



# *FedFin Daily Briefing*

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Thursday, March 24, 2022

## **Waller Adds Residential Real Estate to Monetary Policy Criteria**

In remarks [today](#), FRB Gov. Waller addressed the impact of what he calls the "red-hot" housing market on monetary and fiscal policy. Noting that nonbank servicers were able to survive the 2020 crisis due to the refi boom's liquidity benefit and a Ginnie facility. Mr. Waller reiterates ongoing policy concern about nonbank-servicer [resilience](#) without detailing any preferred policy actions. Based on the demand-supply dynamics he describes, the Fed official also notes that current market booms are driven by these factors, not by the financial incentives (e.g., undue leverage) that caused the 2008 crash. He also reiterates the Fed's view ([see Client Report SYSTEMIC92](#)) that stress testing shows significant bank resilience to any sudden house-price drops. Mr. Waller concludes by noting the likelihood of decelerating rent and house-price spirals over the next two years and, even so, the importance of reflecting real-estate market factors in monetary-policy decisions. One might infer that this means reducing the Fed's MBS holdings, but Mr. Waller does not make this clear.

## **HFSC Expands Diversity Data Demands to Large Insurers**

Chairwoman Waters and Diversity Subcommittee Chairwoman Beatty expanded the committee's diversity efforts today to include insurers via a [letter](#) sent to the largest insurance companies. The letter points to what they call an alarming lack of diversity data in the insurance industry, asking companies to complete a survey providing employee, board, and related data over the last three years, responding by May 6. We expect the legislators to be as unhappy with insurers as they have been with banks, asset managers, and others, thus likely convening a hearing later this year to press for better inclusion and diversity.

## **IOSCO Decries DeFi, US Regulatory Intervention Likely**

Going beyond the general DeFi concerns outlined in a [February FSB report](#), IOSCO today released a detailed [report](#) arguing that most DeFi products are directly akin to regulated investment, lending, and clearing products, posing not only the risks otherwise captured within the prudential perimeter, but also numerous additional risks presented by the manner in which DeFi generally operates. The report disputes industry assertions that developers have no control over open-source DeFi processes, stating that developers in fact often have large stakes in DeFi outcomes that present conflict and even criminal concerns. IOSCO has thus created a new task force to lay out policy options for member nations, although the release accompanying the report provides no timeline for the task force's work or for the public comments invited on this paper. We would expect the SEC to take rapid DeFi action as IOSCO's work advances and the Commission concludes its current focus on digital-engagement [platforms](#) as well as many other tasks set for it by prior presidential executive orders (e.g., [climate risk](#)). However, the President's digital-asset order ([see Client Report CRYPTO26](#)) includes a brief DeFi discussion making it clear that the White House has reached conclusions similar to those outlined in the IOSCO report. Banking regulators as well as the SEC are thus likely to take action along lines contemplated in this report. We will shortly provide clients with in-depth analysis.

## **HFSC Wants Names re Russian Business Exposure, Sanctions Compliance**

HFSC Chairwoman Waters sent a [letter](#) today to financial and business trade associations requesting detailed information on each sector's efforts to divest from Russia. The letter applauds current efforts, but states that HFSC must nonetheless seek additional details about exit strategies and sanctions compliance, along with the names of companies continuing to do business within the Russian Federation or with Russian-based firms. The trade associations are to survey any of their members with Russian business interests

within five days and report their answers to the committee within twenty days. This is not a formal request and trade associations may thus take some time and/or use some discretion responding, perhaps also confining comments to broad considerations if companies – as seems likely – do not authorize the associations to transmit their names or other information relating to business operations.

## Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **[GSE-032222](#)**: As detailed in our new in-depth [analysis](#), the CFPB's [exam-manual rewrite](#) dramatically redefines the compliance-, legal-, and reputational-risk terrain for any consumer-financial company and the vendors or counterparties on which it relies.
- **[CONSUMER39](#)**: Reflecting one of its new director's top priorities as well as that of the Biden Administration, the Bureau of Consumer Financial Protection has significantly revised its examination manual when it comes to behavior that might be viewed as discriminatory in a wide range of consumer-financial products, services, underwriting, advertising, marketing, governance, and other arenas.
- **[SANCTION17](#)**: The Senate Banking Committee's hearing today on illicit finance focused as expected on cryptocurrency and suggests that targeted legislation addressing specific jurisdiction or compliance issues might advance on a bipartisan basis.
- **[GSE-031522](#)**: Although we have done extensive analysis of a U.S. central-bank digital currency (CBDC) in our sister analytical service, we have not viewed as it as an imminent strategic consideration for housing-finance agencies and financial institutions.
- **[CRYPTO26](#)**: We follow our initial client alert here with an in-depth analysis of President Biden's long-awaited [executive order](#) laying down steps intended quickly to construct a U.S. digital-asset policy construct.
- **[GSE-030722](#)**: A new Urban Institute study suggests that banks are more likely to discriminate when it comes to minority borrowers, heightening concerns at a time with increased political risk related to racial equity and mortgage finance.
- **[GSE-030122](#)**: As we noted late [last week](#), FHFA has finalized revisions to its [2020 capital rule](#) that most importantly lighten the GSEs' capital load and reinvigorate credit risk transfer.
- **[GSE-022822](#)**: Responding to continuing FSOC complaints about [nonbank servicers](#), FHFA has proposed [new seller-servicer eligibility standards](#) that crack down hard on any nonbank servicer whose size evokes systemic qualms.
- **[SANCTION16](#)**: In this report, we address many of the questions we've received about U.S. policy in the wake of Russia's invasion into Ukraine.
- **[GSE-022422](#)**: As noted late [yesterday](#), the CFPB has gotten a jump on FHFA and the banking agencies with the first step towards a long-delayed AVM rule demanded in the [Dodd-Frank Act](#).
- **[CRYPTO25](#)**: Despite fierce partisan fighting over pending Fed nominations, today's Senate Banking

hearing on stablecoin regulation was considerably more bipartisan than last week's HFSC session ([see Client Report CRYPTO24](#)).

- [GSE-021022](#): Moving far ahead of the banking agencies [Al](#), FHFA [today](#) released a series of supervisory AI/ML standards for Fannie, Freddie, and CSS, perhaps leaving the FHLBs alone because none so far does much within this arena or nobody cared.
- [GSE-020922](#): Continuing her very different vision of Fannie and Freddie, FHFA Acting Director Thompson [today](#) has released a new strategic plan for the agency emphasizing the importance of both equitable and sustainable housing finance.
- [CRYPTO24](#): Today's HFSC hearing on stablecoins makes it clear that the bipartisan legislation Chairwoman Waters (D-CA) prefers is at best a long way off.
- [FEDERALRESERVE69](#): As this report details, all three Fed nominees before the Senate Banking Committee today emphasized the vital importance of Fed independence and their anti-inflation zeal to quell GOP opposition and cement it among moderate Democrats.