FedFin Daily Briefing

Wednesday, February 7, 2024

Fed Study: 96 CRA Reforms Had No Impact on Bank LMI Lending, Subprime Crisis

As banks take on the new CRA rule in the courts (see FSM Report **CRA32**), a new Fed study suggests that prior CRA changes had no meaningful impact on LMI mortgage lending in assessment areas and did not cause the subprime crisis as a prior study asserted. The paper finds that banks in the three years after the 1995 rule's effective date made only scant, statistically-insignificant increases in LMI mortgage lending. The study in our view unfortunately uses LMI lending as a proxy for subprime mortgage lending on grounds that most subprime lending was to LMI households; true, but so much subprime lending went to non-LMI households as to make this methodologically questionable. The study reaches its conclusions on LMI/subprime lending by comparing bank and nonbank LMI finance, finding few differences until 1998's sovereign-debt crisis and LTCM's failure. This is said to have led to a sharp shift in "subprime" lending back to banks, but the study does not appear to track the very significant expansion of nonbank finance companies and expressly-subprime lenders after 2002.

NYCB's Prospects, Policy and Political Consequences

After the markets closed, NYCB was up a bit from its lows, but it remains to be seen if this is a "dead-cat bounce" or stabilization. Regardless, the company's market capitalization is down 57 percent since it surprised markets with unexpectedly-bad results. The bank did today report some deposit inflows, but what these are and how long they last is uncertain given that they may be brokered inflows or other rate-seeking funds hopeful that the backing provided uninsured deposits last year will hold in 2024. If it doesn't – and the agencies will be hard-pressed to do anything smacking of bailout or systemic designation this time – then these funds could rush out even faster than they have come in.

Importantly, the bank has been mum about its reliance on Home Loan Bank advances. These now account for twenty percent of funding, with no public information released on how much of this is overnight money the FHLBanks may be reluctant to roll over in light of FHFA's policy taking a far sterner view of troubled-bank advances than was the case last year. It may turn out to be fortuitous that the Fed has not finally closed the BTFP; it remains to be seen if regional-bank stress forces it to reverse that call.

Another critical policy question is how the FDIC decided to sell Signature to NYCB given that it had yet to integrate Flagstar Bank and already had significant, risky concentrations in New York-area CRE. We expect GOP lawmakers to focus on this in their broader quest to force a resignation from Chair Gruenberg, but they will hold their fire until the bank's long-term prospects become clear. If the bank fails, this will make the anti-FDIC case stronger and bring the OCC into focus as the supervisor which will be said to have delayed action on NYCB's reserves until the situation was grave enough to threaten the bank's viability. Abrupt changes in key NYCB personnel shortly before the earnings release are likely only to inflame questioning about the bank and its supervisor. If the bank survives, these concerns and accusations will still come up, but likely only as letters or hearing questions, not serious policy or political initiatives.

We will continue to monitor these developments for their broader implications and advise accordingly.

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.

- **FSOC30:** As anticipated, today's HFSC hearing with Treasury Secretary and FSOC Chair Yellen showcased sharp Republican criticism of the Council's nonbank designation authority (see FSM Report **SIFI36**), with Chairman McHenry (R-NC) and Financial Institutions Subcommittee Chairman Barr (R-KY) citing the guidance as yet another example of regulatory politicization, calling FSOC a "rogue" and "roving" regulator.

- **MERGER14:** Although all of the banking agencies have for years promised a new bank-merger policy, none has proposed one until this OCC rulemaking.

- **PAYMENT28:** Today's Senate Banking Committee hearing on scams and fraud in the banking system focused on the rise of P2P payment app scams, the growing popularity of traditional methods of fraud executed via wire transfer and check fraud, and emerging crypto and AI risks.

- **AI5:** Although FSOC's latest annual report highlights AI risk, it does not request any express agency action, a hands-off approach that led to bipartisan legislation demanding a more forceful approach.

- **GSE-013124a:** Common-stock investors clearly think so, but they're a notably speculative lot and more than likely wrong.

- **GSE-013124:** We have reviewed the 2024 scorecards FHFA released for Fannie and Freddie.

- **CONSUMER55:** The CFPB has followed up a controversial proposal to set prices for larger-bank overdrafts exempt from certain consumer standards with a proposal to simply ban certain non-sufficient fund (NSF) fees when banks decide in real time to decline a consumer-payment request.

- **GSE-012424:** In this report, we build on our previous analyses of the mortgage implications of the pending capital rules, forecasting what's next for mortgage assets as the FRB, FDIC, and OCC wrestle with the mess Karen Petrou has elsewhere argued they brought upon themselves by careless analytics and political misjudgment.

- **OVERDRAFT12:** Building on a bulletin and circular from late 2022 warning banks about certain overdraft practices, the CFPB has now proposed a rule that would sharply and expressly limit fees for extensions of credit related to overdrawn transaction accounts unless the account comes under an array of consumer-protection requirements.

- **GSE-012224:** A new Fed staff study uses models to conclude that government-backed mortgage securitization exacerbates financial crises, contradicting conventional wisdom that – GSE blow-ups notwithstanding – properly-regulated GSEs create a liquid, diversified asset pool for an otherwise illiquid, risky asset class.

- **GSE-011224**: A new staff paper from the Federal Reserve Bank of New York assesses the tender topic of bank mortgage lending to minority borrowers.

- **GSE-010924:** Based on recent dialogue with institutional investors and regulators, a new FRB-NY Teller Window article concludes that robust data collection, loan standardization, and higher volume could improve CDFI secondary market sales.

- **GSE-010824:** It's not news to observe that things that change at the GSEs then change a lot of other things.

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