



FedFin Weekly Alert

Monday, September 26, 2022

❑ DIGITAL MUST-DOS

Last week, we plumbed the depths of Treasury’s paradigm-shifting reports on the future of digital assets in the U.S. and thus also with regard to the dollar. As befits reports in compliance with the President’s caustic executive order ([see Client Report CRYPTO26](#)), Treasury took a very dim view of pretty much all things digital with the signal exception of CBDC. More on our conclusions from Treasury’s findings and our forecast for what’s next are in:

- [Client Report - CBDC14](#): As this report details, Treasury goes as far as it can to give the final CBDC determination to the Fed even as it seeks to placate those across the Administration strongly advocating for a U.S. CBDC. Treasury also wants nonbanks to be given access to CBDC and to what it believes should be a far more instant U.S. payment system; see Karen Petrou’s September 26 memo for what this might mean to whom. In short, Treasury wants a lot that would change the course of U.S. financial strategy and regulation. Whether it gets it depends in part on the Fed, in part on other regulators, in part on national-security decision-makers, and a lot on Congress.
- [Client Report - CRYPTO32](#): One reason the Administration wants CBDC is that it doesn’t want crypto. Treasury finds “no natural use case” for cryptoassets outside the mostly speculative and other high-risk products found to put vulnerable households and even national security at risk. It does, though, readily acknowledge the use case for digital assets in the payment, settlement, and processing arenas if sound rules and reliable issuers prevail – i.e., CBDC and an array of products firmly within the regulatory perimeter.
- [GSE Activity Report - Can you see CBDC?](#): Here, we drill down on the implications of CBDC and instant payments for mortgage finance, describing the implications of GSEs issuing a digital currency or working within the parameters of a CBDC. As we show, the GSEs in conservatorship could hold a powerful hand if they controlled not just the secondary market, but also key consumer-facing sectors.
- [GSE Activity Report - The Cryptoverse Has a Big Black Hole](#): In this report, we build on our assessment of Treasury’s faint-praise crypto conclusions again to assess the implications for U.S. housing finance. In short, these bode ill for nonbanks, but the possibilities for digital payment, settlement, and processing under the GSE and Ginnie umbrellas and within banks are significant and imminent.

Headlines From the Past Week's Daily Briefings

September 19

- **HFSC Ponders Russia, China Payment Alternatives** - The majority staff [memo](#) for the HFSC subcommittee hearing on alternative payment messaging and settlement systems targets efforts by Russian and China to circumvent SWIFT, assessing the extent to which they threaten sanctions enforcement and the dollar's reserve-currency status.
- **New HDMA Data Collections at the CFPB?** - The *Federal Register* included a CFPB [comment request](#) regarding the Bureau's Regulation C implementing HMDA reporting.
- **Treasury Accelerates Crypto, CBDC Illicit-Finance National-Security Action** - Following the publication of its crypto illicit finance [action plan](#), Treasury [released](#) a request for comment seeking views on illicit-finance and national-security risks.
- **HFSC Democrats Ready the Rack for Big-Bank CEOs** - As we [anticipated](#), the HFSC majority-staff [memo](#) for the "mega-bank" hearing focuses on mergers, arguing that these have adversely affected market competition and consumers.
- **BIS Fears FBO Liquidity Draws** - Among the reports released by the BIS is [one](#) concluding that, in times of stress, FBOs may draw down liquidity in host jurisdictions to support their parents, posing financial-stability risk.
- **Senate Banking Brings Out The Big-Bank Spikes** - Earlier, we concluded that the upcoming HFSC hearing with big-bank CEOs will put them through a wringer even as Democrats position new, reform-minded measures for discussion, if not also action.

September 20

- **FedFin Assessment: Tales of a New TLAC** - With [press reports](#) strongly suggesting that U.S. banking agencies will impose TLAC requirements on at least some regional BHCs, we think it helpful to provide an update on the 2016 rule imposing this resolution buffer ([see FSM Report TLAC6](#)) to note the implications of reopening the regulation.
- **HFSC Dems Attack Lack of Diversity in Insurance** - Ahead of an HFSC hearing, Chairwoman Waters (D-CA) and Rep. Beatty (D-OH) released a [report](#) sharply critical of the lack of diversity in the largest US insurance companies.
- **Senate Banking Fires Another Shot at Big Banks** - Following "[snapshots](#)" of Truist, PNC, and USB ahead of the big-bank hearing, Senate Banking Democrats continued their attack on large banks, releasing similar [reports](#) on Citi and Bank of America.

September 21

- **Liang Emphasizes Fed CBDC Views vs. Treasury Report** - In [remarks](#), Treasury Under-Secretary Liang took a decidedly more cautious stand on CBDC than Treasury's recent report, emphasizing its caveats rather than over-arching conclusions.
- **Senate Democrats Lambast More Big Banks** - Ahead of their hearing with big-bank CEOs, [Senate Banking Democrats](#) released additional "snapshots" similar to those published [earlier this week](#), this time highlighting Wells Fargo and JP Morgan Chase.

September 22

- **CFPB Starts Mandatory Refi, Loan-Mod Redesign Project** - Expanding its actions to increase consumer-finance innovation and competition, the [CFPB](#) began an effort to increase refi accessibility as well as provide for automatic loan modifications.
- **Treasury Presses Open-End Bond Fund Rules** - In [remarks](#) on Treasury-market stability, Under-Secretary Liang focused on open-end corporate-bond funds.
- **House Republicans Take New Tack to Constrain the CFPB** - Joined by Republicans on the House Oversight Committee, HFSC's GOP [continued](#) its campaign against Rohit Chopra, giving the CFPB director only a week to provide them with an explanation of how many recent actions comply with the Supreme Court's recent restrictions on administrative action.

September 23

- **Dems Reintroduce Instant Funds Availability Bill** - Sens. Van Hollen (D-MD) and Warren (D-MA) introduced S. 4946, a bill they also introduced in 2019 ([see FSM Report PAYMENT16](#)) to require banks immediately to offer instant funds availability.
- **FRB Proposes Sweeping FMU Operational-Risk Update** - The FRB [proposed](#) an update to rules governing operational risk-management for certain systemically important financial market utilities (FMUs).

This Week

Thursday, September 29

Senate Banking Hearing entitled: "Examining Outbound Investment." [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **Ms. Sarah Bauerle Danzman**, Associate Professor of International Studies, Indiana University; **The Honorable Richard Ashoosh**, former Assistant Secretary for Export Administration, U.S. Department of Commerce; **The Honorable Thomas Feddo**, former Assistant Secretary for Investment Security, U.S. Department of the Treasury; and **Mr. Robert Strayer**, Executive Vice President of Policy, Information Technology Industry Council.

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future." [12:30 pm, FHFA Constitution Center Auditorium]. Matters to be discussed: FHLBanks' general mission and purpose in a changing marketplace; FHLBank organization, operational efficiency, and effectiveness; FHLBanks' role in promoting affordable, sustainable, equitable, and resilient housing and community investment; addressing the unique needs of rural and financially vulnerable communities; member products, services, and collateral requirements; and membership eligibility and requirements.

Treasury's Federal Advisory Committee on Insurance Open Meeting. [1:00 pm, webcast]. Matters to be discussed: climate-related financial risk and the insurance sector; cyber insurance developments; international insurance issues; and FACI will receive status updates from each its subcommittees and from FIO.

Future Events of Note

No events of note.

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](#).

- **AML136**: Treasury is seeking comments on issues raised by the President's executive order (EO) on digital assets to guide further work curbing illicit-finance and national-security risks in this sector.
- **REFORM213**: Senate Banking's hearing with big-bank CEOs proved much more combative than HFSC's session yesterday ([see Client Report REFORM212](#)).
- **GSE-092222**: In this report, we follow our earlier analysis of Treasury's CBDC recommendations and [housing finance](#) with an analysis of another Treasury report in response the President's [executive order](#) focused on the overall construct of cryptoassets in the U.S.
- **REFORM212**: At today's big-bank oversight HFSC hearing, Committee Democrats focused on each bank's progress on social issues, such as internal diversity, unionization, and historic roles in financing slavery.
- **GSE-092122**: In this analysis, we drill down in Treasury's high-impact reports to the President on the future of digital assets to identify key considerations and strategic implications for housing finance.
- **CRYPTO32**: We follow our prior in-depth analysis of Treasury's CBDC and payments report ([see Client Report CBDC14](#)) with a detailed assessment of the Department's [assessment](#) of overall cryptoasset policy.

- **[SANCTION19](#)**: Today's Senate Banking hearing on Russian sanctions showcased bipartisan concern that anti-Russian sanctions have yet to have meaningful impact and doubts about the extent to which oil-price caps will reverse this.
- **[CBDC14](#)**: In this in-depth report, we follow through as promised on our initial analysis of key sections in last Friday's Treasury report on CBDC and changes to the payment system.
- **[INVESTOR20](#)**: The Senate Banking hearing with Chairman Gensler today went as [expected](#): Democrats generally praised his work while Republicans strongly opposed it on both substantive and procedural grounds.
- **[INSURANCE61](#)**: Chairman Brown (D-OH) convened a hearing today focused on the insurance industry largely focusing on the extent to which private-equity takeovers endanger insurance solvency and threaten pensioners following risk transfers.
- **[GSE-090722](#)**: Reinforcing the sharp turn-around in housing markets evident since the Fed surprised markets with its first 75 bps hike, a new working paper from the [San Francisco Fed](#) provides the first hard evidence of how monetary-policy shocks in the U.S. hit listing prices hard and fast.
- **[GSE-090122](#)**: As seems always the case, FHFA Director Thompson is as good as her word to Congress earlier this [summer](#), announcing [yesterday](#) a review of the extent to which the Home Loan Banks and their System meet the mission assigned to them and, regardless, if that mission still makes sense.
- **[GSE-083022](#)**: BofA's new no-down payment [mortgage](#) is another innovative product in which banks use their balance sheets to address their CRA obligations by offering down payment assistance or, as here, flat out nothing down.