FedFin Daily Briefing

Thursday, November 3, 2022

Gruenberg Backs Bank On

In remarks late yesterday, FDIC Acting Chairman Gruenberg pointed to the importance of Bank On accounts to retain previously un- or under-banked households brought into the system following large government payments early in the pandemic. He urged more banks to explore these accounts, noting also that recent FDIC data show a sharp drop in consumer use of non-bank credit and deposit-like products. For example, the share of households using nonbank check cashing has fallen by half over the last four years and the percent of households using nonbank credit products fell even more. Due to the risks these products still pose, Mr. Gruenberg pointed to recent FDIC action to sanction firms misrepresenting FDIC status (see FSM Report **DEPOSITINSURANCE113**) and indirectly urged the CFPB to take further action on product characteristics and disclosures.

ECB Presses Climate-Risk Capital Regs

Moving far ahead of the Fed, the ECB has announced strict plans to ensure that EU banks not only improve governance and express climate-risk stress testing, but also hold sufficient internal-capital allocations for physical and transition risk. The ECB thus says that banks are expected to identify and quantify climate-related and environmental risks within their overall process of ensuring capital adequacy, with a firm year-end 2024 deadline set for full integration of the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing. U.S. regulators have yet even to finalize climate risk-management principles and appear nowhere close to any near-term capital requirements. Although not an official policy statement, a recent Fed staff study concluded that the ability of any climate-risk capital charge to buffer risk is unlikely given the difficulty of estimating climate risk's loss-generating potential and uncertainty about the policy objectives any such capital requirement should achieve.

Data Standard-Setters to Come Under CFPB Regs

In remarks late yesterday updating the CFPB's open-banking rulemaking efforts, Director Chopra indicated that the new consumer-data rules (see forthcoming in-depth FedFin report) will also address how best to set public and private-sector standards to ensure industry-wide fairness and access to critical infrastructure. While open banking will almost surely rely on standard-setters, it can be difficult to achieve fairness due to the fact that standard-setters may also be market participants, necessitating a strong CFPB role. The British Open Banking Implementation Entity is a model for providing critical infrastructure, leading Mr. Chopra to state that the CFPB will thus be looking to foreign open banking experiences and domestic developments when crafting the new rule. The Bureau's focus will also be on how the implementing rules will be practically operationalized in the market. Mr. Chopra will speak more about this proposal and other pending actions later today and another alert thus will follow.

IMF Climate-Risk Priorities Include GSIB Buffers

The IMF's Deputy Managing Director Bo Li today set priorities for central banks and bank regulators addressing financial-system climate resilience. These include incorporating climate-risk assessments into financial stability and prudential frameworks, as well as developing a climateinformation architecture including consistent taxonomies. Underscoring policy-preparedness for physical and transition risks, he specifically calls for bank climate risk supervisory standards on governance and strategy, risk management, scenario analysis, and disclosure. He suggests these may be enhanced by policies supporting climate risk-aware lending practices, ex-post asset recovery, critical infrastructure resilience risk assessment, and prudential risk buffers for systemic institutions. As noted earlier today, capital buffers are advancing in the EU but nowhere in sight in the U.S. even for the largest banks. Echoing housing market risks addressed in a recent FIO comment request and Fed study, Mr. Li also suggests that LTV and DTI mortgage standards could increase lender resilience.

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.

- **OVERDRAFT11:** In conjunction with a Presidential speech and new White House initiative against "junk fees," the CFPB has accelerated its own efforts in this arena with two new policy directives.
- **GSE-102522:** As we noted yesterday, FHFA has decided not only to unbundle second and high-dollar loans from its flat-fee paradigm, but now to do the same for about one in five conventional conforming purchase loans outside these categories.
- **DEPOSITINSURANCE116:** The FDIC has finalized its proposal largely unchanged 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.
- **RESOLVE48:** The FRB and FDIC have moved beyond the resolution-planning requirements mandated in the Dodd-Frank Act then implemented over the years to what could be a new resolution regime for banking organizations considered category II or III companies under the inter-agency tailoring rules.
- **MERGER11:** As promised, this analysis focuses on the OCC and FRB approvals of the acquisition by U.S. Bancorp of MUFG's Union Bank in California.
- **DEPOSITINSURANCE115:** The FDIC board today voted 3-0 to increase DIF assessment rates by 2bps, finalizing its proposal (see FSM Report **DEPOSITINSURANCE114**) and rejecting industry arguments on grounds that a small DIF premium increase now would make a more damaging procyclical assessment increase under adverse economic conditions less likely.
- **CRYPTO34:** Speaking for global banking, securities, and insurance regulators, the Financial Stability Board has taken its firmest stand to date on cryptoassets and outlined high-level and often principles-based global standards to govern them going forward.
- **INTERCHANGE11:** Leaving its interchange-fee restrictions intact – at least for now – the Federal Reserve has finalized its proposal expanding on its existing requirement that all debit- card transactions must be enabled for processing on at least two unaffiliated payment-card networks for card-not-present transactions.
- **GSE-100622:** FHA's request for input on small-dollar loans could mean much for this equality-essential

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

product or little beyond a lot more public debate.

- **CRYPTO33:** In this report, we build on our initial assessment of FSOC's conclusion that cryptoassets now pose systemic risk and the Council's recommendations about what should be done to curtail it.

- **GSE-100422:** Although one witness at the FHFA listening session on the Home Loan Banks took strong issue with their mission and meaning, another who called them the "most successful program of the last hundred years" pretty much summed up today's testimony.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com