



FedFin Weekly Alert

Monday, September 13, 2021

❑ FUNDAMENTAL QUESTIONS ABOUT THE FUTURE OF HOUSING FINANCE

In the late 1980s, Freddie Mac challenged fundamental assumptions about its public mission when it purchased tobacco stock to enrich its portfolio and, shortly thereafter, briefly obtained a statutory change eliminating the private mortgage insurance industry. Combined with Fannie Mae's increasing flights into high finance, this persuaded Congress in 1992 to create the Office of Federal Housing Enterprise Oversight, which at least pretended to regulate the GSEs, and to mandate an affordable-housing mission, which pretended to force Fannie and Freddie back to the public purpose on which their privileges rested. Despite sweeping safety-and-soundness reforms [in 2008](#), these matters largely rested until Sandra Thompson took over the Federal Housing Finance Agency this June.

Although FHFA is an independent agency that need not do the President's bidding, its independence rests on a thin reed since the Supreme Court [determined](#) earlier this year that its director serves at the President's will. Ms. Thompson is doubtless keenly aware of this but also personally committed to the racial-equity mission laid out in the President's recent [executive order](#). The agency has thus quick-marched a [memorandum of understanding](#) with HUD to coordinate federal anti-discrimination housing policy and a new set of [policy standards](#) for Fannie, Freddie, and the Home Loan Banks. However, these policies are in many ways more aspirational than actual. Now, though, come two actions from FHFA with teeth that will bite, and soon. These are:

- a [new approach](#) to measuring affordable housing that realigns the GSEs goals starting in 2022 to prevent the agencies from taking any of the easy ways out to which community advocates have long objected; and
- an even more sweeping mandate charging Fannie and Freddie with an "equitable housing" [mission](#) again starting next year. As our report makes clear, FHFA not only expects the GSEs to realign their businesses, underwriting, and activities to enhance racial and ethnic equity, but also to ensure that lenders, servicers, MIs, and anyone doing business with them does the same.

Both of these policies were opened to public comment and comment there has been and will be. But, however much some fear that these change the GSEs fundamental role, fundamental change is clearly the FHFA's new objective. This not only reverses the last director's plans to end the conservatorship, but also reconstructs Fannie and Freddie as public-good agencies no matter the cost to private profit. A future director might try to

reverse this course, but none will do so until the next Administration and only then if the White House returns to a Republican.

Headlines From the Past Week's Daily Briefings

September 6

No news of note.

September 7

- **U.K. Joins U.S. Sharp Crypto Condemnation** - The head of the U.K. Financial Conduct Authority, Charles Randell, echoed SEC Chairman Gensler's wide-ranging concerns about cryptocurrency but also targeted U.K. action at social media in ways not yet voiced in the U.S.
- **Global Regulators Take Tough Stand on AI/ML Controls, Ethics** - Following a June consultation, IOSCO issued guidelines on the use of AI/ML by asset managers and financial intermediaries.
- **Comment Deadline Extended on Third-Party Risk Management Guidance** - The federal banking agencies extended the comment deadline on proposed third-party risk management guidance until October 18.
- **FHFA Establishes a GSE Equitable-Housing Mission with Major Market Implications** - As Karen Petrou's memo this morning forecast, the FHFA has taken strong action to mandate an equitable-housing plan from Fannie Mae and Freddie Mac above and beyond their existing affordable-housing requirements.

September 8

- **IOSCO Stands By SOFR-Based Benchmarks** - Echoing recent U.S. official comments, IOSCO formally stated concerns that some credit-sensitive LIBOR alternative benchmarks pose problems akin to those that forced LIBOR abandonment.
- **Frustrated Basel Head Blasts Banks** - Heightening criticism of Basel III's slow implementation, outgoing Basel Committee Secretary General Carolyn Rogers took sharp aim at banks which she held responsible at both the national and international level.
- **OCC Sounds Official Death Toll for Trump CRA Reg** - As Karen Petrou's memo forecast, FHFA is doubling down on an already-ambitious work plan to make Fannie and Freddie the epitome of mortgage-finance equity.

September 9

- **Gensler Highlights Fair Pricing in Anti-Gamification Push** - After issuing a digital-engagement practices RFI late last month, SEC Chairman Gensler expanded his

concerns to include ensuring fair pricing and eliminating what he called historical biases as he pursues an array of anti-gamification reforms.

- **HFSC Prepares Housing Infrastructure Push** - HFSC majority staff released the staff memo detailing the \$327 billion package to be marked up on September 13 as part of the omnibus reconciliation bill.
- **FSOC Considers Risks It Dare Not Name** - Although Members of Congress have long called for greater FSOC transparency, the Financial Stability Council again met in a closed session.

September 10

- **BIS Study: Fed is Also Promiser of First Resort** - A new [BIS paper](#) finds via analysis of the Fed's Secondary-Market Corporate Credit Facility (SMCCF) that the Fed's corporate credit backstops functioned more by dint of the Fed's promise to safeguard the market than by actual loan purchases or other actions to do so.

This Week

Monday, September 13

HFSC mark-up [12:00pm, Remote]

Tuesday, September 14

Senate Banking hearing entitled: "Oversight of the U.S. Securities Exchange Commission" [10:00am, Hybrid]. Witness: SEC Chairman Gary Gensler.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-091021](#): Soaring house prices have of course aroused lofty housing-bubble worries.
- [GSE-090821](#): As Karen Petrou's [Monday memo](#) forecast, FHFA is doubling down on an already-ambitious work plan to make Fannie and Freddie the epitome of mortgage-finance equity.
- [SBA40](#): Turning again to a provision in the 2010 Dodd-Frank Act, the Bureau of Consumer Financial Protection has issued a sweeping proposal to implement small-business and small-farm lending disclosure requirements akin to those long required under the Home Mortgage Disclosure Act (HMDA).

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- **[GSE-090121](#)**: A [major paper](#) delivered at last week's Jackson Hole Fed meeting shows – we think conclusively – that it's not demographics that keep interest rates so, so low, but wealth inequality.
- **[OVERDRAFT10](#)**: Senior Senate Democrats have proposed legislation that would sharply restrict most transaction-account overdraft fees to the point of likely eliminating them for most consumers at most depository institutions.
- **[GREEN10](#)**: House Democrats are considering legislation to mandate a punitive capital construct for bank and, in some cases, also to certain nonbank exposures to companies with fossil-fuel links.
- **[GREEN9](#)**: Legislation from House and Senate Democrats would force the Federal Reserve quickly to implement mandatory stress testing for all large banking organizations and large nonbanks judged by asset size if they are principally engaged in finance.
- **[GSE-090121](#)**: A [major paper](#) delivered at last week's Jackson Hole Fed meeting shows – we think conclusively – that it's not demographics that keep interest rates so, so low, but wealth inequality.
- **[GSE-082321](#)**: In this in-depth report, we build on our [preliminary analysis](#) of the CFPB's latest HMDA-data assessment. As we noted on Thursday, the agency chose to highlight its totally-unsurprising finding that the mortgage market was hot, hot, hot in 2020.
- **[ACCESS3](#)**: Although states and localities continue to ban merchants from refusing to accept cash, federal legislation is also pending to create a nationwide ban on such practices and govern how cash must be accepted to enhance equality without facilitating money laundering.
- **[GSE-081821](#)**: As we anticipated when Sandra Thompson [took over](#), FHFA's [newly-proposed approach](#) to the GSEs' affordable-housing goals tackles longstanding criticism that the old measurement criteria promoted gentrification.
- **[PREEMPT38](#)**: The chairmen of the Senate Armed Services and Banking Committees, together with many Democratic colleagues, have introduced legislation to extend the interest-rate ceilings in the Military Lending Act (MLA) to all consumers.