Minutes of the Financial Stability Oversight Council

September 25, 2020

PRESENT:

Steven T. Mnuchin, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)
Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC) (by telephone)
Jay Clayton, Chairman, Securities and Exchange Commission (SEC) (by telephone)
Heath P. Tarbert, Chairman, Commodity Futures Trading Commission (CFTC) (by telephone)
Kathleen Kraninger, Director, Consumer Financial Protection Bureau (CFPB)
Mark Calabria, Director, Federal Housing Finance Agency (FHFA)
Brian Brooks, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Rodney Hood, Chairman, National Credit Union Administration (NCUA) (by telephone)
Thomas E. Workman, Independent Member with Insurance Expertise (by telephone)
Dino Falaschetti, Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member) (by telephone)
Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member) (by telephone)
Charles G. Cooper, Commissioner, Texas Department of Banking (non-voting member) (by telephone)
Eric Cioppa, Superintendent, Maine Bureau of Insurance (non-voting member) (by telephone)
Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member) (by telephone)

GUESTS:

Department of the Treasury (Treasury)
Brian Callanan, General Counsel
Kipp Kranbuhl, Principal Deputy Assistant Secretary for Financial Markets
Howard Adler, Deputy Assistant Secretary for the Council
Eric Froman, Assistant General Counsel (Banking and Finance)
Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council

Board of Governors of the Federal Reserve System
Randal Quarles, Vice Chairman for Supervision
Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation
Travis Hill, Deputy to the Chairman for Policy

Securities and Exchange Commission
Sumit Rajpal, Senior Policy Advisor

Commodity Futures Trading Commission
Jaime Klima, Chief of Staff and Chief Operating Officer

Consumer Financial Protection Bureau
Thomas Pahl, Policy Associate Director

Federal Housing Finance Agency
Sandra Thompson, Deputy Director, Division of Housing Mission and Goals
John Roscoe, Chief of Staff, Office of the Director

Comptroller of the Currency
Blake Paulson, Senior Deputy Comptroller of the Currency and Chief Operating Officer

National Credit Union Administration
Andrew Leventis, Chief Economist

Office of the Independent Member with Insurance Expertise
Charles Klingman, Senior Policy Advisor

Federal Reserve Bank of New York
John Williams, President and Chief Executive Officer
Sandra Lee, Senior Vice President

Office of Financial Research
Alexander Pollock, Principal Deputy Director for Research and Analysis

Federal Insurance Office
Philip Goodman, Senior Insurance Regulatory Policy Analyst

Texas Department of Banking
Michael Townsley, Policy Counsel, Conference of State Bank Supervisors

Maine Bureau of Insurance
Mark Sagat, Assistant Director, Financial Policy and Legislation, National Association of Insurance Commissioners

Maryland Office of the Attorney General, Securities Division
Kameron Hillstrom, Counsel, North American Securities Administrators Association

PRESENTERS:

Secondary Mortgage Market Activities

- *Howard Adler, Deputy Assistant Secretary for the Council, Treasury*
- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council, Treasury*
- *Adolfo Marzol, Principal Deputy Director, FHFA*
- *Gillian Burgess, Senior Counsel, Federal Reserve*
- *Sean Hoskins, Senior Policy Advisor, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

Short-term Wholesale Funding Markets

- *S.P. Kothari, Chief Economist and Director, Division of Economic and Risk Analysis, SEC*
- *Sumit Rajpal, Senior Policy Advisor, SEC*

2020 Annual Report

- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council, Treasury*
- *Rajdeep Sengupta, Economist, Federal Reserve Bank of Kansas City (available for questions)*
- *Alexandra Somers, Senior Policy Advisor, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

Fiscal Year 2021 Council Budget

- *Howard Adler, Deputy Assistant Secretary for the Council, Treasury*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 10:32 A.M.

The Chairperson began by outlining the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session of the meeting included (1) secondary mortgage market activities, (2) short-term wholesale funding markets, and (3) the Council's 2020 annual report.

1. Secondary Mortgage Market Activities

The Chairperson introduced the first agenda item, an update on the Council's review of secondary mortgage market activities. The Chairperson introduced Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury and Executive Director of the Council; Gillian Burgess, Senior Counsel at the Federal Reserve; and Adolfo Marzol, Principal Deputy Director at the FHFA.

Mr. Ledbetter began by stating that a working group including staff of the FHFA, the Federal

Reserve, and Treasury had conducted a review of activities associated with the provision of secondary mortgage market liquidity. He stated that the group's work had focused on Fannie Mae and Freddie Mac (the Enterprises), which he noted facilitate the origination of nearly 50% of new single-family mortgages through their purchase of mortgages for securitization and sale as guaranteed mortgage-backed securities (MBS). He stated that in organizing its analysis, the working group had applied the framework for an activities-based approach described in the interpretive guidance issued by the Council in December 2019. He noted that an analysis under the Council's framework focuses on four questions: (1) how the potential risk could be triggered; (2) how the adverse effects of the potential risk could be transmitted to financial markets or market participants; (3) what impact the potential risk could have on the financial system; and (4) whether the adverse effects of the potential risk could impair the financial system in a manner that could harm the non-financial sector of the U.S. economy. Mr. Ledbetter stated that the analysis concluded that any distress at the Enterprises that affected their secondary mortgage market activities could pose a risk to financial stability, if risks are not properly mitigated.

Mr. Ledbetter then summarized the key risk mitigants that the working group had considered. He noted that a significant amount of the working group's review was devoted to analysis of the capital rule for the Enterprises that the FHFA had recently reproposed. He described the various components of the FHFA's proposed risk-based capital requirements, and he noted changes in the reproposal that made the requirements more closely resemble the structure of the banking capital framework. He stated that the working group's assessment of the FHFA's proposed capital rule focused on whether the rule was appropriately sized and structured for the risks and for the key role played by the Enterprises, and whether the rule would promote stability in the housing finance system.

Ms. Burgess then presented to the Council on the working group's capital resiliency analysis. She described benchmarks for the level of capital that the Enterprises require, including an analysis of losses the Enterprises experienced during the financial crisis in 2008. She then compared the proposed capital rule to the bank capital framework. She noted that there are differences in the business models of the Enterprises and banking organizations that are relevant to capital requirements, but that the credit risks these entities take are similar. She explained certain similarities and differences between the proposed capital rule and bank capital requirements, including with respect to credit risk transfers (CRT) and risk weights applied to mortgage loans. She also described the components of the proposed capital requirements as they would apply to the Enterprises over time. Finally, she noted that the proposed capital rule would require high-quality capital.

Mr. Marzol then presented on the proposed capital rule and the FHFA's regulatory framework. He began by addressing key elements of the structure and design of the proposed rule. He noted that model and measurement risks were inherent in any mortgage risk-sensitive framework, and that the proposed rule contained several elements intended to protect against model risk, including a 15 percent risk-weight floor for mortgage exposures and a 10 percent floor for retained credit-risk tranches, in addition to a risk-insensitive leverage requirement. He stated that in order to help address procyclicality, the risk-based capital component of the proposed rule would adjust home prices downward when they are more than 5 percent above the long-term trend or upward when they are more than 5 percent below the long-term trend. He then addressed market discipline, stating that capital requirements that are too low could undermine market discipline and give the Enterprises a competitive advantage over banks and other market participants. He stated that the proposed capital rule contained elements intended to promote market discipline, including that it built off of the bank capital framework, which could facilitate market understanding about the quality and quantity of capital, and that it included a stability capital buffer, which he stated mitigated stability risk and could offset funding advantages. He also noted that the proposed rule included explicit capital charges for market risk and operational risk.

Mr. Marzol then addressed the extent to which the proposed rule would promote stability in the broader housing finance system. He stated that the proposed stability capital buffer was intended to address the risks that each Enterprise's default or financial distress could pose to housing finance markets and to offset potential funding advantages. He described the differences between the proposed buffer and the capital surcharge applicable to global systemically important banks, noting that the proposed buffer was based on the Enterprises' share of mortgage debt outstanding and was calculated based on adjusted total assets. He stated that the inclusion of the buffer was an important step for mitigating the risks the Enterprises pose to the broader system. He also noted that the proposed rule would not result in market participants having the same credit risk capital requirements for the same risk exposures, and that these differences could maintain concentration of risk with the Enterprises. In addition, he described the proposed rule's treatment of CRT. He stated that the proposed rule would continue to award capital relief for CRT but that it sought to ensure that each Enterprise maintains appropriate regulatory capital for the retained CRT exposure. He noted that the proposed rule would generally reduce the amount of capital relief for CRT compared to the current Enterprise conservatorship capital framework.

Mr. Ledbetter then highlighted the working group's key findings, as described in the written statement the Council was voting on during the open session of the meeting.

Members of the Council then asked questions and had a discussion, including regarding potential exposures of the Enterprises, the treatment of CRT under the proposed rule, and the importance of the Enterprises having sufficient and high-quality capital.

2. Short-term Wholesale Funding Markets

The Chairperson then introduced the next agenda item, short-term wholesale funding markets. He turned to S.P. Kothari, Chief Economist and Director of the Division of Economic and Risk Analysis at the SEC, and Sumit Rajpal, Senior Policy Advisor at the SEC.

Mr. Kothari described a report by SEC staff regarding interconnectedness of U.S. credit markets, which was expected to be released shortly. He noted that the report also addressed the economic shock related to COVID-19. He stated that the report examined a number of financial markets, but that his presentation to the Council would focus on short-term funding markets. He stated that three categories of financial market stresses from COVID-19 were observed: short-term funding stresses, market structure or liquidity-driven stress, and long-term credit issues. He then provided an overview of short-term funding markets, which he stated comprised a complex ecosystem with significant daily flows.

He then described particular sectors of the short-term funding market. First, he described the repurchase agreement (repo) market. He noted that U.S. Treasury securities were used as collateral in nearly half of all repo transactions, and that agency MBS were used in approximately one third. He stated that in March 2020, volatility in the repo market had led to price dislocations and increased volatility in the U.S. Treasury and MBS markets. He noted that the Federal Reserve's purchases of Treasury securities and MBS had alleviated stress in these markets. He then described the commercial paper and certificate of deposit market. He stated that ordinarily, secondary trading is limited in these markets, but that in March 2020 there had been dislocations, and dealers had been constrained in supporting these markets. He noted that as a result, dealers had turned to other sources of funding, including revolving loan facilities.

Mr. Kothari then described developments in March 2020 regarding money market mutual funds (MMFs). He stated that government MMFs had experienced material inflows while prime MMFs had seen material outflows. He noted that three prime MMFs had closed in 2020 so far. He then turned to securities lending markets, which he stated are connected with short-term funding markets because of the way that collateral received in securities lending transactions is invested. Specifically, he noted that in the U.S. markets, a large part of collateral is in the form of cash, which is reinvested in various money market instruments. He noted that the COVID-19 shock had stressed the securities lending market. He then described the prime brokerage market, which includes financial institutions providing secured financing to hedge funds and other active capital markets participants. He noted that in connection with the market stresses of March 2020, hedge funds had de-leveraged their portfolios, leading to an overall reduction in margin balances and reduced demand for securities on loan. Finally, he cited interconnections with short-term funding markets arising from bank lines of credit and derivatives.

Mr. Kothari concluded by noting that the events related to the COVID-19 economic shock had led to a decline in business activity and spurred the demand for cash and safe assets, with effects on U.S. short-term funding markets. He noted that the Federal Reserve's actions had injected liquidity into the market, restored investor confidence, lowered interest rates, and thus stabilized the market, but that predicting how credit markets would change because of the ongoing COVID-19 stress was challenging.

3. 2020 Annual Report

The Chairperson then introduced the next agenda item, the Council's 2020 annual report, and turned to Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury and Executive Director of the Council; Alexandra Somers, Senior Policy Advisor in the Office of the Financial Stability Oversight Council at Treasury; and Rajdeep Sengupta, Economist at the Federal Reserve Bank of Kansas City.

Mr. Ledbetter described the timeline and process for drafting the annual report. He also updated the Council regarding the topics, vulnerabilities, and recommendations in the current draft of the report.

The Chairperson adjourned the executive session of the meeting at approximately 11:20 A.M.

Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 11:27 A.M.

The Chairperson outlined the agenda for the open session, which included (1) the Council's review of secondary mortgage market activities and a vote on a public statement regarding this review, (2) a vote on the Council's fiscal year 2021 budget, and (3) a vote on the minutes of the Council's meeting on July 14, 2020.

1. Secondary Mortgage Market Activities

The Chairperson turned to the first agenda item, the Council's review of and public statement regarding secondary mortgage market activities. The Chairperson noted that in December 2019, the Council had adopted interpretive guidance that provides for an activities-based approach for identifying and responding to potential risks to U.S. financial stability. He stated that the Council had implemented the framework under that guidance with an analysis of potential risks arising from secondary mortgage market activities, particularly involving the activities of the Enterprises. The Chairperson stated that this effort showed the benefits of collaboration and information-sharing across the Council member agencies. He then introduced Howard Adler, Deputy Assistant Secretary for the Council at Treasury, to provide an overview of the Council's review and the public statement regarding secondary mortgage market activities.

Mr. Adler stated that at the previous Council meeting, Secretary Mnuchin had requested the formation of a working group composed of staff from Treasury, the Federal Reserve, and the FHFA to assess potential risks related to the provision of secondary mortgage market liquidity. He noted that the working group's review focused in particular on the activities of the Enterprises as the dominant private secondary market providers of liquidity, through their purchase of mortgages for securitization and sale as guaranteed MBS. Mr. Adler stated that the working group had assessed potential financial stability risks in the secondary market, as well as whether those risks are appropriately addressed by market and regulatory mitigants.

Mr. Adler stated that in assessing potential risks to financial stability, the working group applied the framework for an activities-based approach described in the interpretive guidance on nonbank financial company determinations issued by the Council in December 2019. He noted that the working group had been asked to prepare a statement summarizing its conclusions. Mr. Adler stated he would summarize the statement.

Mr. Adler noted that, according to the statement, the 2008 financial crisis demonstrated that financial stress at the Enterprises could limit their ability to provide reliable liquidity in the secondary market or perform their guarantee and other obligations on their MBS and other liabilities, with significant implications for the national housing finance markets, financial stability, and the broader economy.

Mr. Adler stated that the Enterprises continued to play a central role in the national housing finance markets—acquiring nearly 50% of newly originated mortgages in both single-family and multifamily markets—and were two of the largest U.S. financial institutions, with significant interconnectedness to financial markets and other financial institutions. He noted that if the Enterprises were unable to provide liquidity to the secondary market, other market participants may be unable to provide liquidity at the scale and pricing needed to ensure smooth market functioning and financial intermediation.

Mr. Adler said that, as a result, the statement noted that any distress at the Enterprises that affected their secondary mortgage market activities, including their ability to perform on their guarantee and other obligations on their MBS and other liabilities, could pose a risk to financial stability, if risks were not properly mitigated. He noted that the FHFA had recently proposed a capital rule that was intended to enhance the quality and quantity of the Enterprises' required capital, so as to ensure that each Enterprise would remain viable in a severe economic downturn, and also to mitigate the potential risk to national housing finance markets posed by the Enterprises. Mr. Adler stated that the working group's analysis of the extent to which the FHFA's regulatory framework would adequately mitigate potential stability risks centered on FHFA's proposed capital rule.

Mr. Adler stated that the working group, in conducting its review, considered the following two questions, among others. Is the proposed capital rule appropriately sized and structured given the Enterprises' risks and their key role in the housing finance system? Does the proposed capital rule promote stability in the broader housing finance system? Mr. Adler stated that the statement provided three key findings.

First, Mr. Adler stated that the proposed rule included a risk-sensitive capital framework. He stated that it would require credit risk capital on mortgage exposures that, as of September 2019, would lead to a substantially lower risk-based capital requirement than the bank capital framework, and likely be lower than other credit providers across significant portions of the risk spectrum during much of the credit cycle. Mr. Adler stated that this would create an advantage that could maintain significant concentration of risks with the Enterprises. He noted that the statement thus encouraged the FHFA and other regulatory agencies to coordinate and take other appropriate action to avoid market distortions that could increase risks to financial stability by generally taking consistent approaches to the capital requirements and other regulation of similar risks across market participants, consistent with the business models and missions of their regulated entities.

Mr. Adler stated that the second finding related to capital buffers. He noted that the proposed rule included a stress capital buffer and a stability capital buffer. He stated that the inclusion of such capital buffers was an important step to mitigating the risks the Enterprises posed to the broader system. He stated that the calibration of the buffers in the proposed rule was based on total adjusted assets, not risk-weighted assets, and thus may be relatively risk-insensitive. For that reason, Mr. Adler stated that the statement encouraged the FHFA to consider the relative merits of alternative approaches for more dynamically calibrating the capital buffers. He said that the capital buffers should be tailored to mitigate the potential risks to financial stability and otherwise ensure that the Enterprises have sufficient capital to absorb losses during periods of severe stress and remain viable going concerns, while balancing other policy objectives.

Mr. Adler stated that the third finding related to total capital sufficiency. He said that the proposed rule would increase the quality and quantity of capital that the Enterprises would be required to hold. He noted that significant high-quality capital would mitigate risks to financial stability by making it more likely that the Enterprises would be able to perform their countercyclical function and maintain market confidence as viable going concerns through the economic cycle. Mr. Adler stated that, similarly, a meaningful leverage ratio requirement that was a credible backstop to the risk-based requirements would address potential risks to financial stability. He stated that the proposed rule, by relying on definitions of regulatory capital that are similar to the U.S. banking framework, would ensure that high-quality capital is the predominant form of regulatory capital. Mr. Adler stated that, with respect to the quantity of regulatory capital, the working group considered the proposed capital requirements in light of a number of relevant benchmarks, such as (1) losses during the 2008 financial crisis; (2) a comparison of the proposed capital requirements to those of other large, complex financial institutions, taking into account differences in business models and risk profiles; and (3) the capital requirements implied by a conservative mortgage stress test model. He noted that the statement concluded that the proposed rule required a meaningful amount of capital for the Enterprises and was a significant step towards ensuring that the Enterprises would be able to provide liquidity to the secondary mortgage market and satisfy their obligations in a period of severe stress. Mr. Adler stated that the working group's analysis suggested that risk-based capital and leverage ratio requirements that were materially less than those contemplated by the proposed rule would likely not adequately mitigate the potential stability risk posed by the Enterprises. He noted, moreover, that it was possible that additional capital could be required for the Enterprises to remain viable concerns in the event of a severely adverse stress, particularly if the Enterprises' asset quality were to deteriorate to levels comparable to the experience leading up to the 2008 financial crisis. Mr. Adler noted that the statement thus encouraged the FHFA to ensure high-quality capital by implementing regulatory capital definitions that were similar to those in the U.S. banking framework. He said the statement also encouraged the FHFA to require the Enterprises to be sufficiently capitalized to remain viable as going concerns during and after a severe economic downturn.

Mr. Adler stated that FHFA was also implementing additional enhancements to the Enterprises' regulatory framework that would help mitigate the potential risk to financial stability. He noted that these enhancements included efforts to strengthen Enterprise liquidity, stress testing, supervision, and resolution planning.

He noted that the statement expressed support for the FHFA's commitment to developing its broader prudential regulatory framework for the Enterprises, and indicated that the Council would continue to monitor the secondary mortgage market activities of the Enterprises and the FHFA's implementation of the regulatory framework to ensure potential risks to financial stability are adequately addressed. Mr. Adler concluded by noting that, according to the statement, if the Council determined that such risks to financial stability were not adequately addressed by the FHFA's capital and other regulatory requirements or other risk mitigants, the

Council may consider more formal recommendations or other actions, consistent with the Council's December 2019 interpretive guidance.

The Chairperson called on other Council members to comment.

Mark Calabria, Director of the FHFA, stated that he supported the Council's public statement, which he said acknowledged that any distress affecting the secondary mortgage market activities of the Enterprises could pose risks to financial stability. He noted that the Council's review focused on the extent to which the FHFA's regulatory framework, particularly the re-proposed capital rule, would mitigate the potential stability risks posed by the Enterprises. He stated that the Council's analysis affirmed that the capital rule was a necessary and significant step toward financial stability. Director Calabria stated that, as the Council's review indicated, risk-based capital and leverage ratio requirements materially less than those in the proposed rule would likely not mitigate the potential stability risk posed by the Enterprises, and the review recognized that more capital may be necessary. He noted that the Council's review recognized that the Enterprises' risk-based capital requirements for mortgage exposure remained lower than those of other credit providers. Director Calabria thanked the Council for encouraging the FHFA and other regulators to continue working toward a level playing field for credit risk. He stated that the FHFA would consider the Council's findings and recommendations as it finalized the capital rule in the coming months. He stated that the FHFA would also continue its work to strengthen the regulatory framework for the Enterprises, with the goal of responsibly ending the conservatorships. Director Calabria commended the Council for committing to monitor the activities of the Enterprises and the FHFA's implementation of the regulatory framework so that the FHFA could ensure that potential risks to financial stability are adequately addressed. He stated that the FHFA recognized the seriousness of the stability risk posed by the Enterprises to the financial system and committed that the FHFA would ensure that that risk is mitigated.

Jerome Powell, Chair of the Federal Reserve, stated that the statement addressed a crucial component of the financial system's health. Chairman Powell stated that a robust, well-capitalized, well-regulated housing finance system was vital to the stability of the financial system overall and to the long-run health of the U.S. economy. Chairman Powell stated that the housing finance system needed to provide mortgage credit in good times and bad to a broad range of creditworthy borrowers. He noted that to accomplish that goal, the Enterprises must have strong capital positions. Chairman Powell stated that the FHFA's proposed capital rule was an improvement over the previous proposal in 2018, and that the Federal Reserve welcomed higher capital levels and less procyclicality. He stated that any capital rule for the Enterprises should be sensitive to Enterprise risk-taking and should ensure that the Enterprises retain enough capital to continue their critical role in times of economic stress or in the wake of a shock to the housing market. Chairman Powell stated that he looked forward to FHFA's further development of a more robust prudential regulatory framework, including liquidity and stress-testing requirements, supervision, and a resolution framework. He concluded by expressing his support for the Council's statement.

Jay Clayton, Chairman of the SEC, pledged the SEC's support to developing more private funding in the mortgage market and the secondary mortgage market. He stated that the SEC is always conscious of investor protection and financial stability more generally.

Heath Tarbert, Chairman of the CFTC, noted his support for the Council's review. He discussed the links between the 2008 financial crisis and the Enterprises, and subsequent legislative attempts to address the Enterprises. He stated that, in the absence of legislative action, the Council should address the potential systemic risks posed by the Enterprises. Chairman Tarbert noted that the Council's statement acknowledged that any distress that affects the secondary market activities of the Enterprises could pose a risk to U.S. financial stability if not properly mitigated. He stated that the Council's review was a necessary and important step in protecting American taxpayers from future bailouts and reforming the housing finance system. Chairman Tarbert commended the FHFA in its efforts to develop a robust regulatory framework tailored to the systemic risk posed by the Enterprises. He stated that the Council must continue to monitor the Enterprises' activities and the FHFA's implementation of the framework, which, so long as it continues to embody strong capital requirements, should lessen the need for the Council to consider taking more formal actions.

Jelena McWilliams, Chairman of the FDIC, stated that one of the most important reforms implemented following the 2008 financial crisis was the substantial increase in the quantity and quality of loss-absorbing capital at the nation's largest banks. She stated that robust capital standards help ensure that banks are more resilient and more capable of absorbing losses during times of stress. She noted that over the previous few months the financial system had seen the benefits of a well-capitalized banking system, as banks were able to serve as a source of strength during COVID-19-related economic stress. Chairman McWilliams noted that before the global financial crisis, the Enterprises were two of the largest, most highly leveraged financial companies in the world. She stated that since being placed into conservatorship in September 2008, their role in the mortgage market has only grown. She noted that when the Enterprises are released from conservatorship, robust capital standards will be critical to help protect the mortgage markets and taxpayers during future housing market downturns. Chairman McWilliams stated that while the FHFA's proposed capital requirements would still be substantially lower than bank capital requirements, the FHFA's proposed capital rule represented a dramatic improvement compared to the pre-crisis model. She noted that raising capital comes with a cost and that calibrating capital standards involves balancing competing goals. She concluded by expressing her support for the Council's review and statement.

Brian Brooks, Acting Comptroller of the Currency, stated that he supported the Council's review. He stated that the Council's recommendations strengthened the efforts already underway to strengthen risk management and prudential controls in the housing finance system. He noted that the OCC was also focused on the role of national banks and federal savings associations in that system. He stated that, consistent with the Council statement, the OCC looked to avoid market distortions and different approaches to regulation of similar risks across the system. He noted that the OCC sought to ensure that banks would continue to play a meaningful role in the provision of housing finance. He also noted that the OCC was evaluating the provision of capital relief for CRT transactions in the banking sector.

Kathleen Kraninger, Director of the CFPB, stated that she supported the Council statement. She noted that the Enterprises play a central role in the $11 trillion single-family mortgage market by providing liquidity needed by lenders to provide affordable housing options to consumers. Director Kraninger stated that financial stability and access to credit may be imperiled if the

Enterprises could not perform this role effectively. She stated that it was therefore critical that the Council take steps to mitigate this risk. She stated that the Council's review supported the FHFA's efforts to promote the safety and soundness of the Enterprises. Director Kraninger noted that the Enterprises were significantly undercapitalized in the lead-up to the 2008 recession. She stated that this was largely due to the investor perception that there was an implicit government guarantee of the Enterprises that their competitors did not have. Director Kraninger stated that the Enterprises' competitive advantage incentivized the Enterprises' risk-taking and growth, resulting in the market dominance that necessitated federal assistance when their solvency was at risk. She stated that, in considering the future of the Enterprises, regulators needed to avoid policies that would provide incentives for the Enterprises to engage in such risk-taking and that make consumers responsible for that risk-taking. Director Kraninger stated that the FHFA's proposed capital framework was a significant step toward these goals. She noted that while higher capital requirements under the proposal may increase mortgage costs in the near term, they would help create a more competitive secondary mortgage market whereby private market participants would be able to compete with the Enterprises on a more level playing field. She discussed the positive impact of competition among firms, which she indicated should lead to lower mortgage rates for consumers over the longer term, and facilitate innovation to provide consumers with new financing options.

Rodney Hood, Chairman of the NCUA, noted that the Council's review marked the first formal use of the activities-based approach under the interpretive guidance adopted by the Council in December 2019. Chairman Hood stated that a well-functioning secondary mortgage market was essential for credit unions and their members. He stated that the credit union industry held roughly $500 billion in loans for residential properties for one to four families, or 44 percent of the industry's $1.14 trillion in outstanding loans. Chairman Hood stated that although many credit unions held mortgage loans on their own books, those seeking to sell the loans would continue to have partners in the Enterprises due to the regulatory framework put in place by the FHFA. He concluded by stating that the NCUA intended to continue to monitor and safeguard this segment of the U.S. financial system to ensure sustainable home ownership.

The Chairperson then presented to the Council the following resolution approving the public statement regarding secondary mortgage market activities:

WHEREAS, the Council's duties under section 112 of the Dodd-Frank Wall Street Reform and Consumer Protection Act include monitoring the financial services marketplace in order to identify potential threats to U.S. financial stability; recommending to the Council member agencies general supervisory priorities and principles reflecting the outcome of discussions among the member agencies; identifying gaps in regulation that could pose risks to the financial stability of the United States; and making recommendations to primary financial regulatory agencies to apply new or heightened standards and safeguards for financial activities or practices that could create or increase risks of significant liquidity, credit, or other problems spreading among financial companies and markets; and

WHEREAS, on December 4, 2019, the Council approved interpretive guidance on nonbank financial company determinations, which sets forth an activities-based approach for identifying and addressing risks to financial stability; and

WHEREAS, the staffs of Council members and their agencies applied the activities-based approach to analyze potential risks to financial stability that may arise from the secondary mortgage market, with a focus on the activities of Fannie Mae and Freddie Mac; and

WHEREAS, the staffs of Council members and their agencies have prepared the "Financial Stability Oversight Council Statement on Activities-Based Review of Secondary Mortgage Market Activities" attached hereto (the "Statement").

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the Statement and authorizes the Chairperson, or his designee, to cause the Statement to be published on the Council's website, in a form and manner acceptable to the Chairperson, or his designee, and to otherwise make it available to the public as the Chairperson, or his designee, deems appropriate.

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or his designee, to make technical, nonsubstantive, or conforming changes to the text of the Statement and to take such other actions and issue such other documents incidental and related to the foregoing as the Chairperson, or his designee, deems necessary or appropriate to fulfill the Council's objectives in connection with its publication.

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

2. Fiscal Year 2021 Council Budget

The Chairperson then introduced the next agenda item, the Council's fiscal year 2021 budget. He introduced Howard Adler, Deputy Assistant Secretary for the Council at Treasury, for a presentation regarding the Council's budget.

Mr. Adler stated that there are two main components to the Council budget. He noted that the first consists of the expenses of the Council secretariat office at Treasury and the office of the Council's independent member with insurance expertise. He stated that the second component is the reimbursement of implementation expenses of the FDIC related to certain resolution-planning activities under Title II of the Dodd-Frank Act. Mr. Adler stated that the FDIC's expenses had increased from approximately \$2.99 million for fiscal year 2020 to approximately \$4.45 million for fiscal year 2021, but that the 2020 expenses were abnormally low by historical measures. He stated that the FDIC's 2021 expenses related to activities including developing various support agreements and engaging in extensive coordination with regulators in other countries with respect to a potential resolution under Title II of the Dodd-Frank Act.

The Chairperson then presented to the Council the following resolution approving the Council's budget for fiscal year 2021.

BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the Council's budget for fiscal year 2021 attached hereto is hereby approved.

The Chairperson asked for a motion to approve the resolution, which was made and seconded.

The Council approved the resolution by unanimous vote.

3. Resolution Approving the Minutes of the Meeting Held on July 14, 2020

BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on July 14, 2020 of the Council are hereby approved.

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 11:55 A.M.