FedFin Daily Briefing

Monday, August 3, 2020

Fed Portfolio Stabilized Term Repos despite MMMF, Hedge-Fund Stress

On Friday, the Federal Reserve Bank of New York released a staff paper tracking the income-inequality impact of small-business lending, finding that borrowers receiving loans had incomes eleven percent higher after five years than rejected, very similar ones. Further, the impact of credit on income is greatest in the immediate wake of a financial crisis. This is a useful contribution to literature that, despite established theoretical links between equality and credit availability, has found that bank credit enhances equality only when investment opportunities are sound. Some studies also posit that increased credit is valuable only to wealthier borrowers.

As is of course required for this equality result to make sense, the study compares accepted and rejected loan applicants at micro or small businesses owned by the applicant with similar income and credit quality seeking credit from a large European bank. This bank assesses credit based on an internal score, with the study positing that individuals slightly above or below the score are similar enough when other characteristics are considered to show the near-term equality impact of bank lending. Because all applicants were in a prosperous Northern European country, the study assumes that all marginally-accepted and-rejected borrowers had comparably sound investment options, thus demonstrating the direct effect of an extension of bank credit. Because income increases are also associated with the use of "soft" underwriting information versus hard external scores, the study also notes the importance of what it calls "efficient" underwriting for income equality.

Interestingly, the positive effect is strongest for loans to younger firms and those that reinvest loan proceeds into their business operations, thereby becoming more profitable and growing faster than ventures owned by rejected applicants. The study concludes from this that credit is not only valuable to individual income equality, but also to general entrepreneurship and economic mobility.

FFIEC Tries to Balance Loan Accommodation with Safety/Soundness

The FFIEC today attempts to address what happens when CARES Act, voluntary, and local-ordinance loan accommodation ends, encourage financial institutions to consider "when appropriate" options that are "prudent" to ease borrower cash flows to improve debt-servicing capacity while also ensuring "prudent" credit-risk management. We will shortly provide clients with an in-depth analysis of the statement, which lays out possible additional accommodations permissible if the lender believes these necessary to sustain the chances of repayment over time. Forthcoming in-depth analysis will assess the extent to which the statement affords substantive protection from problematic examination findings if accommodation is provided or protection for borrowers if it is not.

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

- **GSE-073120:** When we looked at the GSEs 1Q earnings, we asked if it was "curtains for CRT." The question came then because of the sudden rout in CRT counterparties caused by March's market madness.

- **FAIRLEND7:** The Bureau of Consumer Financial Protection has opened a sweeping inquiry into how credit discrimination occurs and could be averted, seeking comments and suggestions without indicating any possible policy responses

- **CONSUMER35:** As in yesterday's Senate Banking hearing (see Client Report **CONSUMER34**), today's marathon HFSC session with CFPB Director Kraninger was highly contentious.

- **GSE-073020:** Fannie Mae's and Freddie Mac's 2Q earnings statements reveal for the first time that FHFA on June 17 imposed a new liquidity regime akin in some respects to the banking agencies' LCR and never-finalized NSFR along with various other liquidity and resiliency standards for GSIBs.

- **CONSUMER34:** As expected, Democrats led by Ranking Member Brown (D-OH) sharply criticized CFPB Director Kraninger at the contentious Senate Banking hearing, citing a lack of enforcement actions and pandemic measures on credit reporting and mortgage forbearance.

- **GSE-072720:** In recent in-depth analyses, we assessed the OCC's new valid-when made doctrine and its latest proposal to define who is deemed a "true lender."

- **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.

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- **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.

- **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.

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