# GSE Activity Report

**Friday, April 15, 2022**

# Plan B

## Summary

Cementing her very different vision of Fannie and Freddie, Acting Director Thompson has now finalized a new strategic plan for the FHFA emphasizing the importance of both equitable and sustainable housing finance. As anticipated, the final plan requires more of Fannie, Freddie, and the FHLBs not only on the new equity mission, but also on climate-risk mitigation. The only major difference from the proposed and the final plan is an expression of somewhat greater confidence from FHFA that it can go after third-party counterparties if it wants to.

## Impact

The new plan continues to focus on FHFA's regulatory, supervisory, and mission obligations, but it also lays out a new agency culture of “competence, diversity, equity, and inclusion." Much in the plan is boilerplate descriptions of the GSEs' law and duties, but safety-and-soundness evaluation criteria are now expanded beyond the usual to include a stipulation that the GSEs operate in the "public interest."

The conservatorship plan is interesting, most notably in its new direction to agency personnel to ensure that Fannie and Freddie transfer as much risk as possible to the private sector, a goal clearly enunciated also in FHFA's capital rewrite. As we noted last week, Fannie and Freddie are steaming forward on an array of CRT structures that face serious headwinds from a pending big-bank capital rewrite.

The plan also sharply departs from the prior one by emphasizing the importance of climate-risk mitigation; here, the focus is largely on data and research rather than on any effort to get out ahead of the banking agencies via stress tests, new "brown-penalty" charges, or other binding requirements.

There is also a final set of steps through which it achieves Thompson's new equitable-finance objectives. The GSEs here will be pushed to increase affordable-housing finance and supply above and beyond relevant metrics. Although the plan does not suggest requirements also for new products such as refis aimed at minority communities, it does stipulate that the GSEs are to innovate to enhance equity as well as ensure fairness and equal access. The sustainable objective is to be met via FHFA action to ensure effective loss mitigation and sound underwriting/ FHFA also notes externalities that could impair plan realization, most notably the impact of higher rates on affordable housing, immediate climate-risk events, and regulatory surprises due to its limited inability to assess third parties, including key counterparties. Nonbank servicers here are highlighted as particularly worrisome.

## Outlook

This plan now governs FHFA and, by inference, Fannie, Freddie, and the FHLBs until 2026 unless or until another director rethinks it or something else comes up. Nothing in it is binding on anyone but all of it speaks to a new GSE construct and resulting initiatives that make each of the GSEs more like government corporations than the hybrid public-private partnerships for which many still yearn almost

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fifteen years after these departed this earth for Fannie and Freddie.

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