FedFin Daily Briefing

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IMF: Housing Risk Not At GFC Level, Still Worrisome

While falling home prices are unlikely to trigger another financial crisis, an IMF blog post today finds that a drop could still harm the global economic outlook. Housing-market vulnerabilities thus warrant close monitoring and potential policymaker intervention in coming years. Banks are better capitalized and underwriting standards are tighter since the GFC, but the post nonetheless flags high DTI ratios related to mortgage obligations similar to those of 2007, with Canada, Australia, Norway, Sweden, and the Netherlands showing the greatest mortgage-default risk judged by household debt and the prevalence of floating-rate loans. The US is also listed, though at a somewhat lower risk level than these countries.

FDIC Tries Guarded Optimism

The FDIC's first-quarter report on the condition of the U.S. banking industry was guardedly optimistic, but that in part appears to be due to the way in which the agency foresees its problems. Problem banks are up by 4 to 43 with $58 billion in assets among them. This total clearly omits two large regional banks that were on and off the brink of failure as recently as a couple of weeks ago which collectively have $11.5 billion. We infer that the reported number are likely not to reflect the fact that the FDIC isn't the least bit worried, but rather that it counts problem banks by those with 4 or 5 CAMELs ratings and supervisors have yet to catch up to all the problems they've suddenly recognized. To be sure, Chair Gruenberg said that the first-quarter numbers reflect only two weeks of stress, with the 2Q results likely to be more worrisome. He also noted that there is "significant" downside risk, reiterating his longstanding worries about inflation, rising rates and slower growth. The agency's critical DIF ratio is down to 1.11 percent, but the Chairman is confident that the special assessment and deposit outflows will permit statutory compliance by 2028 (see FSM Report **DEPOSITINSURANCE120**). Unrealized losses are down from the end of 2022 due to lower rates, but this may prove a temporary respite based on Fed policy and market developments at this turbulent time. Big-bank earnings were more than robust and the FDIC finds that the rest of the industry is holding its own on earnings and asset quality, despite the first quarter deposit decline being the largest in 39 years.

End-Game Starts Soon

FRB Governor and Vice-Chair nominee Jefferson today expanded on the Fed's financial-stability objectives, resolutely disavowing any of the credit-allocation ambitions Republicans sometimes ascribe to its work on climate risk. Much in the talk details recent Fed initiatives such as its last financial-stability report (see *Client Report* **SYSTEMIC96**), reinforcing statements from Chair Powell and Vice Chair Barr that the banking system is sound, noting also that the banking agencies will "soon" release the "end-game" capital proposal.

CFPB Small-Business Disclosures Go Live

The *Federal Register* today includes the CFPB's controversial final rule on small business data collection published late March which the Bureau says will increase transparency in small business lending, promote economic development, and combat unlawful discrimination. Little has changed since the proposal (see FSM Report **SBA40**), with the new effective date set for August 29 and compliance dates for covered institutions set for October 1, 2024, April 1, 2025, or January 1, 2026. The *Federal Register* also includes a statement on enforcement and supervisory practices relating to the rule, stating that the CFPB will focus on compliance with the prohibition against discouraging applicants from submitting responsive information.

FHA Expands Pandemic Mortgage Relief As Rates Rise

FHA today requested comment on a new loss mitigation proposal called the Payment Supplement Partial Claim allowing servicers to use FHA funds to bring a borrower's mortgage current and temporarily reduce principal payments. Borrowers in hardship would keep their existing interest rate and reduce their monthly payment, with FHA recouping funds upon home sale or refinancing. The timespan for the option would be three to five years, after which payments would increase to the full P&I amount. FHA bases the proposal on recent interest rate hikes it believes made existing loss mitigation options less effective by rendering market-rate modifications higher than current rates. Feedback is sought on anticipated liquidity impact and administrative costs by June 30.

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.

- **CHINA17:** While largely focused on countering fentanyl, today's Senate Banking hearing on China, saw Committee Democrats try to ascertain the details of a potential outbound investment executive order and Republicans addressing what they believe to be shortcomings in data privacy, AML regulation, and sanctions policy.

- **SUPERVISION2:** Following a speech earlier this year by the Acting Comptroller arguing that some banks are "too big to manage" and the furor caused by recent failures, the OCC has significantly revised its enforcement policy.

- **GSE-052323:** Today's HFSC hearing with Sandra Thompson was the anti-LLPA event we anticipated when it came to Republicans that also saw the stout defense Democrats were sure to provide combined with FHFA's resolute stand on doing nothing to change the LLPAs or guarantee-fees beyond what might come of the pending RFI.

- **REFORM226:** Describing the CEOs' statements at his last hearing as "the dog-ate-my-homework" excuses for grievous failings, Senate Banking Committee Chairman Brown (D-OH) also attacked Republicans for placing blame on monetary policy, not the culture of supervisory laxity he details with various quotes from Trump Administration officials.

- **CRYPTO44:** Although there were still considerable party-line differences of opinion on stablecoin legislation, today's HFSC Digital-Assets Subcommittee hearing suggests that remaining divides are narrowing, increasing the odds of a new federal-regulatory framework.

- **GSE-051723:** With Republicans on the anti-LLPA warpath, FHFA is hoping to preserve as much of the current fee structure as possible without paying too high a political price, issuing a request for information (RFI) in hopes that letter-writing will keep everyone busy until Congress moves on to other matters.

- **REFORM225:** A joint hearing today of HFSC's Financial Institutions and Oversight Subcommittees expanded on themes at yesterday's full Committee session with bank regulators (see *Client Report* **REFORM224**) and Senate Banking's session with SVB's and SBNY's CEOs, with First Republic's CEO now added to the Congressional firing line.

- **REFORM224:** In their first appearance following the reports on recent failures, FRB Vice Chairman Barr and FDIC Chairman Gruenberg were harshly criticized by Republicans for both the bank failures and recommended remedies.

- **DEPOSITINSURANCE120:** As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has now proposed a special assessment to compensate the Deposit Insurance Fund (DIF) for the cost of backing the two banks' uninsured deposits.

- **CRYPTO43**: Today's joint HFSC-House Ag hearing on assessing crypto's regulatory gaps saw bipartisan calls for Congressional action, but none on what that should be done.

- **GSE-050923**: As our in-depth report earlier today details, the Fed's latest financial-stability report pulls a lot of punches because, as always, it's afraid to frighten the children with frank discussion of what might actually threaten financial stability in the near term.

- **SYSTEMIC96**: Perhaps because its last financial-stability report (see *Client Report* **SYSTEMIC94**) was contradicted just five months later by a systemic-risk designation, the Federal Reserve's latest report eschews a conclusion about prospective risk in favor of a review of current concerns.

- **SIFI35**: In concert with proposing a new systemic-risk methodology, the Financial Stability Oversight Council sought comment on guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs).

- **DEPOSITINSURANCE119**: In this report, we follow our initial assessment of the FDIC's deposit-insurance reform report with an in-depth analysis of its recommendations and their prospects.

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