FedFin Daily Briefing

Tuesday, August 31, 2021

Treasury Looks for Ways to Address Insurance Climate Risk

Complying with President Biden's climate executive order (see FSM Report **GREEN8**), Treasury's Federal Insurance Office today released a Request for Information (RFI) to assess existing climate-related issues or gaps in the supervision and regulation of insurers and their impacts on U.S. financial stability. As always, FIO has no authority actually mandate changes in this state-regulated sector; the RFI is clearly designed to press NAIC and the industry for action on its own. FIO indicates that the RFI begins work on a wide array of supervisory practices including modeling, scenario analysis, stress testing, and public disclosures. Questions are posed specifically on how to develop climate disclosures, the advantages and disadvantages of current disclosure proposals, and whether there needs to be domestic adoption of a global approach for disclosure standards.

Noting that climate change may be associated with a decline in the availability and affordability of insurance in some markets, FIO will also assess the potential for major market disruptions focusing on LMI and minority communities. FIO will also engage the insurance sector to support work towards national climate goals, including through insurance sector consideration of underwriting, investment holdings, and operations to support a low emissions economy. The RFI also asks about the advantages and disadvantages of an open-source, centralized database for climate-related insurance information. Comment is due November 15, notably, only one day before the deadline for Treasury's report to the President.

FRB Staff: Quarter Averaging Obscures Significant LCR Variation

Using confidential supervisory data, new research from FRB Staff concludes that U.S. GSIB daily LCRs experience significantly more variation than suggested by publicly-disclosed average, quarter-end figures. This is most interesting at the height of the pandemic; looking at this period (March through June of 2020), a GSIB's response to the shock was driven by whether it maintains a higher or lower LCR relative to its GSIB peers in normal times. When GSIBs are grouped into higher and lower LCRs, only GSIBs in the higher LCR group fully unwound sharp liquidity increases by the end of 2020. Notably, these high-LCR GSIBs in fact saw their LCRs start to plummet as conditions deteriorated in early 2020, but LCRs then sharply shot up when FRB intervention began. The lower-LCR group also benefited from Fed intervention, with LCRs somewhat elevated until returning to relatively low, but still acceptable, levels at the end of 2020.

FRB Staff also assessed GSIB LCR variation in the pre-pandemic period. They found that, while GSIB LCRs vary throughout the quarter, variation tends to be small (the difference between the average daily measure and average quarterly measure is less than one percentage point on more than half the days between 2017 and 2019). However, the average daily LCR score differed from the average quarterly score by more than 1.5 percentage points, or two standard deviations, about one quarter of the time, and the largest variation between the two was four percentage points, demonstrating what might be considered window-dressing because average variation in daily LCR scores rise in many quarter-end months. Variations were found to be driven to the largest extent by deposit outflows, although reserve balances also play a significant role.

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.

- **OVERDRAFT10**: Senior Senate Democrats have proposed legislation that would sharply restrict most transaction-account overdraft fees to the point of likely eliminating them for most consumers at most depository institutions.
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- **GREEN10**: House Democrats are considering legislation to mandate a punitive capital construct for bank and, in some cases, also to certain nonbank exposures to companies with fossil-fuel links.

- **GREEN9**: Legislation from House and Senate Democrats would force the Federal Reserve quickly to implement mandatory stress testing for all large banking organizations and large nonbanks judged by asset size if they are principally engaged in finance.

- **GSE-082321**: In this in-depth report, we build on our preliminary analysis of the CFPB's latest HMDA-data assessment. As we noted on Thursday, the agency chose to highlight its totally-unsurprising finding that the mortgage market was hot, hot, hot in 2020.

- **ACCESS3**: Although states and localities continue to ban merchants from refusing to accept cash, federal legislation is also pending to create a nationwide ban on such practices and govern how cash must be accepted to enhance equality without facilitating money laundering.

- **GSE-081821**: As we anticipated when Sandra Thompson took over, FHFA's newly-proposed approach to the GSEs' affordable-housing goals tackles longstanding criticism that the old measurement criteria promoted gentrification.

- **PREEMPT38**: The chairmen of the Senate Armed Services and Banking Committees, together with many Democratic colleagues, have introduced legislation to extend the interest-rate ceilings in the Military Lending Act (MLA) to all consumers.

- **GSE-081321**: FHFA today released both the 2020 and 2021 stress-test results for Fannie and Freddie.

- **GSE-081121**: As we briefly noted yesterday, the CFPB released a report assessing how the largest servicers handled borrowers over recent, chaotic months.

- **LIBOR6**: The House Financial Services Committee has reported H.R. 4616, a bill designed to prevent the chaos feared when the use of the LIBOR benchmark ceases for legacy contracts that lack language authorizing reliance on an alternative, "fallback" rate.

- **GSE-080421**: A new Fed study finds a significant mark-up in the cost of mortgages during the 2020 boom even though government guarantees secured continued mortgage supply for all but the lowest and highest ends of the housing market.

- **REFORM207**: Today's Senate Banking hearing on bank supervision did not include FRB Vice Chairman Quarles, who came before the panel for withering criticism earlier this year (see Client Report REFORM206).

- **GSE-080221:** Whatever befalls the Senate infrastructure bill, we believe its $21 billion GSE pay-for is but one bit of a bigger de facto transformation of the GSEs.

- **GSE-073021**: As promised, we here follow up our assessment of Ginnie's proposed prudential standards for nonbank mortgage companies with an analysis of model rules aimed at the same goal from the Conference of State Bank Supervisors (CSBS).

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- **PREEMPT37**: Senate Banking today held a hearing on new legislation (S. 2508) from Sen. Reed (D-RI) extending the Military Lending Act (MLA) interest-rate cap to certain consumer financial products to all consumers.
- **GSE-072821**: Ginnie's proposed new capital and, to a lesser extent, its liquidity standards could well redefine the mortgage playing field.

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