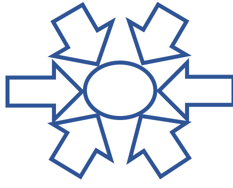

GSE Activity Report

Tuesday, January 2, 2024

Data That Matters

Summary

Shortly before the new year, the banking agencies proposed new call-report requirements that would force banks with over $10 billion in assets to report new data on nonbank mortgage intermediaries and structured GSE-guaranteed positions. Don't be fooled – just because these proposals are only about reporting doesn't mean that they lack substantive impact.

Impact

The new reporting on nonbank mortgage companies comes in concert with a raft of other proposals for different types of nonbank financial intermediaries (NBFIs). The agencies' demands are based on extensive work by global regulators and FSOC, which again targeted nonbank mortgage companies as a systemic worry in its most recent annual report. In their typical incremental way, the banking agencies are now about gathering NBFI data, but these are data they plan to deploy to restrict outlier institutions with large NBFI exposures and even to issue new guidance or even rules if data demonstrate worrisome concentrations.

Some NBFIs can live without banks but most nonbank mortgage companies do not number among them. Restrictions in access to standby liquidity would be particularly problematic because private credit isn't yet in the liquidity game. Maybe they'll get there, but they also face new restrictions by virtue of proposed reporting requirements on bank/private-credit alliances, alliances many nonbanks find critical in terms of syndicated-market access and backstop guarantees.

The most interesting GSE-aspect of the proposal applies to guaranteed securitizations issued by the GSEs or Ginnie Mae, with reporting required on the total amortized cost and fair value of HTM and AFS securities in this category. The agencies' interest was initially sparked by Freddie Mac structured multi-family notes where the agency securitizes loans also backed by third parties in a structure in some ways akin to covered bonds. The agencies received considerable comment on the initial proposal to clarify call reporting only with regard to the Freddie Mac multi-family notes and would now extend the reporting and expand its scope to all USG sovereign and agency guaranteed structured instruments. As a result, the new reports could also capture forms of credit-risk transfer in which agencies issue tranches of securities backed by third parties.

Nothing in the reporting requirement would limit the extent to which banks could engage in these transactions, but new data on mark-to-market valuations ensures that these positions will be captured if the agencies proceed, as likely, to finalize new capital proposals to recognize AOCI at all large banking organizations.

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Outlook

It seems certain that new data will identify big NBFI exposures at one or another big bank or across the sector. The agencies' proposal provides aggregate data showing a stunning jump in NBFI exposures since 2010. As our forthcoming in-depth analysis will show, the regulators' data also indicate that the $786 billion on call reports as of June 2023 is so small a percentage of aggregate exposures across the industry as to demonstrate that the biggest banks have the bulk of these billions to firms the agencies now deem to be high-risk. With regulatory data in hand, voluntary and no-so-voluntary portfolio reallocations are inevitable.

Comment on the proposal is due February 26, with the agencies planning very quick implementation by the second quarter of this year.

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