



# *FedFin Daily Briefing*

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Monday, September 26, 2022

## EU Banks Placate Investors vs. Protecting Capital

As pressure mounts on bank capital requirements ([see Client Report REFORM213](#)), the IMF has released a [study](#) finding that European banks could not have reduced capital distributions during the first year of the pandemic but for supervisory restrictions. This study is models-based and thus dependent on its assumptions. It also does not cover U.S. banks and conditions in each region may differ, but the study concludes that EU banks did not discount future expectations of economic conditions or profitability. Instead, they sought to continue payouts in order to get ahead of supervisors, placate investors, and maintain their market reputation.

## FRB Dallas Paper Finds CBDCs Enhance Financial Inclusion

The Federal Reserve Bank of Dallas today published a [working paper](#) finding that both a low fixed-cost/rate and a high fixed-cost/rate CBDC facilitate inclusion without harming intermediation, although the lower fixed-cost/rate option results in greater inclusion by encouraging households now relying on cash to participate in the financial system. It also found that a CBDC that increases inclusion does not necessarily decrease intermediation if the banking sector is not perfectly competitive, as its definition suggests is now the case. The model's sample is based on data from the U.S. income distribution and the proportion of unbanked households, comparing the maximum effect of a CBDC's cost and rate across the income distribution without affecting intermediation, which it appears to define only in reference to non-retail credit origination. Lower fixed-cost/rate CBDCs incentivize direct financial-system inclusion by LMI earners, while higher fixed-costs/rates drive wealthier households to a CBDC, poaching deposits from banks, raising deposit rates, and thus making deposits more attractive to cash-reliant households.

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### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-092622](#): As will be evident in our forthcoming in-depth analysis, the CFPB's fusillade [last week](#) on mortgage-finance could have far-reaching implications for the entire market based on how far it takes its new campaign for equitable housing finance and whether the market is willing to come along on at least some of the agency's new ideas.
- [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.