



FedFin Daily Briefing

Monday, September 19, 2022

HFSC Ponders Russia, China Payment Alternatives

The majority staff [memo](#) for Tuesday's 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. Although the memo concedes that these alternatives have yet to gain significant network effects, the threat that they might come to do so is said to warrant immediate policy attention in light of the rapid transformation to alternative systems in retail payments. In addition to near-term concerns related to national security and the dollar, the hearing will address threats to data privacy, an overall geopolitical power shift, financial-system fragmentation, and challenges to AML enforcement. All of the witnesses are academics or private sector representatives, and the memo indicates no legislative targets for future action.

New HDMA Data Collections at the CFPB?

The *Federal Register* today includes a CFPB [comment request](#) regarding the Bureau's Regulation C implementing HMDA reporting. While the request for comment appears to be routine and the actual filings unchanged, the CFPB has proposed additional data collections for small-business loans ([see FSM Report FAIRLEND11](#)) that it may wish in time to add to HMDA. As a result, comment on the rules, due November 18, may be of interest.

Treasury Accelerates Crypto, CBDC Illicit-Finance National-Security Action

Following the publication of its crypto illicit finance [action plan](#) last week, Treasury [today](#) released a request for comment seeking views on illicit-finance and national-security risks. As noted in our forthcoming report later today, Treasury and the White House have elevated these concerns for immediate action not only with regard to the cryptoassets on which law-enforcement and sanction-compliance efforts already focus, but also on CBDC. The RFC asks specifically about matters such as DeFi's illicit-finance risk, problematic national jurisdictions, and how Treasury can best implement AML/CFT controls into the design of a potential CBDC. Comments are due by November 3; an in-depth FedFin analysis will shortly be provided.

HFSC Democrats Ready the Rack for Big-Bank CEOs

As we [anticipated](#), the HFSC majority-staff [memo](#) for Wednesday's "mega-bank" hearing focuses on mergers, arguing that these have adversely affected market competition and consumers. The memo also argues that the largest banks continue to face numerous enforcement actions for "unlawful behavior," that big banks are reducing mortgage lending at cost to vulnerable consumers, that refis are offered on discriminatory terms although new special-purpose credit programs may redress some of these challenges, and that credit reporting is deeply flawed. The memo also details the legislation on which the hearing builds a record for future action even though there is no time left in this session for enactment. These bills include not just the House version of Sen. Warren's (D-MA) anti-merger measure ([see FSM Report MERGER8](#)), and numerous longstanding bills criticizing bank climate-risk management, diversity, fairness, and credit-reporting practices. It

also covers a series of draft bills that may well be introduced to burnish their sponsors' records on the campaign trail or position the measure for action in the next Congress. Interesting here is draft legislation that would accelerate the CFPB's campaign against "[repeat offenders](#)", expand the CRA, revise the EFTA to include scams within consumer protections, create a bill of rights for financial-sector workers, and restrict information-sharing related to reproductive treatment financial transactions. All of the bills mentioned in the memo are of course only those pressed by Democrats. As also noted last week, we expect to hear a good deal from Republicans looking for statutory powers to force banks to lend to fossil-fuel and firearms companies.

BIS Fears FBO Liquidity Draws

Among the reports released today 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. This may accelerate Fed interest in revisiting the need for express liquidity standards governing FBOs to prevent a repeat of the 2008 drawdowns that then-Gov. Tarullo and now-Vice Chair Brainard believe posed significant risk in the U.S. The BIS study finds that crisis-driven drawdowns in host jurisdictions akin to those in 2008 are potentially of more concern now that the Covid crisis and Ukraine war have fragmented global funding markets with still greater reliance on the dollar.

Senate Banking Brings Out The Big-Bank Spikes

Earlier today, 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. Now, Senate Banking [Democrats](#) have also positioned their hearing as one sure to take witnesses to task. As with the HFSC memo, the Senate Democrats' release sharply criticizes the largest banks, also suggesting that mergers will be a top priority. The release is a set of "snapshots" of the three regional banks testifying on Thursday – Truist, PNC, and USB – likely reflecting a prioritization of recent and pending transactions in light of the "breaking news" and enforcement actions also highlighted in these snapshots. Similar takes on the GSIBs also being called to account will be released before the hearing, with each of them sure to be quizzed about mergers even though none has any major transactions known to be in the works. Numerous consumer issues – e.g., those pertinent to Zelle and overdrafts – are also highlighted in the snapshots today and will doubtless feature prominently in those to come. Client reports on each hearing will follow.

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](#).

- [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.
- **[CRYPTO31](#)**: Reflecting the concerns voiced in a recent executive order from President Biden and a subsequent request for views from Treasury, the Federal Reserve has joined the OCC in demanding prior notice from banking organizations that wish to undertake cryptoasset activities.
- **[GSE-082222](#)**: A new Federal Reserve Bank of Cleveland [study](#) validates forbearance as a mortgage-market buffer, reinforcing the likelihood that policymakers and servicers will turn quickly to it if current mortgage-market conditions turn ugly under the combined stress of higher rates and slow to no growth.