



FedFin Daily Briefing

Wednesday, May 19, 2021

Fed Study: FBOs Need Consolidated Capital, Liquidity Standards

FBOs have long argued that the Fed's 2014 requirement that they form intermediate holding companies constrained their ability to support the U.S. economy. However, a new [Fed study](#) contests this, finding that FBO assets not previously housed in a BHC were reallocated from IHCs to branches and agencies rather than reduced or transferred abroad. These findings may thus not only validate the IHC approach, but also may bolster those at the Fed seeking to reinstate the consolidated U.S. regulatory framework dropped from the 2019 tailoring rule ([see FSM Report SIFI34](#)), with the study's authors finding also that asset allocation to branches and agencies threatens financial stability.

These findings – described by the authors as "compelling" – are based on Fed data that control for FBOs that previously had BHCs which were thus not significantly affected by the need instead to form IHCs. Data on overall branch/agency assets were also evaluated, supporting the finding that FBOs without prior BHCs increased branch/agency assets rather than form IHCs.

Treasury Emphasizes the Role of Regulated Banks

In an official [readout](#) released late yesterday, the Treasury Department said that Secretary Yellen emphasized the critical role banks play ensuring economic stability in a meeting with the board of the American Bankers Association. Reflecting the Administration's equality focus, she also urged bankers to support financing for U.S. infrastructure, including the "soft" infrastructure the Administration seeks for child care and other social-welfare purposes. Notably, the readout also emphasizes the need for bankers to work with regulators to ensure "robust and fair competition" as technology advances and financial intermediation evolves, with banks also told to use technology to reach under-served communities. This reinforces our [forecast](#) that the Biden Administration will take a skeptical view of fintech, bigtech, and innovative charters outside the reach of prudential and consumer-protection regulation. Ahead of the meeting, the ABA joined with TCH and several other trade associations to issue a [report](#) on ways to reach unbanked households.

GSE Affordable-Housing Role Open to New Review

FHFA today reopened the hot topic of the GSEs' affordable-housing commitment, releasing the plans Fannie and Freddie propose to [comply with FHFA's 2016 requirements](#). These plans lay out how the GSEs have long addressed ways to meet the needs of under-served markets such as mobile homes, but many advocates are sure to demand that they now also provide more in the way of continuing forbearance and loan-modification options for households adversely affected by the pandemic in both the single- and multi-family housing sectors. A public-input period runs until July 17, with three "listening sessions" also scheduled on these plans. The agency and GSEs will surely also get an earful to listen to as Congressional Democrats review these plans and seek revisions to advance not only broad equality and equity objectives, but also GSE-charter reform.

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](#).

- **[REFORM205](#)**: Although the banking agencies today tried to make as little news as possible in their appearance before the House Financial Services Committee, Members made it hard for them to leave the witness table without providing important insight into regulatory policy as a new agency line-up takes shape.
- **[INTERCHARGE8](#)**: Leaving its interchange-fee restrictions intact – at least for now – the Federal Reserve is proposing to expand on its existing requirement that all debit-card transactions must be enabled for processing on at least two unaffiliated payment-card networks for card-not-present (e.g., online) transactions.
- **[GSE-051821](#)**: As we noted [yesterday](#) in our initial assessment of FHFA's annual CRT report, its assessment of the critical 2020-21 period shows an unbending determination to quash all but the best-capitalized credit-risk transfers no matter the pressure from Congress and other quarters to relent on grounds that risk transfers reduce GSE risk and thus spur recapitalization and privatization.
- **[DEPOITINSURANCE112](#)**: Although federal law expressly bars misrepresentation of FDIC-insurance status, the FDIC has observed increasing instances that might at the least be described as confusing, many of which led to informal enforcement actions.
- **[GSE-051221](#)**: A new [Fed staff paper](#) sharply questions an axiom of mortgage securitization: the sanctity of the TBA market.
- **[SYSTEMIC91](#)**: In this report, we assess the details of the Fed's most recent financial-stability report, focusing on policy and regulatory ramifications with near-term strategic impact.
- **[GSE-051021](#)**: As detailed in a [new FedFin report](#), the Fed's proposal to open payment-system access is far from the technicality many nonbankers take it to be.
- **[PAYMENT22](#)**: When the Fed announced its new instant payment system in 2020, it made it clear that access would be limited to traditional insured depository institutions (IDIs) and ever since has shown no public inclination to open the system.
- **[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.