GSE Activity Report

Tuesday, September 1, 2020

Some For, Some Against, Some Unsure

Summary

In this analysis, we continue our assessment of comment letters to FHFA on the capital proposal. As in our last analysis, we capture key points and demands, turning to policy and political implications after we conclude analysis of additional comments we judge to have political significance.

Analysis

- ABA: The ABA focuses its letter on the need for FHFA to provide clarity about post-conservatorship GSEs. It notes for example significant business-mix and pricing changes, questioning differences between FHFA's risk-based and leverage approach and that demanded of banks for like-kind assets as well as asking for more analysis of resulting market impact. Pricing information is particularly important given the $2 trillion or so in GSE obligations now held by the Fed that obscure pricing likely post-conservatorship. Unlike many other letters, the ABA generally supports the proposed approach to CRT but argues it is too tough. Again, the letter seeks greater analysis about FHFA's intentions and the proposal's impact.
- Better Markets: Consistent with prior advocacy-group comments, Better Markets presses for delay during which FHFA should assess the proposed capital framework's policy impact. The GSEs are said to be systemic and thus to require considerable capital, but the amount nor whether it should be set by reference to large banks cannot, the letter says, be determined without additional analysis.
- ICBA: As before, community banks want an end to the GSEs' conservatorship, arguing that Fannie and Freddie can comply with the capital raises dictated in the NPR if FHFA clarifies what the GSEs will be when new capital is raised. ICBA opposes discounted g-fees, wants CRT rules revised to reflect low-risk counterparties, and seeks elimination of the cross-guarantee charge.
- MBA: Like the ABA and several other industry commenters, the MBA argues that the NPR lacks critical analytical foundations and thus needs additional work prior to finalization. However, MBA goes farther and also questions how the GSEs will operate outside of conservatorship regardless of applicable capital rules; it notes for example the need to ensure a continuing ban on volume discounts and other pre-crisis practices, pointing also to the need for a ban on controlling interests in a GSE by mortgage-market entities, the need for new-product process "clarification," and additional data on GSE operations. Preferring a new GSE business model as market utilities, the MBA fears that the proposal's capital levels are not

only complex, but also unduly high, a concern heightened by the leverage ratio's binding effect. MBA also shares the widely-expressed criticism of the CRT provisions, pressing for still more credit-risk transfers to enhance the GSEs' role as utilities, not risk intermediaries.

- Structured Finance Association: In a strongly-worded statement, SFA criticizes the NPR on grounds that "capital is a necessary, but insufficient step" to ending the conservatorship and retaining a stable, liquid mortgage market, in part because no amount of capital substitutes for the explicit guarantee that SFA favors. Releasing the GSEs from conservatorship without an explicit guarantee is, SFA claims, a violation of the GSEs' charters. Going on to the substance of the NPR, SFA argues that FHFA's approach to CRT would effectively end it, also opposing the use of bank-like capital requirements, the leverage ratio, and the counter-cyclicality provisions. It recommends suspending the rule unless or until its policy concerns are satisfied.

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