



GSE Activity Report

Wednesday, December 16, 2020

Now What?

Summary

Secretary Mnuchin's [comments yesterday](#) make it clear – at least mostly – that Fannie and Freddie will remain in conservatorship as the Biden Administration takes charge. However, as we have noted, this doesn't mean that the GSEs will also be unchanged through the first quarter as the new team takes the field and redefines the game.

Impact

Although the conservatorships may well remain, they seem likely soon to fall under a consent decree setting the terms for future operations until systemic designation or other game-changers advance. Key to where Treasury and FHFA will go before the Trump team departs is what the Fed wants to see in the new-style conservatorships. This includes:

- implementation of the FHFA capital rule. [As previously noted](#), the Fed was fully engaged in framing the rule both on its own and via FSOC and, while it would have written parts of it differently, it likes what it sees well enough to leave it as is, CRT sections included, until discussions about systemic designation advance at Janet Yellen's FSOC;
- express extension of Treasury's line-of-credit backstop to the GSEs to preserve market confidence in the agencies' "effective guarantee" and preserve the Fed rationale essential for ongoing asset purchases;
- product restrictions likely including bans on cash-out refis and second homes. Decried though these will be by the industry, FHFA can make a strong case that these restrictions have little adverse racial-equity or affordable-housing implications, giving the GSEs more balance-sheet capacity for ongoing forbearance, loan modifications, and affordable financing going into a tough new year;
- additional authority for GSE capital retention. The September plan called for the GSEs to pay Treasury a fee in return for greater capital-retention authority, but we do not expect this to be imposed in order to enhance capital accumulation;
- possible authority also for the GSEs to use new equity or debt instruments to enhance capital raising. If these are authorized, they may come with an express prohibition on material ownership by any seller-servicer or U.S. GSIB;
- final new-product [restrictions](#); and
- an express order for creation of a small-lender cash window.

Along with these actions, FHFA will get to work on the TLAC, liquidity, stress-testing, and resolution

standards mentioned in the 2019 plan and recent releases. If FHFA doesn't do these, the Fed surely will if it gets systemic power over Fannie and Freddie, doubtless giving Calabria an incentive to turn from capital standards to the raft of other safety-and-soundness rules to which the GSEs have yet to be heir.

Outlook

When will all this come to pass? The 2009 second Treasury line came on Christmas Eve. Stockings out!