FedFin Daily Briefing

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Fed Study: Mortgage Churning for CRA Adversely Affects LMI Mortgage Market

A new Fed staff paper revisits one of the longstanding questions with CRA regulation: whether allowing equal CRA credit for mortgage originations and purchases increases LMI-focused mortgage finance. Critics of past CRA rules have argued that mortgage purchases are "churning" – i.e., the same loans are bought and sold across the marketplace at the time of each bank's CRA examination. As a result, the inter-agency CRA proposal (see FSM Report **CRA32**) addressed churning by a complex metric designed to limit its CRA value. This paper does not touch on the proposal but suggests that meaningful increases in LMI mortgages require a tough approach because LMI-mortgage purchases among banks only displace loans that would otherwise have been sold to Fannie and Freddie rather than support additional LMI-loan credit availability. The study also suggests that banks unduly benefit from current origination/purchase equilibration because it makes them appear to provide greater net LMI financing than actually occurs. We would note that banks most likely to purchase LMI mortgages appear to be those least likely to make them and it is unclear if these banks would have increased originations if purchases were not granted CRA credit. However, it does seem likely that a more robust origination market would have reduced the cost of mortgage credit in LMI communities. The paper relies on regression discontinuities for its findings, noting some methodological concerns that it does not believe undermine these conclusions.

Comment Deadline Extended for CFPB Relationship Banking RFI

The *Federal Register* today provides a 30-day comment period extension for the CFPB's Relationship Banking RFI (see FSM Report **CONSUMER43**). Comments are now due August 22. As noted, the Bureau has inferred that preserving relationship banking requires "human touch" rapid responses to consumer inquiries that will ensure high-quality banking services are available in all markets. The Bureau thus seeks to understand how well larger banks and credit unions serve consumers, with a particular focus on response time, content, and methodology following consumer inquiries. As we also noted, the Bureau may well have authority to ensure "fair" competition and consumer protection, but its jurisdiction over the quality of customer service a firm decides to provide to further its business strategy is uncertain.

CFPB Blog: Overdraft/NSF Policy Changes Reduced Fees

Expanding on its December 2021 report, a CFPB blog post today concluded that overdraft and NSF policy changes led to significant reductions in the amount bank customers incur from various account fees. The post provides two tables — one displaying overdraft/NSF revenue and the other showing ATM fees — across multiple years and specific quarters for small and midsize banks and for select large banks. It reports that small and midsized banks collected nearly 25 percent less in overdraft and NSF revenues in 2021 compared with 2019. Notably, the post also reports that two large banks — Wells Fargo and TD — experienced much smaller overdraft and NSF revenue declines compared to small banks, but PNC and JPMorgan Chase saw fees decline at much higher percentages than small and midsize banks. On the whole, the report finds that overdraft/NSF fee revenues remained depressed in 2021 and stayed below their 2019 volume by 27.4 percent.

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.

- **GSE147:** At her first hearing as confirmed FHFA Director, Sandra Thompson made it clear to House Financial Services that she is committed to expanding credit-risk transfer (CRT), encouraging equitable finance via new GSE activities, and recapitalizing Fannie and Freddie as quickly as possible.
- **GSE-071922:** As noted earlier today, the Fed has finally brought forth its LIBOR-transition proposal specifying permissible benchmarks for legacy contracts without contractual fallback rates.
- **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.

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- **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.

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