GSE Activity Report

Monday, February 1, 2021

Hoping for Holistic

Summary

While it will take time for the swamped Biden Administration to craft U.S. housing policy, elements of it emerged last week during stimulus negotiations, the President's statement, and HUD-nominee Fudge's appearance before Senate Banking. After pandemic relief, racial-equity will be the driving near-term force in Administration and FHFA actions, consigning the holistic review Fudge recommended to a time and place far, far away likely never to be found in the halls of Congress. Instead, de facto restructuring will come via racial-equity action, hearings putting pressure on FHFA, near-term moves on FHA premiums, realigned GSE affordable-housing goals, systemic regulation, and – as the year progresses – QRM and bank-capital rewrites.

Impact

Unless macro stress upturns current market and political conditions, key issues before the Administration and likely near-term actions include:

- Racial Equity: First up is the rule directly targeted by President Biden: HUD's contentious rewrite of U.S. fair-housing regulation. Fudge was clear that the rule would be repealed, but less committal during confirmation about the process. She also didn't say it, but we will – the Trump disparate-impact rule won't just be repealed, bringing conditions back to prior standards; it will be replaced by a confluence of standards from HUD and CFPB expanding disparate-impact criteria. Indeed, even ahead of new rules will come new legal and reputational risk – see the Acting CFPB Directors' post last week signaling a disparate-impact investigation of big banks focusing on how they initially prioritized existing customers in PPP lending even though banks have tried to show that AML restrictions made them do it.
- FHA: As noted, we think de facto "holistic" reform will come via steps from the Biden Administration, including several to recast FHA into an affordable-housing window. This is likely not only via premium cuts, but also programmatic changes to affect the pricing incentives targeted by recent racial-justice studies. Years ago, we suggested altering FHA's loan limit to area home prices, not national ones. This would better focus FHA on lower-income and first-time buyers, and will resurface if premium cuts combine with FHA losses to constrain capital levels.
- Affordable Housing: As we note, FHFA is out ahead of the Democratic Congress with its ANPR on affordable housing. This will take time to work through, but time gives FHFA a strong defense to present to Congress when called upon to demonstrate how much it cares. If this isn't sufficient – and it might not be – FHFA will launch an inquiry into LLPAs and risk-based pricing, likely taking its time to come to any conclusions.

- Systemic Standards: Given ongoing market volatility and numerous priority challenges near to Janet Yellen's heart (e.g., MMF reform), we think mortgage-based systemic standards and GSE designation will wait unless a crisis comes calling. We remain unsure also if FSOC will undertake systemic actions under the Trump rules, which give it enough flexibility to advance, or defer systemic interventions until it rewrites FSOC firm- and activity/practice- standards to its liking (which will take months at the least).
- QM and QRM: We doubt the QM definition and patch will be rewritten anytime soon and, if they aren't, the February 27 effective date will stand long enough to define a market reality the CFPB won't trouble to undo. The QRM is, though, another matter. It's of course set now to equal the QM but banking agencies will not settle for the Bureau's pricing indicator. This may or may not be fine as an indicator of borrower risk – the law's QM objective – but not in their view as an indicator of incentive alignment for mortgage securitization – the QRM's goal. The agencies plan to complete their QRM review by June of this year, and we expect this to start renewed rulemaking ending in a very different QRM.
- Capital: As the Fed indicated last year the banking agencies will finally get around to finalizing the 2017 Basel rules. For mortgage purposes, the most important of these is a new U.S. standardized approach (SA). This is sure to reset the mortgage risk weightings to which the banking agencies unhappily conceded in the 2013 rule, redefining the balance between banks and nonbanks and between portfolio and (in concert with a new ARM) securitized finance.

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