# FedFin Daily Briefing

**Monday, February 12, 2024**

## Bowman Presses New Community-Bank Regulatory Construct

FRB Gov. Bowman today recommended that community banks be differentiated from larger ones based not on asset size as now, but rather by their business model. Key criteria, she says, should be a simple and local business model focused on relationship banking. Community-banking standards should reflect this business model in contrast to other banking strategies and be "fair," i.e., focused on how challenging and costly it is for community banks to comply with rules that may not meaningfully apply to them. The current framework is, she says, essentially undermining community banking and thus broader banking-system functionality. A solution is for regulators to consider cumulative impact from a community-bank perspective and improve risk prioritization, tailoring, transparency, and predictability. Rules she thinks fall particularly short of these standards are those implementing the CRA (see FSM Report **CRA32**) and third-party vendor restrictions (see FSM Report **VENDOR10**). She also urged comment on the inter-agency request for comments on current rules affecting applications, activities, and international operations.

## IMF Targets Margining Risks

Reinforcing the work of global regulators addressing margining liquidity-risk fears, the IMF released a staff study finding that as much as a third of EU investment funds that are large derivatives end-users could not meet their variation-margin requirements under stress. These funds would then procyclically redeem MMF fund shares, sell assets, and draw on credit lines. This would in turn amplify market stress, leading the study's authors to urge continuing work addressing NBFI liquidity risk in the fund sector related to margining.

## HFSC Set to Demand Much from Treasury, FinCEN

The HFSC majority-staff memo on Wednesday's FinCEN hearing makes it clear that Under-Secretary Nelson and FinCEN director Gacki will face hard questioning on anti-money laundering and CFT topics. These will surely include critical GOP scrutiny of Treasury's request for additional authority for greater monitoring and enforcement authority over digital assets even though the Digital Asset Subcommittee plans a hearing specifically on this topic later this week. Mr. Nelson will also face questioning over sanctions effectiveness and enforcement given current geopolitical conditions and pending bills in the House on both sides of the aisle to force the Administration's hand, especially when it comes to China and Russia. The bill on which a hearing record will be formally established addresses longstanding GOP concerns about beneficial-ownership reporting by mandating periodic FinCEN reports to Congress.

## FFIEC Redesigns Valuation-Bias Exam Protocol

Arguing that deficient real estate valuations due to bias or discrimination cause consumer harm and pose safety-and-soundness risks, the FFIEC today issued a statement of examination principles regarding valuation discrimination and bias in residential lending. While the principles primarily concern valuation and appraisal, they also emphasize the assessment of residential real estate lending-risk profile as key. Compliance examination principles are focused on board and senior management oversight, third-party risk management, policies and procedures, training, monitoring, and audit practices, and consumer-complaint response. The Council's safety-and-soundness examination principles address consumer protection, risk assessment, governance, collateral valuation, third-party risk management, valuation, credit risk, and training. FFIEC emphasizes that the principles do not constitute new guidance and are only intended to provide transparency.

## 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.

- **FSOC31:** Treasury Secretary Yellen's hearing today before Senate Banking followed the path set in Tuesday's HFSC session (see *Client Report* **FSOC30**), with Ms. Yellen refusing to take a stand on matters such as the capital rules and banking-agency supervisory effectiveness.

- **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.

**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