



FedFin Daily Briefing

Thursday, May 6, 2021

FHFA Sets Sights on Short-Term Rental Properties

Presaging a possible crackdown on loans FHFA could deem non-mission critical or unduly risky, the GSE regulator today issued a [request for input \(RFI\)](#) on whether to permit continued eligibility for loans related to short-term rental properties. Noting that these properties are best compared to hotels, motels, and other hospitality venues – not housing – the agency also has at least preliminarily concluded that these loans present a very different risk profile. As a result, even if they are consistent with the GSEs' mission, they may pose undue risk not fully addressed through 2020 GSE guidance in this arena. Fannie and Freddie also have somewhat different eligibility standards that FHFA believes sow confusion and thus may warrant its intervention. Comments are due sixty days after *Federal Register* publication but in no case later than July 5.

BIS Head: Monetary Policy Has No Lasting Inequality Impact

Echoing FRB Chair Powell ([see Client Report FEDERALRESERVE60](#)), BIS head Agustín Carstens [today](#) argued that inequality cannot be addressed by monetary policy over the long run and is more appropriately addressed using fiscal and structural policies. Monetary policy's contribution to combating inequality is only to promote financial and economic stability by fulfilling central-bank mandates (i.e., growth, price stability). Mr. Carstens notes that accommodative policy can give the appearance of central banks favoring “Wall Street at the expense of Main Street,” but argues that this is a false dichotomy because inequality would increase to a greater degree were no accommodation provided. While central banks can reduce inequality in the short run by stimulating more inclusive labor markets through prolonged expansions, they must still be careful not to fuel financial imbalances by extending accommodative policy for too long. Because of these trade-offs, Mr. Carstens argues that macroprudential policies must ensure banks are well capitalized heading into a downturn to permit policy tightening without procyclical effects. While Mr. Carsten concurred that ultra-low rates favor high-balance borrowers, he countered that solving this is for fiscal – not monetary – policy-makers. Differing from Mr. Powell, the BIS head believes inflation even approaching two percent might be anti-equality because of the inelasticity of compensation for low-wage workers.

FRB Raises Threats Due to Asset Valuations, Life Insurers, COVID

Despite Chairman Powell's sanguine answer about potential bubbles following the [last FOMC meeting](#), the Fed's [semi-annual financial-stability report](#) today notes that valuations across an array of asset classes are heading into the red zone. In her [statement](#) accompanying the report, Gov. Brainard cites this as a cause for renewed consideration of the counter-cyclical capital buffer; this is a longstanding concern for her but one not shared by Mr. Powell or Vice Chairman Quarles, at least so far. The report also delves into Archegos in detail, leading Gov. Brainard to highlight hedge-fund leverage – a concern dating back at least to the last Fed report ([see Client Report SYSTEMIC89](#)); now, the Fed is throwing its weight behind demands for greater hedge-fund transparency sure to influence both FSOC and SEC actions. The Fed has raised its threat level for life insurers, now saying that illiquidity is at its height since 2008 and high-risk assets account for 35 percent of company holdings. As before, banks are found sound but the Fed has not relaxed its view that the pandemic poses stability risks resulting from emerging-market and EU fragility. We will shortly provide clients with an in-depth analysis of a report sure to guide policy action over coming months.

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 info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **[INVESTOR7](#)**: Today's HFSC hearing on the lessons of GameStop featured SEC Chairman Gensler for his first Congressional appearance in this new role and, as detailed in this report, a lengthy list of initiatives now under way at the Commission not only on equity-market trading integrity and systemic risk, but also Archegos and digital currency.
- **[GSE-050521](#)**: Ahead of possible systemic designation for Fannie and Freddie, FHFA is barreling through the systemic rulebook, finalizing [capital rules](#), proposing [liquidity standards](#), and, now, [finalizing](#) living-will requirements to ensure orderly GSE resolution under even acute stress.
- **[GSE-050321](#)**: The month of May may not be merry in Washington, but it's always consequential. Legislation with any serious hope of success in this session of Congress should be showing signs of determined life by now under ordinary circumstances.
- **[GSE-043021](#)**: Earlier today, we provided clients with an [in-depth analysis](#) of sweeping progressive legislation revising both the Community Reinvestment Act and the duties of lenders, servicers, the GSEs, and FHA with regard to loan modification and asset dispositions.
- **[PREEMPT36](#)**: At today's Senate Banking hearing, Democrats strongly objected to the OCC's True Lender rule, arguing it supports rent-a-bank schemes based on preemption of state usury and consumer-protection law.
- **[GSE-042821](#)**: As we [anticipated](#), FHFA today [announced](#) a new refi product aimed at increasing the benefits of ultra-low rates for under-served borrowers and, we would guess, also distracting political attention from the continuing contretemps over [investor-property limitations](#).
- **[DIVERSITY2](#)**: The House Financial Services Committee has approved legislation intended to force federal examiners to hold banks accountable for their diversity and inclusion efforts.
- **[LIBOR5](#)**: Following Fed agreement earlier this year that federal legislation is needed, the HFSC Capital Markets Subcommittee today laid the groundwork for rapid introduction and action on Chairman Sherman's draft bill.
- **[ILC16](#)**: As anticipated, HFSC Democrats today continued their attack on non-traditional bank charters, with Chairwoman Waters (D-CA) pushing for no new ILC approvals and revoking the OCC's special-purpose charters.
- **[GSE-041421](#)**: A new study from the Federal Reserve Bank of New York contradicts many assertions that COVID's mortgage-market mania disadvantages first-time homeowners.
- **[INFRASTRUCTURE7](#)**: Sen. Joe Manchin (D-WV) recently reiterated that he believes an "infrastructure bank" would be an appealing way to fund significant U.S. investment without the direct cost associated with President Biden's plan.
- **[GSE-040621](#)**: Just to be sure servicers got the message sent last week that the CFPB has them in its [crosshairs](#), the agency yesterday [proposed](#) sweeping changes to provide far-reaching foreclosure

protections on all forbore or delinquent mortgages, not just those subject to the statutory protection afforded federal loans.

- **AI:** Advancing their efforts to ensure “responsible innovation,” federal agencies have taken an initial, cautious step into assessing the prudential, compliance, risk-management, and fairness implications of artificial intelligence (AI) and machine learning (ML).
- **HEDGE59:** The stunning collapse of the leveraged family office, Archegos, and its impact on the financial system has renewed calls for an array of regulatory initiatives.
- **REFORM204:** Following yesterday’s HFSC session ([see Client Report REFORM203](#)), Secretary Yellen and Chairman Powell today faced Senate Banking and, as before, a raft of questions with little to do with the hearing’s ostensible focus on CARES Act programs.
- **REFORM203:** At today’s HFSC hearing on pandemic-relief programs, Members asked also about key financial-policy questions.