FedFin Daily Briefing

Thursday, July 23, 2020

Romney Dims Prospects for Shelton Confirmation

As noted, Judy Shelton's controversial Senate Banking vote did not assure her confirmation – only approval on the Senate floor confirms a nominee to the office for which the President appoints him or her. We noted then that Sen. Romney (R-UT) might dissent. Today, he told reporters that he in fact will oppose Ms. Shelton's nomination. While Sen. Kennedy (R-LA) has said that Majority Leader McConnell (R-KY) will quickly move the nominations of Ms. Shelton and Christopher Waller, Sen. Romney's opposition complicates what was already a difficult logistical challenge for the Majority Leader. Senate Democrats are unified in opposing Ms. Shelton. A vote could only proceed if Sen. McConnell is willing to devote floor time to a protracted battle on assurance that Sen. Collins (R-ME) will support Ms. Shelton. As noted, she has also expressed reservations, but so far taken no public stand.

Fed Bows to Critics Questioning COVID Facility Reliance on Large Financial Companies

Responding to criticism that its COVID-relief facilities employ only the large banks and asset-management firms authorized to serve as counterparties and agents, the FRB today expanded eligible entities to include relatively small broker-dealers that meet various eligibility requirements. Among these is a requirement that the firm demonstrate "good-faith efforts" on equal opportunity and diversity for women, minorities, and veterans in its workforce. This good-faith effort means a demonstrated one identifying barriers and removing them – a requirement that goes well beyond prior- statements about diversity many read to be boilerplate. Although the Fed's effort here is also designed to increase participation by small firms, eligible counterparties and agents will also need to demonstrate established capacity in a relevant asset class or market, along with the operational capacity needed to handle large transaction volumes and other tasks.

Draft Democratic Platform Continues "Third Mandate," Modulates Call for Postal Banking

Following initial agreements between supporters of Vice President Biden and Sen. Sanders (I-VT), the Democratic Party has now released a draft 2020 platform setting the stage for final action later this summer at the Democratic convention. The draft includes financial policy provisions largely mirroring the prior statement, bringing them closer to an official campaign statement. The draft platform again states that racial equity should be part of the FRB's mandate, also continuing language that does no more than to state that this mandate directs the FRB to report on the extent of racial unemployment and wage gaps and on how the central bank is countering them.

While both documents call on the FRB to provide bank accounts and real-time payments through "easily accessible" service locations, the draft platform stops short of saying that this should include postal banking. Instead, it supports exploring options to expand access to financial services through the USPS. It also again calls for creating a public credit reporting agency as a "non-discriminatory" alternative to private credit reporting agencies, "reinvigorating" the CFPB, and addressing "over-financialization" and TBTF with a modernized Glass-Steagall. Criminal penalties for "reckless" executives are also still proposed as is rigorous oversight of large corporations seeking financial assistance to weather the pandemic, stressing that funds should support workers, not capital distributions and executive compensation. Although neither document addresses the GSEs, FHA, or the FHLBs, they both support a new "Homeowner and Renter Bill of Rights" to protect families from abusive and discriminatory lenders and landlords.

In contrast to prior Biden campaign statements, the platform does not call for a financial-transaction tax, a fee on certain liabilities of financial institutions with over $50 billion in assets, or an expanded CRA that applies to all lenders. However, the platform does demand that Wall Street investors "pay their fair share" in taxes and supports "strengthening" the CRA.

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 requests@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about GSE Activity Reports, click: http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18

- **PREEMPT34:** As promised by Acting Comptroller Brooks, the OCC has quickly followed up its controversial valid-when-made rule with a proposal defining "true lender" to facilitate the partnerships between banking organizations and other financial companies sometimes called "rent-a-bank" charters.

- **GREEN3:** Building on its 2017 climate-change disclosure work, the FSB issued what it describes as a "stocktake" – i.e., a survey combined with next steps – in this increasingly critical area.

- **GSE-071720:** A new Federal Reserve Bank of New York staff paper sheds timely light on the impact of foreclosure-mitigation efforts on long-term housing markets and household wealth.

- **SBA39:** In this report, we assess the financial policy implications of the wide-ranging House Small Business Committee hearing with Treasury Secretary Mnuchin and SBA Administrator Carranza.

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- **MORTGAGE117:** In this report, we assess the HFSC Oversight and Investigations Subcommittee hearing on mortgage servicing.

- **GSE-071520:** FSOC has officially begun the activity-and-practice designation of the secondary-mortgage market foreshadowed in FSOC's annual report.

- **TBTF23:** Moving cautiously to assess the extent to which large banks are no longer too big to fail (TBTF), the FSB has gone beyond a request for comment to a somewhat more specific solution that may lead to policy actions not yet spelled out for public comment in this report.

- **COVEREDFUNDS2:** The banking agencies, SEC, and CFTC have finalized a long-awaited, complex, and comprehensive proposal rolling back many of the restrictions on covered funds imposed in the 2013 rules implementing the Volcker Rule provisions of the Dodd-Frank Act.

- **GSE-070720:** In the final version of "Volcker 2.0," the FRB, FDIC, OCC, SEC, and CFTC finalized a massive, controversial rewrite of the rules governing the funds which U.S. banks and foreign banks doing business here may hold, own, sponsor, or otherwise serve and even market across an array of asset classes.

- **DERIVATIVES36:** Reflecting strong industry pressure and growing concerns about market structure, the banking agencies have joined others with which they share jurisdiction to finalize proposed revisions reducing the capital cost of the 2015 margin rule for non-cleared derivatives.

- **PREEMPT33:** Shortly after assuming office, the Acting Comptroller of the Currency finalized a proposal with no substantive changes establishing that interest rates governing loans made by national banks are those valid when the loan is made, not based on to whom a loan is subsequently sold as recent litigation declared.

- **RESCUE76:** In this report, we assess the abbreviated HFSC session with Treasury Secretary Mnuchin and FRB Chairman Powell.

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