



Friday, April 26, 2024

Treasury Slams PR Banking AML, Sanction Compliance

Providing an unusually blunt warning, Treasury Undersecretary Brian Nelson yesterday [stated](#) that further action is necessary in Puerto Rico to combat illicit finance, tighten supervision, and increase transparency. Puerto Rico's growing cooperativas sector and increased use of cash transactions for real-estate purchases is particularly problematic due to limited transparency and reporting. While progress has been made to enhance supervision, gaps are still being exploited by sanctions evaders, drug traffickers, and other corrupt actors to launder funds through the US financial system. Addressing these challenges requires close partnerships between federal law enforcement and federally chartered commercial banks in Puerto Rico, with Treasury calling for better Puerto Rican collective efforts in this arena.

BCBS Moves Forward With New Counterparty Risk Guidelines

As [anticipated](#), the Basel Committee this week announced that it [approved](#) a consultation on proposed guidelines to strengthen bank counterparty credit risk management, replacing the Committee's 1999 global guidance that failed to address the now-significant role of NBFIs and their heightened leverage. As previously noted, the FRB has addressed one aspect of this risk via its new "exploratory" hedge-fund stress test ([see Client Report STRESS32](#)) and the banking agencies are also gathering NBFIs call-report [data](#). We will advise clients when the consultation is released and then provide an in-depth analysis.

HFSC Merger Hearing to Test Agency Proposals

The memo for Wednesday's merger [hearing](#) before HFSC's Financial Institution Subcommittee indicates that witnesses are senior attorneys from the OCC and FDIC sure to be grilled by Republicans on their agencies' proposed merger-policy rewrites. Bills slated for the hearing include H.R. 7403 (Barr, R-KY), a bill setting firm deadlines for merger decisions and several GOP bills addressing the CFPB's small-business [data rule](#) in this context on grounds that it creates anti-competitive incentives due to compliance costs that lead banks to seek out mergers.

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](#).

- **SYSTEMIC99**: The latest Federal Reserve financial-stability [assessment](#) continues the Fed's practice of detailing vulnerabilities without drawing bottom-line conclusions; the Board once did so, but ceased this practice after opining that the financial system's risk was "moderate" shortly before the 2020 crash.
- **MORTGAGE122**: Although there was no need for further evidence that campaign season has begun, today's Senate Banking housing hearing surely confirmed it.
- **GSE-041724**: Just as the CFPB readies its assault on [cashout-refi discount fees](#) comes [FHFA's request](#) for views on a new Freddie Mac product that would give borrowers access to their locked-up equity without a new first lien at a higher rate or a traditional home-equity second riding piggyback atop the first lien.
- **RESOLVE51**: In its first public statement since 2013 about how it would execute an SPOE resolution

(see [FSM Report RESOLVE23](#)), the FDIC yesterday released a [report](#) Chair Gruenberg [described](#) as demonstrating the FDIC's readiness to resolve a U.S. GSIB and the process it has developed for doing so under the orderly liquidation authority (OLA) provided in the Dodd-Frank Act (see [FSM Report SYSTEMIC30](#)).

- [GSE-041024](#): *Bloomberg today* reports that the CFPB may simply ban consumer payment for lender title insurance.
- [AML137](#): Senate Banking Committee's Hearing with Deputy Secretary Adeyemo reviewed the Administration's request for additional digital asset AML/CFT authority.
- [GSE-040824](#): It wasn't hard for us to forecast that, after NEC Director Brainard [endorsed](#) CFPB Director Chopra's jihad against mortgage "junk fees," that the discount points that received particular opprobrium would be moved up the priority ladder for federal restriction.
- [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.