



FedFin Daily Briefing

Thursday, December 3, 2020

HFSC Democrats Declare War on Stablecoin

With an eye on next year, Reps. Tlaib (D-MI), García (D-IL), and the chairman of the Task Force on Financial Technology, Stephen Lynch (D-MA), have introduced H.R. 8827 to govern U.S. stablecoins. Perhaps most importantly, the bill requires any prospective stablecoin issuer to obtain a banking license and demands that existing issuers comply with bank regulation. Even so, the bill also requires prior FRB, FDIC, and OCC approval for U.S. stablecoin issuance, with stablecoin issuers also required to obtain FDIC insurance or to maintain reserves at the Fed to ensure ready convertibility into U.S. dollars. Rep. Tlaib states that the bill's goal is to prevent cryptography providers from "repeating the crimes against low- and moderate-income residents of color" like "traditional big banks." However, Rep. García's and Lynch's statements focus more on cryptoassets and the need not to "outsource" currency creation to private entities.

FSOC Confirms: U.S. to Tackle MMFs, mREITs, Leveraged Hedge Funds, Nonbank Servicers

FSOC today met to unanimously approve the last [annual report](#) of the Trump Administration's Council, focusing principally on COVID's impacts and presaging significant U.S. work next year on MMFs. As with the Fed's most recent financial-stability report ([see Client Report SYSTEMIC89](#)) and FSB's new focus ([see Client Report NBF1](#)), FSOC recommends review of structural vulnerabilities in short-term wholesale funding markets with a particular eye on vulnerabilities related to large-scale redemptions from prime and tax-exempt MMFs. Highly leveraged hedge funds and mREITs may also have contributed to market volatility with FSOC concluding that all of these entities remain vulnerable to funding risks. Regulators are also told to institute risk mitigation for MMFs, mREITs, and hedge funds if warranted, with FSOC also recommending strengthened oversight of nonbank mortgage origination and servicing given that many of these companies heavily rely on short-term funding, are obligated to make servicing advances for some delinquent borrowers, and have limited loss-absorption capacity.

The report also cites increased risk in nonfinancial business borrowing, but recommends only continued monitoring in addition to ongoing scrutiny of volatility in CRE asset valuations, the level of CRE concentration at banks, and CRE loan performance. Banks and other entities should be encouraged by regulators to continue to bolster loss-absorption capacity via strengthened capital and liquidity buffers commensurate with their level of on-balance sheet CRE concentration.

Outside of COVID-related stability risks, FSOC again highlights cybersecurity and urges regulators to ensure that their charges have in place robust and comprehensive cybersecurity monitoring. The agencies should also work to improve information sharing among private firms and government partners. FSOC again cites LIBOR-transition risks as a significant concern. Large financial institutions in particular need to maintain sufficient capital and liquidity, and regulators should continue to assess the impact of regulations on financial institutions and markets. We will shortly provide clients with an in-depth analysis of FSOC's report.

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

- **[DIGITAL6](#)**: Even though 2020 was of course preoccupied by the pandemic, there was no scarcity of the oft-repeated nostrum that law and rule must define the future of digital finance.
- **[CHARTER27](#)**: In conjunction with a wide-open request for views on ways to increase the innovativeness of national banks and federal savings associations (FSAs), the OCC has finalized a significant rewrite of their more traditional powers and activities.
- **[GSE-120220](#)**: Today's House Financial Services session with Mnuchin and Powell shed just a bit more light – or provided still more uncertainty – on the critical question of whether Treasury will work with FHFA to end the conservatorships before the Biden Administration surely keeps them for a long, long time.
- **[GSE-120120A](#)**: At today's Senate Banking hearing on the CARES-funding fracas, Secretary Mnuchin told Sen. Rounds (R-SD) that the GSEs should be quickly brought out of conservatorship but that they will not be let out without sufficient capital/
- **[GSE-120120](#)**: Given the high confirmation odds for Janet Yellen as the nation's next Treasury Secretary, we here assess her impact on the future of U.S. housing finance.
- **[ESG3](#)**: Following through on one of his pledges, Acting Comptroller Brooks' agency has issued a controversial proposal to prevent large banks and perhaps all federally-chartered ones from deciding whether or not to grant credit on grounds other than clear, quantitative indicators of ability to repay.
- **[GSE-112420](#)**: Building on our analysis of the overall final FHFA [capital rule](#), we turn here to an assessment of the rule's strategic impact.
- **[GREEN5](#)**: In its latest report on climate risk, the Financial Stability Board reiterates the complexity of measuring financial-system climate risk, continuing its work to enhance the ability of regulators and financial institutions to do so due to the magnitude both physical and transition risks are likely to pose.
- **[GSE-112320](#)**: In this report, we build on our initial summary of FHFA's [final capital construct](#) to assess one of the most important issues on which FHFA made at least some concessions.
- **[GSE-111920](#)**: On Monday, [we reiterated our call](#) that FHFA would move the capital rule ASAP and then end the conservatorship as quickly as possible under terms and conditions designed to make it challenging for the Biden Administration to unravel a fait accompli.
- **[GSE-111820](#)**: In its [2020 systemic-risk assessment](#), the Office of Financial Research takes unusual issue with GSE CRT transactions.

- **SYSTEMIC90**: The Office of Financial Research's latest [systemic-risk assessment](#) reiterates much of the market analysis in the FRB's recent report ([see Client Report SYSTEMIC89](#)), the FSB's analysis ([see Client Report NBF1](#)), and the OCC's [risk matrix](#).
- **NBF1**: As promised again just [last week](#), the Financial Stability Board [today released](#) a "holistic" plan for dealing with NBFIs along with an ambitious agenda for global standards as soon as next year.
- **GSE-111620**: Responding to your requests, this report summarizes and expands on the post-election outlook for U.S. housing policy we've also discussed with many of you since November 3.
- **RESCUE78**: Today's HFSC hearing with federal regulators addressed some of the same ground as the Senate's session earlier this week ([see Client Report RESCUE77](#)), although Acting Comptroller Brooks did not come in for the shellacking on his innovative charters delivered by Senate Democrats
- **RESCUE77**: At its first hearing following last week's election, Senate Banking today heard testimony from the federal prudential regulators which largely covered ongoing efforts to combat the COVID pandemic's impacts on the financial system.
- **GSE-111020**: Following our in-depth analysis of the Fed's latest financial-stability report, we here focus on mortgage-specific considerations, with the most significant strategic one the Fed's conclusion that nonbank mortgage servicers and MREITs are far from out of COVID's Black Forest.
- **SYSTEMIC89**: In this report, we go in depth into the forward-looking financial-policy implications of the Fed's latest financial-stability report.
- **GSE-110920**: Acting at last on one of its [2019 commitments](#), FHFA has proposed a new construct sharply curtailing the GSEs' ability to launch new products.
- **ESG2**: The Trump Administration's Labor Department has finalized controversial rules it says only clarify those previously in place under the Employee Retirement Income Security Act (ERISA) defining a fiduciary's investment duties.
- **DATA**: In 2010, Congress told the CFPB to determine how consumer-finance providers are to give consumers access to their data.
- **GSE-110220**: Here, we follow our in-depth analysis of the OCC's [new true-lender rule](#) with an assessment of the standards' mortgage-market consequences.
- **PREEMPT35**: In the wake of its final rule on the "valid-when-made" doctrine, the OCC has moved quickly to finalize its controversial proposal defining when a national bank or federal savings association (FSA) is a "true lender" for purposes of state usury ceilings and consumer protection.
- **FAIRLEND9**: Congressional Democrats have introduced legislation that formally expands civil-rights obligations to financial institutions.