Wednesday, November 17, 2021

Score One for Sandra

Summary

FHFA's new scoring system for the GSEs and CSS is a startling, if unsurprising, mission rewrite. Although Obama and even Trump FHFA directors acknowledged the GSEs' affordable housing mission, they also emphasized market liquidity and credit availability. These goals are noted again, but the agency's prioritization has turned the metrics upside-down, not only heightening the importance of equitable finance to further Director Thompson's new framework, but also making still more CRT an even greater priority than the pending capital rewrite would have it.

Impact

In brief and in order, the new scorecard judges:

- equitable access for all borrowers and renters to long-term affordable-housing opportunity including via new small-balance products and "updated" pricing;
- actions to foster market competition and efficiency via a modernized appraisal system, new credit-score models, and new multi-family programs;
- safety and soundness achieved in part by transferring a "significant" amount of credit risk;
- regulatory and supervisory compliance;
- "prudent stewardship" of enterprise assets while in conservatorship; and
- diversity, equity, and inclusion in strategic planning, operations, and business development.

Interestingly, climate risk is prioritized in the press release, but mentioned only in passing in the scorecard. We think this reflects ongoing FHFA work but low prioritization in light of equitable-finance initiatives and continuing build-out of the GSEs' regulatory regime. Innovation is mentioned nowhere despite its prioritization by other financial regulators, perhaps because FHFA wants innovation to serve the public good and believes setting this bar high enough will lead the GSEs to make it happen. As a result, new product initiatives outside the perimeter of these goals are even more unlikely.

Outlook

What happens if a GSE or CSS flubs some of the scoring criteria? Nothing much externally, but these standards do drive a good deal of internal thinking and project planning. If FHFA puts its enforcement muscle where its mouth is, market-moving pricing, product, and risk-transfer programs will redefine Fannie and Freddie in 2022 no matter the new, once-stratospheric high-cost threshold.

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