FedFin Daily Briefing

Wednesday, September 8, 2021

IOSCO Stands By SOFR-Based Benchmarks

Echoing recent U.S. official comments, IOSCO today formally stated concerns that some credit-sensitive LIBOR alternative benchmarks pose problems akin to those that forced LIBOR abandonment. The statement also reiterates principles previously set by global securities regulators, emphasizing that LIBOR alternatives must serve highly-liquid, high-volume markets and be backed by transparent, deep data, going on to note that some markets backing proposed credit-sensitive alternatives became inverted during the pandemic and thus are at considerable LIBOR-style risk under stress. IOSCO's working group on benchmark transition is chaired by John Williams, head of the Federal Reserve Bank of New York, and a stout SOFR advocate. Pending legislation (see FSM Report **LIBOR6**) allows credit-sensitive benchmark rates in legacy contracts but only if they are linked to SOFR in a fashion directed by the Federal Reserve. The Treasury/inter-agency statement noted above adopts a similar policy towards new contracts but is somewhat less prescriptive about appropriate benchmarks, noting that these must also satisfy borrower need.

Frustrated Basel Head Blasts Banks

Heightening criticism of Basel III's slow implementation, Outgoing Basel Committee Secretary General Carolyn Rogers today took sharp aim at banks which she held responsible at both the national and international level. Disputing both the industry and some senior U.S. officials, Ms. Rogers also attributed banking industry resilience to significant fiscal, monetary, and regulatory support. Resilience also has not been fully tested due to the unique nature of a crisis borne of a pandemic, not of traditional shock, with continuing, troubling "fault lines" such as internal models threatening resilience under stress. Noting that global capital standards ensure trust and credibility, she also stated that standards should not be adjusted for individual jurisdictions as some stakeholders have urged to address outlier banks. As previously noted, U.S. regulators had indicated they would finally propose at least some of the Basel IV package in August, but they have yet even to announce when they may now turn to it.

OCC Sounds Official Death Toll for Trump CRA Reg

As Karen Petrou's Monday memo forecast, FHFA is doubling down on an already-ambitious work plan to make Fannie and Freddie the epitome of mortgage-finance equity. Combined with planned changes to the GSEs' affordable-housing goals, the new equitable-mortgage mission fundamentally redefines Fannie and Freddie into agents of the public good, a mission they will find hard to master if they ever hope to climb out of conservatorship. And, of course, changing the GSEs changes the market. FHFA's new vision entails not only what GSEs can do for the public good, but also how they can use their market clout to make everyone else do it too.

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-090821**: As Karen Petrou's Monday memo forecast, FHFA is doubling down on an already-ambitious work plan to make Fannie and Freddie the epitome of mortgage-finance equity.

- **SBA40**: Turning again to a provision in the 2010 Dodd-Frank Act, the Bureau of Consumer Financial

Protection has issued a sweeping proposal to implement small-business and small-farm lending disclosure requirements akin to those long required under the Home Mortgage Disclosure Act (HMDA).

- **GSE-090121**: A major paper delivered at last week's Jackson Hole Fed meeting shows – we think conclusively – that it's not demographics that keep interest rates so, so low, but wealth inequality.

- **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.

- **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-090121**: A major paper delivered at last week's Jackson Hole Fed meeting shows – we think conclusively – that it's not demographics that keep interest rates so, so low, but wealth inequality.

- **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.

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