June 28, 2019

Happy Independence Day!
Congress has gone home for recess. *The Golden Apple* will not publish on July 5 but will return on July 12.

Fannie and Freddie are systemically important, witnesses tell Senate Banking Committee

The economists testifying before the Senate Banking Committee on Tuesday agreed: Fannie Mae and Freddie Mac, which collectively hold $5.8 trillion in assets, are too big to fail and systemically important. When they leave conservatorship, their supervisory structure must recognize and address that status — but as systemically important financial institutions (SIFIs), under Title I of Gramm-Leach-Bliley, or as systemically important financial market utilities (SIFMUs), under Title VIII? The SIFMU designation generally applies to exchanges and clearinghouses, but Professor Susan Wachter, of Wharton, argued that the government-sponsored enterprises' structural role in housing finance makes them utilities. Senate Sherrod Brown (D-OH), the Committee's ranking member, expressed concern that the SIFI designation would raise the GSEs' capital requirements to a level that would make housing finance less affordable for low- and moderate-income borrowers. All the witnesses agreed that a simple "recap and release" suggested by Federal Housing Finance Administrator Mark Calabria would not address the fundamental risks the GSEs present to the system, and that broad legislative reforms were preferable to administrative actions.

State, local governments need to pay more attention to cybersecurity

The city of Atlanta was crippled last year by a ransomware attack that shut down municipal courts, jammed the city's online consumer portal, and blocked online payments. At a hearing on Tuesday, Mayor Keisha Lance Bottoms told the House Homeland Security Subcommittee on Cybersecurity, Infrastructure Protection, and Innovation how the city recovered from that attack, and what it's doing to prevent future disruptions. State and local governments are particularly vulnerable, and the low-income, immigrant, and elderly populations who rely on local government services are often the hardest hit. States and localities typically spend only 1-2% of their IT budgets on cybersecurity, compared to 8-11% within the private sector. The Subcommittee's ranking member, Rep. John Katko (R-NY), announced plans to provide new grant programs to help state and local governments identify system-critical architecture and conduct exercises to train and prepare for cyber attacks. Witnesses emphasized the importance of cross-government collaboration, and the need for better education and cyber-hygiene among both the public and government workers.

House approves funding for Treasury, IRS, SEC and more

The House of Representatives voted 224-196 to approve HR 3351, a financial services appropriations bill that would raise salaries for civilian federal employees by 3.1% and give the IRS an additional $400 million for tax enforcement. The bill did not include the President's request to bring the Consumer Financial Protection Bureau into the appropriations process.

House Task Force talks fintech sandboxes

Fintech supervisors from the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, the Securities and Exchange Commission, the Conference of State Bank Supervisors, and the UK's Financial Conduct Authority (FCA) appeared at the House Financial Services Fintech Task Force's first hearing this week to talk about how they're fostering and supervising fintech services that can help consumers. Christopher Woolard, who heads the FCA's innovation work, described the success of its FCA Sandbox, where firms can try out innovative products and services in a closely supervised environment for a short time (typically six months). Unlike the US regulatory sandboxes, which may offer regulatory forbearance, the FCA Sandbox requires firms to comply with all relevant requirements from day one, so they can move seamlessly into the market from the sandbox. Charles E. Clark, Director of Washington's Department of Financial Institutions, reported on state work toward developing a common examination platform as part of Vision 2020, a set of initiatives designed to harmonize and strengthen state supervision.

How will AI transform the financial system?

The House Financial Services Task Force on Artificial Intelligence also held its first hearing this week, hearing testimony from academics and marketplace participants about how machine learning and other forms of artificial intelligence are already transforming the industry. While algorithms offer major advances in fraud detection and other security measures, witnesses warned that they may also create unintended bias in decision-making. Task Force members expressed concerns about whether AI programs' vast appetite for data may disadvantage smaller and more local service providers, while noting that partnerships with third-party providers might prove a powerful tool for community-based lenders. Witnesses noted that the insurance industry is already using AI to improve customer service and reduce costs; at the request of Rep. Patrick McHenry (R-NC), the full Committee's ranking member, the GAO published a study on the benefits and challenges of AI to the insurance industry earlier this month.

Regulators meet with large banks, CDFIs, minority banks to foster collaboration

Two roundtables in Washington this week brought minority depository institutions (MDI) together with community development financial institutions (CDFIs) and large state nonmember banks to encourage collaborative partnerships. The FDIC published a resource guide for these collaborations late last year, and released a study earlier this week that described the structural changes in MDIs over the last 20 years, while highlighting the social impact of their services to traditionally unbanked and underbanked communities. The study found that MDI financial performance had improved significantly over the last five years, and that the number of Asian-American, Hispanic-American, and Native-American MDIs increased while the number of African-American MDIs declined by more than half.

CFPB extends comment period on HMDA data points

The Consumer Financial Protection Bureau announced yesterday that it would move the deadline for comments on its Advance Notice of Proposed Rulemaking (ANPR) relating to the Home Mortgage Disclosure Act (HMDA) from July 8 to October 15. The ANPR asks for comment on certain data points that were added to require additional information under Regulation C. The Bureau is also reopening the comment period on its Notice of Proposed Rulemaking about coverage thresholds under HMDA.

SSA opens electronic verification service for Social Security numbers

Earlier this month, the Social Security Administration announced that it will enroll a first group of participants in its new electronic Consent Based Social Security Number Verification (eCBSV) service. Between July 17 and July 31, permitted entities may apply for access to the CBSV program, a fee-based service mandated by last year's Economic Growth, Regulatory Relief, and Consumer Protection Act. With the Social Security Number (SSN) holder's consent, participating entities can use the eCBSV to verify the holder's SSN. The first rollout will begin in June 2020, with a limited number of permitted entities, but the SSA will make the service available within six months to all permitted entities that apply to be part of this launch.

Confirmations, Nominations, Departures

The SEC announced several new appointments this week, including Holli Heiles Pandol as Director of the Office of Legislative and Intergovernmental Affairs; Bryan Wood as Deputy Chief of Staff; Sean Memon as Chief of Staff; and Vanessa Countryman as Secretary of the SEC. Chairman Jay Clayton released a complete roster of his executive staff on Wednesday.

Next Week in Washington

- Congress is in recess next week, and government offices will be closed on Thursday, July 4.

- July 10 at 10:00 a.m. House Financial Services Committee holds a hearing on "Monetary Policy and the State of the Economy."

- July 11 at 10:00 a.m. Senate Banking Committee holds a hearing to review the Fed's semiannual monetary policy report to Congress.

- July 10 at 2:00 p.m. House Financial Services Subcommittee on Investor Protection, Entrepreneurship and Capital Markets holds a hearing on "Building a Sustainable and Competitive Economy: An Examination of Proposals to Improve Environmental, Social and Governance Disclosures."

The Ellis Insight
Jim Ellis reports on political news

President

Ex-Rep. Joe Sestak: Former Philadelphia suburban Congressman Joe Sestak, who lost the US Senate race to current incumbent Pat Toomey in 2010, came out of nowhere this week to announce his presidential candidacy. Mr. Sestak, who served as an Admiral in the US Navy and on President Clinton's National Security Council before being elected to Congress, is billing himself as "Admiral Joe" for the presidential campaign. His late start, he says, is due to his daughter's illness and her overcoming brain cancer for a second time. At this point, with little possibility of qualifying for the debates, he is the longest of shots to become a credible candidate.

Florida Poll: Change Research conducted a Florida poll (6/16-17; 1,130 FL likely Democratic primary voters via automated voice response system) and again found former Vice President Joe Biden leading in the 30- percentile range. But, the mover in this survey is South Bend Mayor Pete Buttigieg who bounces back into double-digits and creates a three-way race for second place. The ballot test finds Mr. Biden holding 33% support with Sen. Bernie Sanders (I-VT) following at 20%, while Buttigieg and Sen. Elizabeth Warren (D-MA) tie for third place at 15% apiece.

Mississippi Poll: A new Chism Strategies survey of Mississippi Democrats for Millsaps College (6/20-21; 523 MS likely voters) finds former Vice President Joe Biden with a better than 7-fold lead over his next closest competitor. According to the Chism results, Mr. Biden has 50% support among the Democratic sample as compared to 7% for both Massachusetts Sen. Elizabeth Warren and Vermont Sen. Bernie Sanders. Following is Sen. Kamala Harris (D-CA) at 5% and South Bend Mayor Pete Buttigieg with only 2% support. All others tally 1% or less.

Virginia Poll: Hampton University gives us our first major look at the Old Dominion Democratic presidential primary (taken 5/29-6/6; released 6/20; 1,126 VA registered voters likely to vote in the Democratic presidential primary) and, like the recent Florida poll (see above), former Vice President Joe Biden claims a 30+% lead with Mayor Pete Buttigieg gaining momentum. Here, the numbers break 36-17-13-11-7% for Mr. Biden, Sens. Bernie Sanders and Elizabeth Warren, Mayor Buttigieg, and Sen. Kamala Harris (D-CA), respectively. Virginia has 99 first ballot delegates, ranking it 12th highest of the 57 delegate voting entities.

Senate

Alabama: As expected for the past several weeks, Alabama Secretary of State John Merrill joined the Republican field of US Senate candidates hoping to win the party nomination to oppose Sen. Doug Jones (D). Mr. Merrill, the only current statewide elected official of the challenging group, will face US Rep. Bradley Byrne (R-Mobile), former Auburn head football coach Tommy Tuberville, former state Supreme Court Chief Justice and 2017 Senate nominee Roy Moore, and state Rep. Arnold Mooney (R-Shelby County).

Two weeks ago, former Auburn University head football coach Tommy Tuberville conducted an internal Moore Information poll that projected him as the Republican primary leader. Now, we see independent Cygnal polling confirming that result. In their new survey (6/22-23; 612 AL likely Republican primary voters) Mr. Tuberville leads Rep. Bradley Byrne (R-Mobile), 29-21%. Following is former state Supreme Court Chief Justice and 2017 US Senate nominee Roy Moore with 13%, with newly announced candidate Merrill posting 12% support. The eventual winner faces Sen. Doug Jones (D) in the general election.

Arizona: President Trump has involved himself early in the Arizona Senate race with a public endorsement of appointed Sen. Martha McSally (R). Many Republicans believe a divisive primary that McSally came through in 2018 put her in a difficult position for the general election, and in large part is the reason she fell to now-Senator Kyrsten Sinema (D). Mr. Trump's involvement in the race is designed to help unite the Republicans around McSally so that another counterproductive primary is avoided.

Maine: On their fourth try in attempting to recruit a strong challenger against Sen. Susan Collins (R), the Democratic leadership convinced state House Speaker Sara Gideon (D-Freeport) to join the campaign. Though Ms. Gideon should be a credible opponent for Sen. Collins, the party heads unsuccessfully tried to convince three others to enter the race before turning to their present recruit. Reps. Chellie Pingree (D-North Haven/Portland), Jared Golden (D-Lewiston), and ex-state House Speaker Hannah Pingree, Rep. Pingree's daughter, all declined to run. At this point, Sen. Collins is favored to win a fifth term. A day Ms. Gideon announced her Senate candidacy, the Democratic Senatorial Campaign Committee leadership officially endorsed her effort.

New Hampshire: Retired Army General Don Bolduc (R) announced his US Senate candidacy this week, the first credible candidate to come forward since Gov. Chris Sununu (R) ruled himself out as a candidate early last month. Gen. Bolduc could become credible, but Sen. Shaheen remains a clear favorite for re-election.

North Carolina: It's no surprise that the Public Policy Polling data released late last week confirms other surveys that depict North Carolina as hosting a close 2020

Senate race. The results are perfectly consistent with the state's voting history. The poll (6/17-18; 610 NC registered voters) finds Sen. Thom Tillis (R) trailing newly-announced Democratic candidate Cal Cunningham, a former state Senator and statewide candidate, 40-41%. But, as we pointed out last week in covering the release about the Governor's data, there appears to be a slight Democratic skew contained within the polling sample.

For the second time in two days, President Trump issued an early primary endorsement and this time for Sen. Tillis. The first-term Senator has primary opposition from wealthy venture capitalist Garland Tucker who has been attacking Tillis as not being strongly pro-Trump. Therefore, the President's public support should go a long way toward helping Sen. Tillis win re-nomination before he faces what should be a competitive general election.

Oklahoma: Veteran Sen. Jim Inhofe (R), who will turn 86 years of age before he is sworn in for a fifth full term, filed a new committee with the Federal Election Commission to signal he will indeed seek re-election. Though the move does not constitute an official announcement of candidacy, it is clear that the Senator plans to be on the ballot once again in 2020. His re-election chances are strong.

Texas: Veteran Dallas state Senator Royce West (D), who has a strong political base within Texas' second largest city, confirmed rumors early this week that he is considering joining the Democratic primary in hope of opposing Sen. John Cornyn (R) next year. The party appeared to be coalescing around retired Army helicopter pilot M.J. Hegar, but Sen. West entering the campaign could initiate a focus change. Sen. Cornyn, who raised over $7.8 million in the first quarter, more than any other candidate in the entire country, will be favored to win a fourth term.

House

Redistricting/Census: The Supreme Court issued the rulings on the Maryland and North Carolina redistricting cases, which dictates that partisan gerrymandering is not an issue for the federal courts. The high court ruling stated that the legislatures and Governors, for the most part, have sole authority to draw the district boundaries. In a blow to the Administration, and most likely the Republicans, the court also returned to the federal district court the census citizenship case. The majority opted to send the case for further investigation to determine the motive behind the Commerce Department decision to include the citizenship question on the 2020 census questionnaire. The court did affirm the government's authority to add such a question to the census main document but will allow the lower court to determine if the reason to do so was tainted.

IA-2: Osceola Mayor Thomas Kedley was the only announced Republican in the open 2nd District congressional race, but now the GOP must look for another candidate. Already, Mayor Kedley has withdrawn from the race, saying he can make a better impact at the local level. Other Republicans, including former GOP Rep. Bobby Schilling (R-IL), have been mentioned as possible candidates, but as yet none

have come forward. Democrats are coalescing behind former state Senator and 2018 Lt. Gov. nominee Rita Hart. Rep. David Loebsack (D-Iowa City) is retiring after seven terms.

MI-3: State Rep. Lynn Afendoulis (R-Grand Rapids) announced yesterday that she is joining the Republican primary to challenge Rep. Justin Amash (R-Cascade Township), who is the only member of the GOP conference to call for President Trump's impeachment. Also in the race is state Rep. Jim Lower (R-Greenville) and ex-Sand Lake Village President Tom Norton. Without a run-off under Michigan election law, the more candidates opposing Amash, the easier it will be for the incumbent to win with just a base plurality vote.

OH-1: While it appears a certainty that Hamilton County Clerk of Courts Aftab Pureval (D), who lost to Rep. Steve Chabot (R-Cincinnati), 51-47%, will not return for a re-match, two Democrats came forward to announce their candidacies. Kate Schroder, a Vice President for the Clinton Health Access Initiative, which is affiliated with the Clinton Foundation, sent communications to associates saying she is resigning her position to run for Congress. Also, yesterday, engineer and Air Force Iraq War veteran Nikki Foster said she will be entering the Democratic congressional primary.

PA-10: Speculation coming from central Pennsylvania suggests that state Auditor General Eugene DePasquale will announce his congressional candidacy within or around the July 4th holiday break. Mr. DePasquale is ineligible to seek re-election to his statewide position and will be a formidable opponent for Rep. Scott Perry (R-Dillsburg). The court-mandated 2018 redistricting plan drastically changed this York-Harrisburg anchored seat from a safe Republican CD to a politically marginal district. Mr. Perry was re-elected last November against first-time candidate George Scott (D) with a 51-49% majority, and another close finish against Mr. DePasquale will be projected.

Governor

Louisiana: As reported in the Baton Rouge Advocate news publication, Market Research Insight conducted a poll of Louisiana voters (released 6/20; 600 LA registered voters) and finds incumbent John Bel Edwards (D) regaining a substantial lead in the upcoming 2019 Governor's race. Mr. Edwards, according to MRI, leads US Rep. Ralph Abraham (R-Alto/Monroe) and developer Eddie Rispone (R), 46-17-5%, a far better margin than detected in recent surveys. In isolated run-off pairings, Gov. Edwards would outpace Rep. Abraham 45-28%, and Mr. Rispone, 47-23%.

Mississippi: The first Mississippi gubernatorial general election poll was just released. The Impact Management Group, polling for the Y'All Politics blog (6/10-14; 610 MS likely voters), finds Republican Lt. Gov. Tate Reeves holding a 48-36% advantage over Democratic Attorney General Jim Hood. This survey suggests that Mr. Reeves is in a stronger position for the 2019 statewide election than many believe. Mr. Hood has been tabbed as the "most successful Democratic politician in the South," because

he has won four consecutive statewide races in Mississippi. But, this poll suggests that he has a long way to go to overcome Mr. Reeves' inherent advantage.