FedFin Daily Briefing

Wednesday, April 1, 2020

Amid Nonbank Stress, FHFA Delays GSE Seller/Servicer Proposal

FHFA late yesterday extended the comment deadline on its proposed updates to the minimum financial eligibility requirements for GSE seller/servicers by thirty days. This rule would only exacerbate current industry stress were it finalized any time soon, with finalization in any way even close to the NPR also made problematic by industry distress in the wake of the pandemic. As we previously detailed, the proposal not only increases nonbank capital-equivalence standards, but also establishes a new liquidity framework designed to ensure that nonbanks have their own backstops instead of relying on bank liquidity facilities. Comment is now due April 30.

Fed Pandemic-Impact Analyses: Read When You Feel Up to It

In the midst of all that so grievously ails us, the Federal Reserve Banks have marshalled their researchers to assess pandemic macroeconomic impact. Although researchers rightly caution that their analyses assess pandemics in many countries over the course of time in which medical practice differed substantially, results only make macroeconomic worries still more acute.

The most sweeping analysis comes from the Federal Reserve Bank of San Francisco. A new paper studies asset returns since the 14th century, adding armed conflicts into the mix to see if the relationship between pandemics and war accounts for lasting damage that might be wrongly attributed to the pandemic. Pandemics are found to have adverse structural macroeconomic effects for an average of forty years, although real wages become somewhat elevated in their immediate wake due to worker shortages. Precautionary savings also ramp up in the immediate aftermath. These effects are specific to pandemics and not linked also to war since wars actually have short-term macro pluses.

The applicability of these findings to the U.S. now is, as the researchers readily admit, uncertain. However, they do highlight– rightly, we think – that the pronounced impact of lower-for-longer interest rates could have disastrous long-term effects on productivity and shared wealth creation after the pandemic in the absence of massive fiscal policy. The New York Fed paper provides an important additional conclusion of more immediate relevance: cities that implemented social distancing during the 1918 Spanish flu pandemic suffered no adverse economic effect over the medium term despite the pandemic's acute negative impact on real economic activity in the most distressed parts of the United States.

FSOC Holding Fire to Counter Mortgage Stress

The long-awaited readout from FSOC's mortgage task force arrived today with no information beyond the reassurance that relevant government agencies are monitoring mortgage-market conditions. Press reports today indicate that FHFA Director Calabria is confident that mortgage servicers and lenders will withstand two to three months of stress. Press reports also quote Secretary Mnuchin as saying that the CARES Act's mortgage-forbearance provisions apply only for borrowers who have lost their jobs. As a forthcoming FedFin report will indicate, we do not read the law that way. If regulators promulgate guidance stipulating only limited applicability, then it is sure to be disputed but provide at least some relief to lenders and servicers for the duration of the time they are required to adhere to official statements.

CFPB Clarifies Credit-Reporting Responsibilities, Risks

The CFPB today issued a policy statement highlighting furnisher responsibilities under the CARES Act, announcing also that it will not take supervisory action against credit bureaus and furnishers that do not resolve consumer disputes within statutory timeframes. As required by the CARES Act, the Bureau expects furnishers to treat consumers that receive COVID-19 payment accommodations as current. The Bureau will work with furnishers to ensure compliance and no supervisory action will be taken if accommodation information is accurately furnished. While FCRA generally requires the resolution of consumer disputes within thirty days, the CFPB understands that the pandemic is causing significant operational disruptions at many consumer reporting agencies and furnishers. As a result, the Bureau does not intend to cite in examinations or bring enforcement actions against credit bureaus or furnishers that make good faith efforts to quickly investigate disputes even if investigations exceed statutory timelines. Furnishers and credit bureaus are reminded that they do not need to investigate disputes that they deem to be frivolous or irrelevant, with the CFPB promising to consider current resource restraints when assessing if these determinations are reasonable.

Fed Concedes to Crisis Reality, Removes Treasuries, Reserves from SLR

Late this afternoon, the Federal Reserve Board unanimously issued an IFR to exclude Treasury securities and all reserves held at the Fed from the supplementary leverage ratio (SLR) and thus also from at least the added leverage requirements embodied in the enhanced SLR applicable to GSIBs at the parent level. The FDIC and OCC have not yet acted to do the same for the IDIs housed in GSIBs, making this relief incomplete for GSIBs. However, we expect both agencies quickly to follow suit.

As we have noted, recent developments have flooded banks with deposits, creating capital crunches as funds are temporarily housed in Treasury and excess-reserve holdings. The high cost of the SLR on these risk-free obligations soaks up capital capacity for the lending essential in the crisis, as the Fed points out. Anticipating criticism, the announcement specifies that the IFR implementing this change will make it clear that banks are not to use added capital for distributions. Despite this and Gov. Brainard's support for this action, this IFR is sure to draw opposition from critics focused in particular on the GSIBs. We will shortly provide clients with an in-depth analysis of the new rule. Comment on it will be due 45 days after *Federal Register* publication.

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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

- **DEPOSITINSURANCE110:** The CARES Act revises a key provision in the Dodd-Frank Act to allow the FDIC to reopen a sweeping Temporary Liquidity Guarantee Program (TLGP) offered in the midst of the 2008 great financial crisis for uninsured deposits and parent-company debt.

- **SBA37:** The CARES Act creates a major new program within the Small Business Administration (SBA) for gig employees, the self-employed, and entities with fewer than 500 employees or that meet other criteria for loans up to $10 million to cover payroll, benefit, rent, and other expenses due in the midst of the COVID crisis.

- **RESCUE72:** Landmark U.S. law seeking to counter coronavirus macroeconomic effects authorizes $500 billion in direct Treasury funding on its own and, in concert with the Federal Reserve, as much as $4.5 trillion in Fed facilities backing liquidity for businesses and state/local governments.

- **GSE-033020a:** In this analysis, we address a question many of you are asking: could the Home Loan Banks quickly provide liquidity to nonbank servicers or MREITs?

- **GSE-033020:** We have assessed the implications of Ginnie's new pass-through policy and the FSOC task force's urgent work to craft a mortgage-servicer rescue or, if not that, at least a lifeline.

- **GSE-032720:** In this analysis, we assess the mortgage-finance provisions of the CARES Act in concert with FSOC's discussion of servicers and the Fed's plans for its manifold windows.

- **COVID8:** In this report, we provide our first in-depth assessment of financial-market and -regulatory provisions in the sweeping COVID bill unanimously approved by the Senate late last night.

- **GSE-032520:** With FSOC planning to consider nonbank mortgage finance, we note that MREITs may well be a hot topic along with the nonbank servicers drawing considerable attention along with pleas for new liquidity facilities.

- **COVID7:** Reflecting prior emergency actions, the banking agencies issued two interim final rules (IFRs) and the FRB has released another providing limited capital relief.

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- **COVID6:** This report provides FedFin's first-wave analysis of all the new Fed facilities; subsequent analyses will address related regulatory actions, work on the Senate rescue, new GSE facilities, and additional crisis interventions.

- **GSE-032020:** In this note, we update our March 19 analysis of GSE resilience based on FHFA Director Calabria's comments that the GSEs are in good shape for only about six to eight weeks before a draw may be required.

- **COVID5:** In this report, we look into the various windows Members of Congress are proposing for the Fed, detailing what each might do and the implications of these windows for the central bank, financial system, and macroeconomy.

- **GSE-031920:** With the official onset of FHFA and FHA forbearance, the GSEs are at near-term risk of renewed capital stress due to the uncertain ability of nonbank servicers to sustain advances to the GSEs as they must simultaneously forward funds to Ginnie investors.

- **COVID4:** In this report, we update our analysis of U.S. economic authority addressing the COVID crisis to evaluate the various regulatory changes under active consideration at the Fed, OCC, and FDIC.

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