



FedFin Daily Briefing

Tuesday, September 15, 2020

BIS Maps Worrisome Bank NBFIs Exposures

Reflecting renewed efforts by global regulators to govern nonbank financial intermediaries (NBFIs), the BIS yesterday released a [paper](#) finding that cross-border claims on NBFIs almost doubled from 2015 to 2020, a six percentage point increase when scaled to total cross-border claims. Exposures also spiked in the first quarter of 2020, likely due to large credit-line draws. Similar or even greater increases are found in bank cross-border liabilities to NBFIs, with 1Q/20 spikes likely due to large deposit inflows. All of these exposures are found to have resulted in vulnerabilities evident in the course of the COVID crisis. Of particular concern are hedge-fund deleveraging, CCP actions to drain bank liquidity, MMFs proving “fickle funding providers,” and net long currency positions. Cross-border claims are found also to be concentrated in a few banks in large advanced economies and to be largely dollar-denominated. Principally a mapping exercise, the paper urges greater CCP transparency, safeguards related to MMF funding, greater scrutiny of offshore financial centers, and far more data and monitoring.

FRB Revises Info-Sharing Edict

The Fed today [finalized](#) rules governing access to confidential supervisory information with significant changes reflecting an array of commenter concerns about the extent to which this information could be shared by Fed-supervised organizations and/or come to be made public. Banking organizations were particularly concerned about inter-agency sharing, urging harmonization of standards across the federal agencies. Although the Fed disagreed with certain agency practices, it generally agreed with this, changing its proposal to track the OCC’s rules on information sharing by banking organizations to directors, officers, employees, and outside auditors or counsel under certain circumstances. Certain other practices were also conformed to OCC and/or CFPB standards. However, the Board rejected requests to permit confidential-information sharing horizontally within banking organizations, as may be required under securities laws, or in M&A transactions out of concern about inter-agency coordination and market-sensitive information release. Minor changes were made to FOIA procedures, with the Board retaining its ten-year deadline for ending confidentiality absent a renewal request. Numerous other procedures for ensuring or waiving confidentiality are also detailed. The new rules are effective October 15.

HFSC Plans Wide-Ranging FHFA Hearing

We will of course provide clients with an in-depth analysis of tomorrow’s HFSC hearing with FHFA Director Calabria. Although focused on the agency’s controversial [capital rule](#), the staff hearing [memo](#) notes numerous provisions related to mortgage forbearance and eviction prevention. Reflecting [prior hearings](#), the memo criticizes mortgage servicers and raises questions about compliance with FHFA and HUD requirements. The GSEs’ refi fee is also targeted, reflecting

Chairwoman Waters' [prior criticism](#). FHFA's decision to impose restrictions on PPP-related collateral for FHLB advances is also noted.

CSBS Returns OCC Payment-Charter Fire

Mobilizing long-pending work to counter recent [OCC efforts](#) to establish national payment charters, the Conference of State Bank Supervisors [today](#) rolled out a single examination protocol across all of the states in which large money transmitters such as PayPal operate. The new framework governs 78 companies that move \$1 trillion on an annual basis. The examination will be led by one state with the equivalent of a supervisory college comprised of other examiners looking at resilience, cybersecurity, AML-compliance, and other supervisory concerns. However, states reserve the right to supervise a firm independently if desired.

FDIC Premiums Stand As Is, IFRs Ratified

As anticipated, the FDIC board met today to determine how best to restore the Deposit Insurance Fund's mandatory reserve ratio in light of historic deposit inflows earlier this year. The mandatory ratio is 1.35 percent and, while it stood at 1.44 percent last year, it fell to 1.3 percent at the end of the second quarter. Because the FDIC has determined that the DIF will recapitalize itself from premium inflows, it has decided not to increase premiums and instead to monitor this issue every six months.

The FDIC board also approved final versions of inter-agency capital-relief standards addressing the COVID crisis ([see FSM Report COVID7](#)) and similar temporary relaxation of the LCR ([see FSM Report LIQUIDITY31](#)). Each is adopted without change from the interim final standard. All are likely to last until the FRB closes the emergency-liquidity windows they are meant to support.

Finally, the FDIC approved inter-agency appraisal relief ([see FSM Report COVID9](#)). The final rule provides a definition of acquisition, development, and construction lending for additional clarity. However, Director Gruenberg opposed this rule. It will expire on December 31.

Down to Wire, CFPB Outlines Small-Business ECOA Options

Continuing its slow walk to controversial fair-lending disclosures, the CFPB [today](#) released an outline of proposals to fulfill requirements that financial institutions report data on applications for credit for women-owned, minority-owned, and small businesses. Although required by the 2010 Dodd-Frank Act ([see FSM Report CONSUMER14](#)), the Bureau never got around to these rules under Director Cordray and subsequently resisted them until faced with a court order requiring that the outline be released no later than today. The outline covers a range of possibilities for key definitional issues such as which lenders, applicants, and products would be covered, discretionary data points, and how to implement statutory provisions on data privacy, maintenance, and reporting. The Bureau states that the approach it is considering would collect data from all applicants that fit its definition of a small business, with the lender identifying women-owned and minority-owned businesses. Input is

solicited on 84 questions and will be considered not only by the CFPB, but also by a Small Business Review Panel required under the Small Business Regulatory Enforcement Fairness Act. A proposal will follow, although no timetable for this is given, with the court order directing the CFPB to negotiate deadlines for each stage of the rulemaking process with plaintiffs. Small-entity commenters must provide comment by November 9; other stakeholders should do so by December 14. Action in 2021 would surely pick up speed if Democrats take the White House.

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

- **[FAIRLEND8](#)**: HUD has largely finalized a controversial fair-housing rule as proposed, with the new standards for adjudicating fair-housing disputes giving defendants numerous additional protections.
- **[GSE-091020](#)**: As we [noted yesterday in our in-depth analysis](#), a CFTC subcommittee has issued a landmark [report](#) laying out an array of climate-change risks it urges policy-makers to prioritize to prevent systemic and sector risks.
- **[COVID14](#)**: Today's Senate Banking hearing on the status of emergency Fed facilities showed even more clearly the dividing lines between Democrats and Republicans on changes to the Main Street Lending program than the CARES Act Congressional Oversight Commission's [recent hearing](#).
- **[GREEN4](#)**: In this report, we analyze an influential and possibly even game-changing [paper](#) released today by the CFTC's Climate-Related Market Risk Subcommittee.
- **[GSE-090320](#)**: As noted in our three summaries of key FHFA comment letters, FHFA was not exactly overwhelmed by heartfelt praise for its GSE capital rule.
- **[COVID13.pdf](#)**: As anticipated, today's House Select Subcommittee on the Coronavirus Crisis hearing with Treasury Secretary Mnuchin reflected contentious negotiations over a phase four rescue package.
- **[GSE-090120](#)**: In this analysis, we continue our assessment of comment letters to FHFA on the [capital proposal](#).
- **[GSE-083120a](#)**: In this report, we begin our assessment of the comment letters on FHFA's [capital proposal](#) that we believe carry the most weight in terms both of FHFA's final rule and what Congress may care to do about it.

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- [GSE-083120](#): A new Fed staff study finds wide disparities among the mortgage rates borrowers pay on exactly the same loan that has nothing to do with risk and apparently everything to do with borrower sophistication.
- [MORTGAGE118](#): Despite its pending proposal to overhaul the entire definition of loans eligible for qualified-mortgage (QM) status, the CFPB proposes also to establish an additional class of first-lien, fixed-rate mortgages that are QMs or given a rebuttable presumption of QM status.
- [GSE-082520](#): The CFPB's [proposal](#) to allow QM treatment for certain seasoned mortgages will rewrite a decade's worth of securitized lending if macroeconomic and interest-rate conditions turn favorable.
- [GSE-082020](#): A new study from FDIC staff challenges the predictive models on which much mortgage underwriting increasingly depends, discrediting both workhorse predictive models used across the spectrum of consumer credit as well as the ML-based mortgage models that fare still worse as macroeconomic, policy, and borrower conditions change.
- [GSE-081920](#): Weighing into the GSE-evolution question with its formidable analytical might, CBO [today assesses](#) a likely administrative solution in which the GSEs retain all of their earnings for a limited period of time following which common stock goes again on offer to the public and Fannie and Freddie go back to being Fannie and Freddie more or less as they were pre-2008.
- [OPSRISK21](#): Although the Basel Committee believes that its post-crisis capital and liquidity framework significantly enhanced bank resilience evident in a robust industry response to the pandemic, this crisis and other developments are said to highlight the need for additional regulatory and supervisory work to improve operational resilience.
- [GSE-081720](#): With the release late Friday of Chairman Crapo's [letter](#) to FHFA, the GSEs' [refi fee](#) announcement has taken fire from a high-impact Senate Republican along with [Ranking Member Brown](#) and [HFSC Democrats](#).
- [PAYMENT20](#): Following a request for views in late 2019, the Federal Reserve has largely finalized its plans for FedNow, initiating a Fed-owned and -operated instant-payment service for domestic transactions.
- [GSE081320](#): The GSEs' decision last night to charge a 50bps refi fee epitomizes the impact of capital regulation.