



CSBS COVID-19 Legislative Proposals

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Submitted by cmeek on Fri, 03/20/2020 - 15:36

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Dear Chairman Crapo, Chairwoman Waters, Ranking Member Brown, and Ranking Member McHenry:

In light of the current COVID-19 pandemic and its associated economic and financial turmoil, state regulators would like to offer legislative proposals aimed at ensuring the safety and soundness of individual state-regulated entities, the broader financial markets, and the protection of consumers and small businesses. State regulators charter and regulate nearly 4,100 banks, representing over 79 percent of the nation's banks. Additionally, state regulators license and regulate a wide variety of nonbank financial services companies, including mortgage lenders, mortgage servicers, debt collectors, consumer finance companies, and money services businesses.

While the full extent of the health, economic, and financial disruptions are not yet known, state regulators believe Congress should take the following actions immediately to stave off more serious repercussions in the financial services system and for individual businesses and consumers.

1. Reestablish the TAG Program Immediately

Congress should immediately authorize the FDIC to reestablish the Temporary Account Guarantee (TAG) program for at least two years. The current economic and financial turmoil related to COVID-19 has the potential to spark a cycle of liquidity stress at banks and fear on the part of commercial and retail depositors. Congress must act even more expeditiously in light of the Federal Reserve's recent decision to establish a Money Market Mutual Fund Liquidity Facility. Supporting money market mutual funds – non-FDIC insured, deposit-like products – but not bank deposits, could cause severe dislocations in the deposit markets.

During the 2008 financial crisis, the FDIC's TAG program was established quickly after the Fed created a similar money market liquidity facility, which provided similar protection to banks and their depositors and preserved balance in the deposit markets. The TAG program was effective in maintaining bank liquidity by insuring all transaction accounts above the (at-the-time temporary) \$250,000 account limit. This program provided security to many businesses' commercial accounts and kept these critical funds within banks, particularly community banks.

2. Actively Monitor Bank Liquidity & Consider Additional Protections for Certain Consumer Non-Transaction Accounts

If the COVID-19 pandemic sparks prolonged strain or significant deterioration in bank liquidity, Congress should also consider other ways to protect deposit accounts. One such option could be to extend the TAG program's protections, or establishing a similar program, to insure important consumer non-transaction accounts, like money market accounts and IRAs. Providing temporary insurance on these accounts above the \$250,000 limit will provide peace of mind to consumers' funds and necessary liquidity to banks.

3. Support Consumers with Mortgage Payment Deferrals & Suspensions

Consumers are already experiencing economic and financial hardship from the fallout of COVID-19, and the duration of the crisis is uncertain and could lead to more significant issues down the road. State regulators support Congressional proposals that would aid consumers by deferring their mortgage payments. Many homeowners, through no fault of their own, will need time to reassess their financial condition in this rapidly changing economic period. Similarly, mortgage lenders have by and large extended sound credit to qualified borrowers, but now find themselves in uncertain times due to COVID-19. State regulators are working with financial institutions, both banks and nonbanks, as they assist vulnerable consumers by modifying mortgages and deferring payments.

4. Liquidity to Keep Mortgage Markets Functioning

Nearly half of mortgage servicing is performed by state-licensed and state-regulated nonbank mortgage servicers. However, as mortgage payments are delayed these entities may need access to a dedicated credit facility in order to carry out their ongoing operations. Congress should authorize the establishment of a credit facility for nonbank mortgage servicers to be administered by the Treasury Department or Federal Reserve, which will help keep families in their homes and ensure proper functioning of the

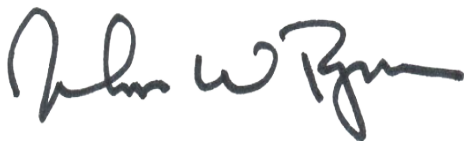
secondary mortgage market. Without access to such credit, nonbank mortgage servicers will not be able to work with consumers to service and/or potentially modify their mortgage loans, nor will they be able to make timely payments to investors of MBS. We recognize that establishing this type of liquidity facility as a temporary measure has longer term market and policy consequences and we look forward to working with Congress, Treasury, and our federal counterparts to developing approaches that facilitate sustainable and responsible markets.

5. Require Interagency Information Sharing on Financial Institutions

Congress should make interagency information sharing a fundamental and mandatory requirement to ensure effectively supervised institutions and markets. As fissures appear in the financial marketplace and at individual firms, neither state nor federal regulators should be left in the dark regarding the condition of the institutions they supervise. State regulators are the primary regulators of nonbank financial services companies, but several federal regulatory and law enforcement agencies have jurisdiction over nonbank companies as well. Communication between federal agencies and state agencies must be sound, and information sharing must be explicitly required by Congress, especially the sharing of confidential supervisory information. With growing uncertainty and rapidly changing financial conditions, state and federal regulators must be sharing supervisory information in real-time with one another to address any emergent risks. See Appendix for proposed legislative language.

State regulators stand ready to continue working with Congress and their federal regulatory counterparts to ensure the safety and soundness of the financial services system and to protect consumers and businesses during the COVID-19 pandemic. Thank you in advance for considering these proposals.

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Ryan". The signature is fluid and cursive, with a prominent "J" and "R".

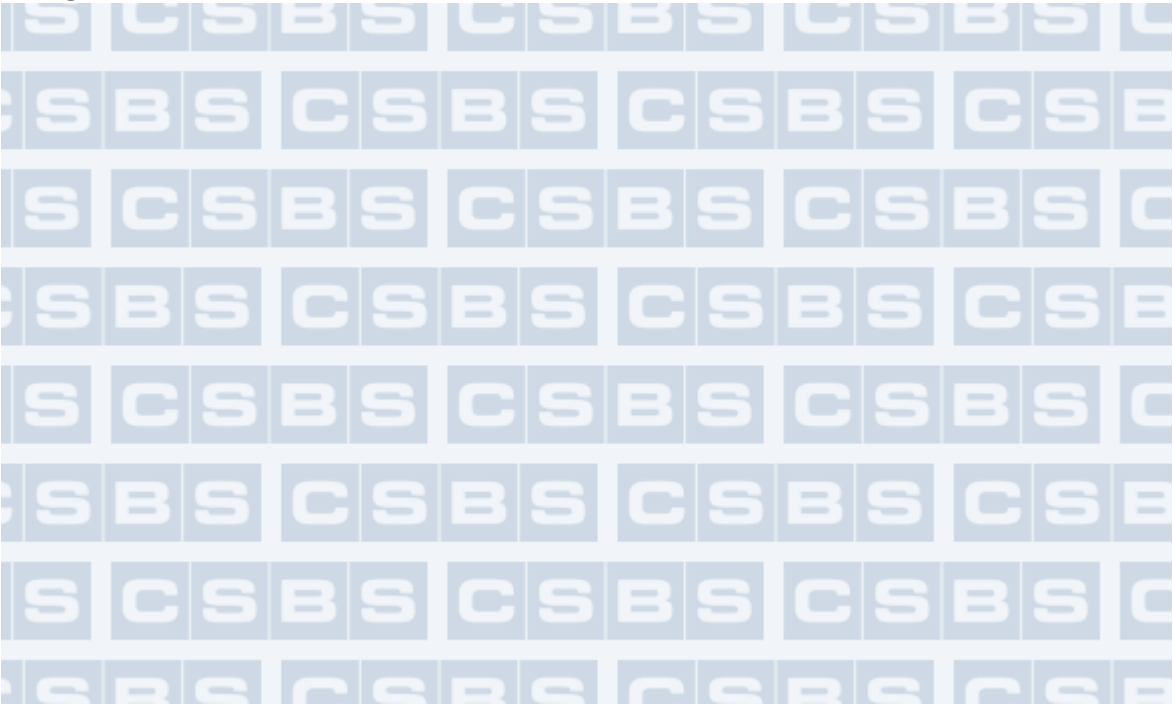
John W. Ryan

President & CEO

Featured Policy

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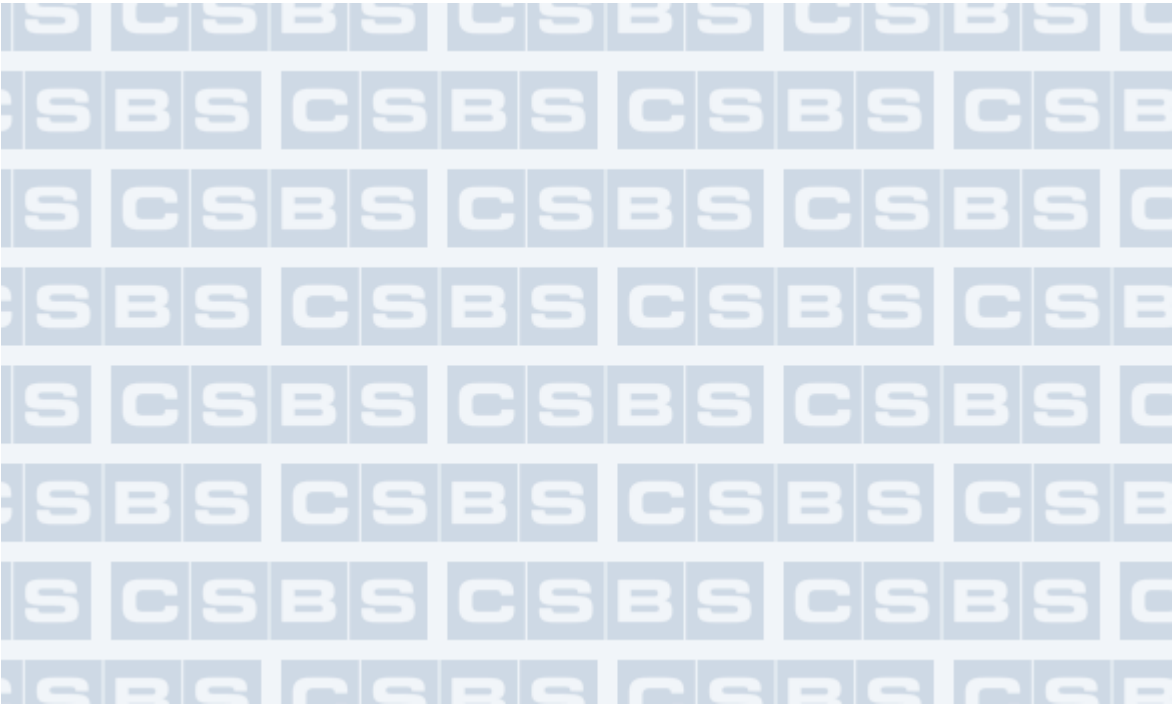
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