyne (R-TX) spent little time discussing fintech, instead arguing that inflation caused by high federal spending particularly hurts small businesses. Joyce Klein, Senior Director at the Aspen Institute, emphasized the need to balance small business protections and fintech's potential benefits, stressing the importance of transparent pricing – via disclosing APR and improving marketing to allow small businesses to properly assess product offerings. She argued that fintech lending to small businesses should focus on smaller loans, underwriting based on cash flow, and a flexible approach to credit history, rather than based on collateral, equity, and credit scores. Under questioning from Committee Chairwoman Velázquez (D-NY), Ms. Klein strongly supported H.R. 6054, the Chairwoman's bill to create commercial lending protections for small businesses, specifically stating that the CFPB is the proper agency to govern new regulations.

HFSC Party Lines Form on CRA Rewrite

As [anticipated](#), the Subcommittee on Consumer Protection and Financial Institutions today held a hearing examining the banking agencies' proposed rule to modernize the CRA ([see FSM Report CRA32](#)). Subcommittee Chairman Perlmutter (D-CO) focused on Black-white homeownership and lending disparities that have persisted since the original CRA was enacted in 1977, stating that a stronger CRA could be a catalyst to close the racial wealth gap. Ranking Member Luetkemeyer (R-MO) acknowledged that the CRA is in desperate need of reform, but criticized what he said is the proposal's undue burden and took particular issue with what he referred to as its prioritization of racial lending criteria, on ground that this is a "rabbit hole" that raises constitutionality concerns. Both Congressmen highlighted changes to the banking landscape since the 1995 CRA rewrite, including banking digitalization, the rise of algorithms and automation in credit risk determination, and the decline in physical bank branches which increasingly render original CRA assessment criteria obsolete. HFSC Chairwoman Waters used her time to rebuke "megabanks", which she said are denying black homeowners the opportunity to refinance their homes at much higher rates than white homeowners. Specific bills to rewrite CRA or reform fair-lending and consumer-protection rules pending before the committee in concert with this hearing were not addressed substantively by Members.

Fed Proposes Debit-Card, Payment-System Data Collections

Although the Fed has yet to finalize a controversial proposal related to debit-interchange fees ([see FSM Report INTERCHANGE8](#)), it has [proposed](#) changes to how it collects debit-card information essential to implementing changes to network selection and, should it come to do so, fee

calculations. The changes address years of industry evolution, with the Fed seeking comment on new reporting items when multiple networks are involved in processing transactions, removing certain transactions to prevent over-counting, and other data points. It is also seeking comment on the collection of data on fees received by reporting payment networks and the extent to which a bank outsources payment-card services. Comments are due by September 12, with the Fed specifically asking questions on whether the revisions make clear which network is responsible for reporting transactions, if challenges arise from the revised instructions, and the need for additional clarity.

FSB Chair Reiterates Need for Crypto Regulation, Highlights Progress on Climate Roadmap

FSB Chair Klaas Knot's letter today to the G20 ministerial reiterated all the points regarding COVID exit strategies, regulation of cryptoassets, and executing FSB's climate roadmap outlined after June's plenary [meeting](#). As before, it prioritizes domestic policies to contain financial scarring from the pandemic, the need for robust cryptoasset regulation, and continuing progress on its climate roadmap. The letter does, however, refine the cryptoasset discussion to reflect its greater priority in light of recent market [volatility](#). The FSB still plans to deliver to the G20 the final version of its regulatory approach to climate change in October, a report on developing global minimum climate disclosures in October, and a report on its work on climate scenarios in November.

Senate Democrats Demand More Stringent, Binding Fed Ethics Standards

Senate Banking Committee Chairman Sherrod Brown (D-OH) joined by four other Democrats today sent a [letter](#) to Chairman Powell again calling for more stringent, enforceable Fed ethics standards, and reminded Mr. Powell in strongly-written arguments about the need to do so via binding regulation or by the kind of statutory change they have already introduced. The Senators argue that the Fed's new trading and investment policy for senior officials lacks teeth and a clear structure for addressing violations, detailing recent cases with particular attention to more recent disclosures about official investments and what they argue was a failure to enforce prior rules on departing officials. The letter adds to growing calls for Federal Reserve System reform, although Republicans have recently focused on Reserve Bank governance ([see Client Report CRYPTO70](#)).

Global Regulators Press for Global Stablecoin Payment-Risk Standards

Doubtless spurred by FSB [requests](#) and market volatility, the BIS Committee on Payments and Market Infrastructures (CPMI) and IOSCO today issued its final [guidance](#) on the application of Principles for Financial Market Infrastructures (PFMI) to stablecoins. As with the [proposal](#), the final guidance confirms that the PFMI applies when stablecoin arrangements perform systemically-important payment functions or other functions typical of financial market infrastructure, noting particularly that those with transfer functions must meet this threshold and should thus have documented and disclosed governance assigning responsibility for crisis decision-making within risk-management frameworks. Arrangements should also provide clear and final settlement, defining in unambiguous terms when a transfer becomes irrevocable and unconditional. Credit

and liquidity risks should also be minimized and strictly controlled so that the stablecoin is an acceptable alternative to central bank money. Stablecoins should also ensure that users can convert their claims at face value into other forms of liquid money. CFTC Commissioner Caroline Pham released a [statement](#) today supporting this guidance and seeks comment on its implications and recommendations for future action.

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.
- [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.