FedFin Daily Briefing

Monday, June 5, 2023

FRB-NY: Bank Discrimination Not To Blame For More Black Fintech PPP Loans

A new paper from Federal Reserve Bank of New York staff concludes that differences in PPP applications between white and Black firms entirely explains why Black PPP borrowers received a greater share of loans from fintechs rather than banks. This issue has been a longstanding point of contentiousness used by fintech advocates to argue that their business model warrants less regulation on grounds that it is also less discriminatory. However, the paper's results suggest that any fintech-driven mitigation of racial disparities in lending outcomes is the product of higher Black-borrower applications, not higher approval rates that would demonstrate less discrimination. Using data from the Fed's 2020 Small Business Credit Survey, the authors first show that Black-owned firms were 4.9 percentage points less likely to apply for a PPP loan compared to white-owned firms, a trend that accounts for more than half of the loan approval disparity. To explain this pattern, the authors point to the program's administrative burdens combined with Black firms' relative lack of access to professional services – factors they also say render traditional banking services more necessary and automated fintech processes disadvantageous. In addition, the paper finds that Black-owned firms were 9.9 percentage points less likely to apply to banks and 7.8 percentage points more likely to apply to fintechs compared to white-owned firms. Although the study demonstrates that application variances – not discrimination – accounts for approval disparities, it also surmises that the reasons Black-firms apply more to fintechs include the legacy of racial bias in bank lending or even loan officer racial animus that discouraged bank loan applications.

GOP Leadership Presses Treasury, SEC On US/EU Climate Coordination

Senate Banking Ranking Member Scott (R-SC) was joined today by House Oversight Committee Chairman Comer (R-KY) in sending letters to Treasury Secretary Yellen and SEC Chairman Gensler taking serious issue with reports that the Department and Commission have been facilitating EU regulators' efforts to advance international climate-related disclosure policies and ESG initiatives. Although the letter references U.S. companies, Ranking Member Scott and Chairman Comer sharply criticize EU standards they say would cause serious business and financial system harm through "onerous extra-territorial climate mandates." They demand answers on Treasury's and the SEC's attention to issues such as their engagement with U.S. businesses and any concerns they may have expressed around compliance costs and energy prices to EU regulators. Responses are requested by June 19.

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.

- **GSE-060223:** As we detailed earlier this week, the OCC's new enforcement policy is a paradigm shift in terms of the legal and reputational risk run by national banks and federal thrifts – that is, by the depository institutions that matter the most to mortgage finance.

- **CHINA17:** While largely focused on countering fentanyl, today's Senate Banking hearing on China, saw Committee Democrats try to ascertain the details of a potential outbound investment executive order and

Republicans addressing what they believe to be shortcomings in data privacy, AML regulation, and sanctions policy.

- **SUPERVISION2:** Following a speech earlier this year by the Acting Comptroller arguing that some banks are "too big to manage" and the furor caused by recent failures, the OCC has significantly revised its enforcement policy.

- **GSE-052323:** Today's HFSC hearing with Sandra Thompson was the anti-LLPA event we anticipated when it came to Republicans that also saw the stout defense Democrats were sure to provide combined with FHFA's resolute stand on doing nothing to change the LLPAs or guarantee-fees beyond what might come of the pending RFI.

- **REFORM226:** Describing the CEOs' statements at his last hearing as "the dog-ate-my-homework" excuses for grievous failings, Senate Banking Committee Chairman Brown (D-OH) also attacked Republicans for placing blame on monetary policy, not the culture of supervisory laxity he details with various quotes from Trump Administration officials.

- **CRYPTO44:** Although there were still considerable party-line differences of opinion on stablecoin legislation, today's HFSC Digital-Assets Subcommittee hearing suggests that remaining divides are narrowing, increasing the odds of a new federal-regulatory framework.

- **GSE-051723:** With Republicans on the anti-LLPA warpath, FHFA is hoping to preserve as much of the current fee structure as possible without paying too high a political price, issuing a request for information (RFI) in hopes that letter-writing will keep everyone busy until Congress moves on to other matters.

- **REFORM225:** A joint hearing today of HFSC's Financial Institutions and Oversight Subcommittees expanded on themes at yesterday's full Committee session with bank regulators (see *Client Report* **REFORM224**) and Senate Banking's session with SVB's and SBNY's CEOs, with First Republic's CEO now added to the Congressional firing line.

- **REFORM224:** In their first appearance following the reports on recent failures, FRB Vice Chairman Barr and FDIC Chairman Gruenberg were harshly criticized by Republicans for both the bank failures and recommended remedies.

- **DEPOSITINSURANCE120:** As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has now proposed a special assessment to compensate the Deposit Insurance Fund (DIF) for the cost of backing the two banks' uninsured deposits.

- **CRYPTO43**: Today's joint HFSC-House Ag hearing on assessing crypto's regulatory gaps saw bipartisan calls for Congressional action, but none on what that should be done.

- **GSE-050923**: As our in-depth report earlier today details, the Fed's latest financial-stability report pulls a lot of punches because, as always, it's afraid to frighten the children with frank discussion of what might actually threaten financial stability in the near term.

- **SYSTEMIC96**: Perhaps because its last financial-stability report (see *Client Report* **SYSTEMIC94**) was contradicted just five months later by a systemic-risk designation, the Federal Reserve's latest report eschews a conclusion about prospective risk in favor of a review of current concerns.

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