



Wednesday, December 6, 2023

OFR Sees Heightened Systemic Risk

Striking a considerably more somber note than the FRB ([see Client Report SYSTEMIC97](#)), OFR today [concluded](#) that systemic risk is elevated due to an upcoming economic slowdown, heightened inflation, and geopolitical risk and global conflict. The Fed's semi-annual financial-stability report mentioned these concerns, but attributed them to the analysts it consulted, eschewing any conclusion about risk levels. One difference leading to the OFR's conclusion may be its view that monetary policy exacerbates bank risk and macro vulnerabilities, particularly in the CRE and housing sectors.

OCC Cracks Down on BNPL Finance

Reflecting continuing CFPB concerns about buy-now/pay-later [finance](#), the OCC today [sets](#) new risk-management standards for federally-chartered entities in this arena. The new standards echo longstanding bank-regulatory practice by requiring sound underwriting and effective disclosures, but also go on to require banks to do their best to limit adverse customer outcomes. The guidance also emphasizes the importance of ensuring fair access to credit, treating consumers fairly, compliance with applicable laws, and safety and soundness. Given the sharp rise in BNPL during the holiday shopping [season](#), national banks active in this space may need quickly to ensure adherence to the guidance's requirements.

HFSC Housing Subcommittee Revisits Housing Debate

Today's HFSC Housing Subcommittee hearing largely followed the staff memo's outlined political [playbook](#), with Chairman Davidson (R-OH) calling for market-based solutions and Ranking Member Presley (D-MA) arguing that expanded subsidies are necessary alongside zoning reform to make housing affordable. Full Committee Ranking Member Waters (D-CA) criticized Republican plans to slash federal housing programs by thirty percent, taking Personal Privilege to praise retiring Full Committee Chairman McHenry (R-NC). In testimony, Norbert Michel of the CATO Institute castigated the FRB for inflating the MBS market and home prices via QE and called for the GSEs to focus only on financing principal residences and dropping FHA's guarantee to fifty percent. Seth Appleton of the USMI called for Congress to reinstate the individual income tax deductions for MI premiums. Emily Hamilton of George Mason University cited effective zoning policy solutions in Houston, Washington DC and California that have improved new unit affordability. Arianna Royster on behalf of the NAA advocated for bills on both sides of the aisle, including H.R. 3507 (YIMBY Act), HR 4606 (Choice in Affordable Housing Act), and HR 802 (Respect State Housing Laws Act), and Diane Yentel of the NLIHC advocated for expanded rental assistance through the Family Stability and Opportunity Vouchers Act, and stronger renter protections through the Eviction Crisis Act, and Rep. Waters' Ending Homelessness Act and Housing Crisis Response Act.

Fed Proposes Market-Risk Valuation Reporting

Readying disclosures for the market-risk capital rewrite ([see FSM Report CAPITAL233](#)), the Federal Reserve has [proposed](#) new reporting standards that would require covered banks to disclose valuations of their covered positions taking into account unearned credit spreads, close-out costs, early termination costs, investing and funding costs, liquidity, and model risk. The recordkeeping requirements would apply annually, quarterly, or on occasion; comments are due by February 2.

Fed Proposes New Liquidity Risk Reporting Standards

Reflecting growing fears that banks could not actually monetize HQLAs under stress as proved the case for [Credit Suisse](#), the FRB is also proposing new reporting [standards](#) requiring covered companies to report on qualifying master netting agreement compliance with current liquidity-risk measurement standards. Records would need to demonstrate their ability to monetize HQLAs and determine the

composition of eligible HQLA on each calculation date. Information would be submitted on an event-generated basis; comments are requested by February 5.

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](#).

- **G^SIB²3**: The agencies' capital proposal ([see FSM Report CAPITAL230](#)) unsurprisingly dominated discussion at today's Senate Banking hearing with big bank CEOs.
- **FINTECH³3**: At today's HFSC Digital Assets Subcommittee hearing on banking agency financial innovation, Republicans raised concerns about the Fed's novel activities guidance ([see FSM Report FINTECH³2](#)), interagency guidance on third-party risk management ([see FSM Report VENDOR¹0](#)), and the SEC's predictive data analytics [proposal](#).
- **CONSUMER⁵4**: Today's Senate Banking hearing with Director Chopra was even more cordial than yesterday's HFSC session ([see Client Report CONSUMER⁵3](#)) even though Republicans continued to criticize the Bureau's recent rulemakings.
- **GSE-1130²3**: A new FRB-NY [study](#) confirms that 83% of loans from 2000-2022 went to first-time homebuyers, compared to 56% for the GSEs and 57% for private lenders.
- **CONSUMER⁵3**: In sharp contrast to most recent HFSC hearings with CFPB Director Chopra, today's session was relatively calm.
- **GSE-1127²3**: The most significant thing in FHFA's final capital [rule](#) is not what is to be done, but what FHFA left out: ending the GSEs' advanced-approach requirement.
- **DEPOSITINSURANCE¹2**: As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has finalized its proposed approach to imposing a systemic assessment to reimburse the Deposit Insurance Fund (DIF) for the resolution costs related to uninsured deposits following a systemic designation.
- **GSE-1116²3**: As our reports on the [Senate](#) and [House](#) hearings with bank regulators made clear, [our prediction](#) that the agencies would compromise on mortgage risk-based capital requirements will prove itself in the final standards.
- **REFORM²30**: Following yesterday's Senate Banking hearing ([see Client Report REFORM²29](#)), today's HFSC session with top bank regulators again highlighted growing bipartisan consternation over the unintended consequences of the agencies' capital proposal ([see FSM Report CAPITAL230](#)).
- **PAYMENT²7**: Building on its director's longstanding focus on fintech and tech-platform companies, the CFPB has proposed to extend its supervisory reach to nonbank providers of general-use digital payments services.
- **REFORM²29**: Today's Senate Banking hearing with top bank regulators showcased broad bipartisan

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

concern over the interagency capital proposal ([see FSM Report CAPITAL230](#)).

- [SIFI37](#): In concert with finalizing a new systemic-risk methodology, the Financial Stability Oversight Council issued guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs), largely retaining its initial proposal.
- [SYSTEMIC98](#): Rejecting the Trump Administration's hands-off approach to designating systemically-important nonbank financial institutions or activities and practices, the Biden Administration's FSOC has finalized its bifurcated proposals to designate systemic entities and another laying out an analytical approach to identifying systemic risk that would then guide firm and activity designation as well as Council staff coordination with primary federal regulators.
- [GSE-110823](#): Although FHFA calls its [FHLB report](#) a centenary event ahead of the System's 2032 birthday, the agency clearly plans structural substantive reform well before that milestone.