



FedFin Daily Briefing

Thursday, June 24, 2021

FRB-NY Staff: CBDCs Could Back Stablecoins

Yesterday's [blog post](#) from the Federal Reserve Bank of New York cautioned against rapid CBDC development, suggesting that – if a central bank does issue digital currency – it also needs to consider how the private sector could then use the CBDC to back private stablecoin balances. Stablecoins are, it is said, often backed by safe assets – e.g., bank deposits, Treasury obligations – that nonetheless carry some risk that could be reduced by backing stablecoins one-for-one with a CBDC or balances in a central bank account. Here, the post disagrees with Basel's recent consultation, which takes a dim view of most stablecoin constituent parts ([see FSM Report CRYPTO19](#)), and generally requires one-to-one reserving in the equivalent of fiat currency. The idea in this post seems not only to support stablecoins, but also to create a new role for central banks and/or CBDC as a stablecoin backstop. This leads the post's authors to conclude that private digital currencies and CBDC are not mutually exclusive. CBDC and stablecoins would then at times compete and would also be complimentary – central banks could for example focus on ensuring that CBDC grants equal access while private stablecoin issuers focus on product innovation with a new central-bank backstop. The post does not consider how this might change the role of central banking, the construct of liquidity facilities, or other matters we think would surely concern others at the Fed were its CBDC design to contemplate this kind of stablecoin relationship.

Senate Banking Considers Bipartisan Housing Bills, GOP Presses GSE Reform

Today's Senate Banking hearing focused largely on bipartisan bills to improve affordable housing and combat homelessness, with Chairman Brown (D-OH) also highlighting bipartisan legislation to press small-balance FHA loans. Ranking Member Toomey (R-PA) [again affirmed](#) yesterday's Supreme Court [FHFA decision](#), noting however that he disagrees with the President's decision to remove Mr. Calabria. He also argued that the Committee should focus on housing finance reform rather than increased government spending. Sen. Scott (R-SC) joined Sen. Toomey in urging comprehensive GSE legislative reform, noting that the GSEs' footprint has continued to grow while the mortgage market has become less diverse. He believes that this lack of competition in mortgage financing has hurt homeownership, contributing also to the lack of innovation and product choices limiting mortgage credit availability to many credit-worthy households.

True-Lender Rule Toast, OCC Prepares New Version

As [anticipated](#), the House today voted 218-208 to overturn the OCC's controversial True Lender rule ([see FSM Report PREEMPT35](#)). This follows the Senate's vote [last month](#) also to revoke the rule. Reflecting the President's [commitment](#) to sign the resolution into law, the OCC today released a [statement](#) reaffirming the agency's position against predatory lending and signaling that it will consider policy options consistent with the Congressional Review Act while protecting consumers and expanding financial inclusion. As previously noted, CRA prohibits any agency from proposing any rule in "substantially the same form" as one that has been overturned; no rulemaking has yet to test this provision.

Brown, Warren: No Foreclosure After Forbearance

With mortgage forbearance set soon to end, Sens. Brown (D-OH) and Warren (D-MA) [today](#) urged acting CFPB Director Uejio to implement a uniform servicing standard that ensures that no homeowner exits

forbearance into foreclosure. The letter is surely intended to press the CFPB not to allow the narrow exemptions in its proposal (e.g., for vacant homes or unresponsive borrowers) suggested in [recent press coverage](#). Citing widespread harms inflicted on homeowners as assistance lapsed following the 2008 financial crisis, the senators argue that a uniform standard is needed to ensure servicers are not again overwhelmed. Such a standard would, they say, ensure consistent, fair treatment and equitable outcomes for all homeowners, regardless of who owns or guarantees the mortgage. For homeowners who require additional relief, an evaluation of all available loss mitigation options should be conducted.

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](#).

- **[CBDC6](#)**: As previously noted, the BIS has released its most full-throated endorsement yet for CBDC. This not only puts further pressure on central banks – the Fed very much included – to accelerate work, but also on the shape of emerging CBDCs.
- **[GSE-062321](#)**: There is much rejoicing in mortgage-industry land that the Supreme Court decision today means rapid repeal of Mark Calabria's regulatory legacy and still more rejoicing among affordable-housing advocates about GSEs yoked to a new public-welfare and racial-equity mission without any hope of an end to the conservatorship.
- **[CHINA16](#)**: The Senate has passed by a wide margin legislation taking an array of actions to counter the threat now seen to be posed by the People's Republic of China.
- **[GSE-061721](#)**: We have reviewed FHFA's massive [report to Congress](#) on its 2020 activities, finding only lots of handy facts and no significant policy insights.
- **[GSE-061621](#)**: As [detailed in our new in-depth report](#), the Basel Committee is proposing a new regulatory framework for bank exposures to cryptoassets that will influence not only what banks do in this critical arena, but also what the GSEs can do and thus what happens to the [digital mortgage](#).
- **[CRYPTO19](#)**: Advancing some of the most controversial ideas in a 2019 discussion paper, the Basel Committee has now formally proposed capital, liquidity, risk-management, and supervisory standards it believes nations should apply to bank cryptoasset exposures.
- **[CBDC5](#)**: Kicking off Congressional action on CBDC, the hearing today in Senate Banking's Economic Policy Subcommittee made it clear that, as we forecast, progressive Democrats such as Chairwoman Warren (D-MA) are strong supporters of a U.S. CBDC that not only facilitates payments, but also supplants retail banks and other private-sector consumer-finance entities.
- **[GSE-060821](#)**: This Friday, FSOC will meet in closed session to craft its agenda for 2021 and beyond. Housing and the GSEs will figure prominently in this work plan, but not as you might think.
- **[PAYMENT23](#)**: Continuing work on a priority set by the Group of Twenty heads of state, the FSB in consultation with other global bodies is seeking views on how best to measure progress towards the G20's goal of a faster, safer, cheaper, transparent, and inclusive cross-border payment system.

- CBDC4:** Members of Congress have launched an initiative to secure continued dominance of the dollar as the globe's reserve currency, focusing on the extent to which China could over time threaten this via its own CBDC along with strategic financial activities such as its Belt and Roads initiative.
- **GSIB19:** Although the GSIB CEOs got another earful at HFSC's marathon hearing yesterday, it – like the Senate Banking session that preceded it (see Client Report GSIB18) – generated more anger than clear action plans.
 - **CRYPTO18:** Following an array of actions by the OCC, the FDIC has begun its consideration of the rules governing insured depository institutions (IDIs) engaged in digital-asset activities.
 - **GSIB18:** As anticipated, Senate Banking progressives today excoriated big-bank CEOs for what Chairman Brown (D-OH) describes as their preference for profit over public welfare.
 - **ACCESS:** The Federal Reserve's latest wellbeing survey provides important, new insights into how Americans view their financial-services firms at a time of heightened focus on access and equity.
 - **REFORM206:** In the one-two punch [we anticipated](#), Senate Banking Chairman Brown (D-OH) convened today's hearing with FRB Vice Chairman Quarles not only to lambast supervision and regulation under Mr. Quarles' watch, but also to reiterate the malign role [he believes](#) big banks play in the U.S. economy ahead of tomorrow's hearing with GSIB CEOs.