FedFin Daily Briefing

Friday, April 5, 2024

CFPB Targets FHA, Refi Discount Points

The CFPB today released a report finding that the percentage of homebuyers paying discount points roughly doubled from 2021 to 2023, with the increase more pronounced for buyers with lower credit scores. As noted, we anticipate near-term CFPB guidance or like-kind action strictly regulating discount points as part of the Administration's "junk-fee" initiative. The Bureau also found that many lenders use discount points to qualify borrowers, with 65 percent of all FHA borrowers paying points from 2019 to 2023, with the rate up to 77 percent for FHA borrowers with credit scores below 640. The report also found that 87 percent of borrowers with cash-out refis paid discount points as of September 2023, a 26 percent increase since 2021.

Treasury KYC Proposal Coming This Year

In remarks last night, Treasury Undersecretary Brian Nelson made it clear that, as we anticipated, FinCEN's pending RFI on KYC procedures will be reflected later this year in formal rulemaking as required by the 2021 law (see FSM Report **AML133**). Mr. Nelson also noted that FATF has upgraded U.S. performance to "largely compliant", elaborating on recent actions with regard to real estate and investment advisers. Only a short reference is made to new ways to skirt AML and CFT regulation, an issue we expect to be the principal focus for Democrats at next week's Senate Banking hearing. We will thereafter provide clients with a detailed analysis.

Bowman Focuses on Limited Liquidity-Resilience Reform

Building on her comments earlier this week regarding liquidity regulation, FRB Gov. Bowman today said that regulators should "encourage, but not mandate" the exercise of contingent-funding plans, noting a fine line between bank supervision and interfering with bank management. Acknowledging that further steps may be needed to ensure banks have access to liquidity support under stress, Gov. Bowman also reiterated that FedWire should extend its operating hours and the discount window must be prepared to provide support during times of stress. She also stated that, while some changes to the regulatory framework may be necessary, none should impair the long-term viability of small and mid-sized banks. Poorly-calibrated regulatory reform may reduce credit availability and encourage further migration to the nonbank financial sector, posing financial stability risk.

FSB Secretary General Calls For Tokenization Research

Reiterating the FSB's ongoing stablecoin and digital-asset work, the Board's Secretary General, John Schindler, today indicated that it would be useful for researchers to explore the potential use cases, benefits and risks of tokenization. The timeline for stablecoin action in 2024 remains as outlined in FSB's annual work program. FSB also plans in 2025 to assess member states' progress in implementing its recommendations (see FSM Report **CRYPTO34**). Mr. Schindler also indicates that he and global regulators in general are not ready to determine if banking or security rules best fit stablecoins because the assets are a bit of each. As a result, work focuses not only on financial stability, but also on cross-border cooperation, closing data gaps, and combatting regulatory arbitrage. Mr. Schindler also states that stablecoin reserve assets are frequently riskier than advertised, meaning that they should be subject to the same data and disclosure requirements as other financial institutions.

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-032924:** Following FSOC's fulminations about nonbank mortgage companies, FHFA in 2023 heightened its supervisory standards mandating GSE prudential governance of eligible seller servicers.

- **MERGER15:** Following its 2022 request for input, the FDIC has released a formal proposal that would redefine the agency's bank-merger policy into one that will make it difficult for all but the smallest and simplest transactions within its jurisdiction to have the clear prospects for approval usually necessary in non-emergency transactions, subjecting other M&A applications to protracted review with a high likelihood of denial.

- **REFORM231:** Today's HFSC hearing on global governance featured expected Republican attacks on what they called the opaque nature of U.S. interactions with international organizations, with Chairman McHenry (R-NC) promoting a draft bill requiring regulators to report dealings with global standard-setting groups to Congress.

- **GSIB24:** Reflecting concerns expressed about banks that window-dress key regulatory data as the post-crisis framework took shape, the Basel Committee has now issued a request for views on how to prevent this when it comes to GSIB calculations related to their surcharge or possible designation.

- **CREDITCARD37:** Following a very controversial proposal, the CFPB has finalized credit-card late-fee restrictions in a final rule that does not differ significantly from the proposal on its key point: elimination of the manner in which inflation adjustments are now made by credit-card lenders when it comes to late fees.

- **GSE-031224:** The President's FY25 budget picks up FHFA's recommendations, calling for statutory change to double the System's affordable-housing commitment.

- **FEDERALRESERVE75:** As expected, Republicans took turns grilling Chair Powell on the Basel III endgame proposal and calling for its withdrawal, and were likely pleased with the results.

- **CONSUMER56:** The CFPB has issued a circular essentially banning digital and perhaps all other consumer-finance comparison-shopping and lead-generation tools for credit cards and other products not covered by prior orders.

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