



FedFin Daily Briefing

Friday, September 10, 2021

BIS Study: Fed is Also Promiser of First Resort

A new [BIS paper](#) finds via analysis of the Fed's Secondary-Market Corporate Credit Facility (SMCCF) that the Fed's corporate credit backstops functioned more by dint of the Fed's promise to safeguard the market than by actual loan purchases or other actions to do so. In fact, the study notes that the major impact of the program was evident well before the Fed bought a single bond. Thus, credible central banks can issue iconic "whatever-it-takes" assurances and exercise market-stabilizing powers even if actual interventions are small to nil. The program's impact is judged by bid-ask spreads and risk premia with the Fed's impact evident in significant improvements even though underlying risk factors at the time did not materially change. Notably, all outstanding, shorter-term bonds benefited from the Fed's program even if they were ineligible for purchase, a result the paper attributes to renewed market confidence in Fed support.

As we noted at the time ([see Client Report COVID10](#)), the SMCCF was precedent- and even mandate-breaking because the Fed had concluded as recently as 2016 that it lacked statutory authority to hold corporate bonds. If it is indeed true that central banks need only promise support without providing it, then additional market sectors might be protected regardless of Section 13(3) or other constraints as long as the Fed makes it clear that it can and will do whatever it took.

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-091021](#): Soaring house prices have of course aroused lofty housing-bubble worries.
- [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.