



FedFin Daily Briefing

Friday, July 16, 2021

FHFA Ends Adverse-Market Refi Fee

In a big win for both the industry and affordable housing advocates, FHFA [today](#) eliminated its 50 bps "adverse-market" refi fee, effective August 1. Importantly, FHFA expects lenders who were charging borrowers the fee to pass on this savings; how, is not made clear nor have Fannie and Freddie yet provided lender guidance. FHFA may well expect lenders to lower mortgage rates on outstanding loans priced with this fee, although this may require contractual revisions that take time to execute. Forward-looking refis both in response to borrower demand and as loan-mod options might also need to demonstrate that pricing does not include a fee-equivalent to ensure GSE purchase. This rollback is [not a surprise](#) and FHFA will likely continue to roll back other controversial fees (e.g., LLPAs) and, over time, press the GSEs to do more on small-dollar loans and products addressing [continuing racial disparities in refi accessibility](#).

BIS Paper: Financial Regulation Must Now Include Competition Considerations

A new, ambitious [paper from the BIS](#) uses the economic theory of financial intermediation/insurance and empirical data to assess how technology may drive financial-sector industrial organization and resulting policy challenges. It thus brings traditional bank-regulatory analysis into the competitive context advocated by BIS Managing [Director Carstens](#) as well as contributing to the work now under way under President Biden's competition order ([see Client Report MERGER6](#)).

This paper's focus is broad, going beyond traditional fintech and even Bigtech assessments to look at critical financial infrastructure (e.g., cloud services, clearing/settlement systems). It describes how innovation affects financial-sector friction, altering the value chain and resulting industrial organization, noting for example that much traditional infrastructure can be reduced, replaced, or shared, thus destroying much of the embedded value of legacy institutions. New providers and products also create unprecedented network effects that adversely affect legacy firms.

Key policy results of this new industrial-organization construct are the ease with which regulation can be avoided even in partnerships with regulated entities and considerably greater concentration due to "winner-take-all" business models with the economic power to achieve it. The result may well be a barbell effect in which there are concentrated large providers at one end and many smaller, often niche companies at the other. Defining the marketplace and ensuring it remains competitive will thus become increasingly difficult, perhaps exacerbating concentration even as financial regulators will face additional challenges because major providers are no longer engaged in a wide range of other services that pose additional risks or market concerns. Current, siloed regulatory constructs are thus likely to prove inadequate for the emerging financial-services and -infrastructure construct.

U.S. Begins to Craft Stablecoin Standards

Secretary Yellen will Monday convene the President's Working Group on Financial Markets (PWG) along with the OCC and FDIC to kick-start U.S. stablecoin regulation. This meeting will doubtless take the initial PWG stablecoin report ([see Client Report CRYPTO16](#)) and refine it to a set of near-term initiatives to address the risks cited today to users, markets, and the broader financial system. This meeting also follows comments made by FRB Chairman Powell before Congress this week ([see Client Reports FEDERALRESERVE62](#) and [FEDERALRESERVE63](#)) likening the need for stablecoin regulation to that for MMFs and bank deposits and

pressing for a strong regulatory framework. Options previously outlined by the PWG set for discussion include restrictions for stablecoins not fully convertible into U.S. dollars or with values set by current baskets and standards to ensure AML/CFT obligations, operational resilience, cyber-security, and data protections.

FSOC Says Little, Likely Does a Good Deal More

The readout of today's closed [FSOC meeting](#) provides the usual equally-closed window into the Council's deliberations, repeating only the initial agenda to indicate that the Council did indeed hear the reports presaged when the meeting was announced. These addressed the last Fed stress-test round, the current housing market, and work under way to provide President Biden with the report demanded on climate risk (see [FSM Report GREEN8](#)). An attendance list was also provided along with the reassuring news that prior meeting minutes were approved.

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](#).

- [GSE-071621](#): Later today, we'll provide clients with a summary of key provisions in the [housing-infrastructure package](#) released earlier today by HFSC Chairwoman Waters.
- [FEDERALRESERVE63](#): Signaling a tough challenge for a second Powell term, Senate Banking Chairman Brown (D-OH) today said, "It's time to try something different," also joining Sen. Warren (D-MA) lambasting Mr. Powell's role in what they characterize as risky big-bank regulatory relief.
- [FEDERALRESERVE62](#): Although much of today's HFSC hearing with Chairman Powell was preoccupied by hot debate over the extent to which inflation is "transitory," key financial-policy questions also surfaced for substantive discussion.
- [GSE-071221](#): On Friday, former FHFA Director Calabria [suggested](#) that the Administration's [new competition policy](#) powers up his proposal for authorizing multiple GSE charters just as a bank charter is granted to all qualified comers.
- [MERGER6](#): In an [executive order \(EO\)](#) that truly deserves to be called "sweeping," President Biden today announced a "whole-of-government" initiative aimed at reducing market concentration, enhancing consumer choice, reducing prices, and enhancing economic equality.
- [GSE-070821](#): Our recent in-depth analysis details the range of options proposed by the Financial Stability Board for MMF reform. Here, we assess what this means for Fannie, Freddie, and the FHLBs.
- [GSIB20](#): The House Financial Services Committee has approved legislation introduced by a progressive Democrat, Rep. Ayanna Pressley (D-MA), requiring GSIBs to disclose many quantitative and qualitative matters.
- [MMF17](#): As promised late last year when it addressed nonbank financial intermediation (NBF1), the Financial Stability Board is seeking comment on ways to reduce the risk that money-market funds (MMFs) succumb to runs under stress or, as occurred in both 2008 and 2020, require taxpayer backstops.
- [GSE-070121](#): Continuing to act with awesome dispatch on its new director's racial-equity and economic-

equality agenda, [FHFA today](#) issued a final policy statement setting new anti-discrimination standards for Fannie, Freddie, and the FHLBs.

- [GSE-063021](#): With numerous modifications designed to make its [proposal](#) less onerous, the CFPB on Monday issued a [final rule](#) providing temporary foreclosure protection without the *de facto* moratorium that, had the Bureau [heeded](#) some on the Hill, would have prolonged nonpayment, possibly precipitating a flood of borrower requests which servicers could not reasonably be expected to handle with justice for all.
- [FCRA30](#): Today's HFSC hearing on credit reporting laid the foundation for legislative action on measures that will prove highly controversial.
- [GSE-062821](#): After last week's colossal Supreme Court [decision](#), we provided our [first assessment](#) of its impact on near-term charter, mission, and regulatory decisions. Now, we turn in detail to what might come to pass for the conservatorship.
- [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](#).