



FedFin Client Report

Wednesday, July 20, 2022

Thompson Emphasizes CRT, Equitable Finance, Safety as Top FHFA Objectives

Client Report: GSE147

Executive Summary

At her first hearing as confirmed FHFA Director, Sandra Thompson made it clear to the House Financial Services Committee that she is committed to expanding credit-risk transfer (CRT), encouraging equitable finance via new GSE activities, and recapitalizing Fannie and Freddie as quickly as possible. Pressed by Rep. Hill (R-AR) to finalize a 2020 proposal to make new Enterprise programs subject to [public notice](#), Ms. Thompson promised to finalize a rule but demurred when asked to do so by year-end. Her written testimony includes a commitment for a ninety-day listening session to consider a new mission for the Federal Home Loan Banks, but members did not ask about this or other recent calls to reconsider the [System](#). Chairwoman Waters (D-CA) and Ranking Member McHenry (R-NC) continued their sparring match over the extent to which HFSC focuses on essential policy issues and promotes the public good. No legislation addressing any of the GSEs seems likely in this Congress.

Analysis

Opening Statements

As noted, Chairwoman Waters and Ranking Member McHenry took strong issue with each other on matters ranging from when hearings were convened to the impact of housing policy on racial equity or inflation. Rep. Waters was strongly supportive of all of Director Thompson's recent actions; Rep. McHenry was critical of many, noting in particular the GOP [letter](#) demanding final action on new-program rules for the GSEs in light of their [equitable-housing plans](#).

Testimony

Ms. Thompson's written testimony provides a detailed discussion of the housing market, concluding that FHFA believes it and the GSEs are well-positioned to avoid anything close to the risk that precipitated the great financial crisis. She also laid out many recent agency actions under her leadership such as revisions to the [enterprise capital rules](#), Fannie and Freddie's [equitable-housing plans](#), and improvements in overall GSE resilience and operational controls.

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As noted, she also announced a ninety-day listening session to gather views about a new, forward-looking regulatory framework for the Home Loan Banks.

Q&A

- **CRT:** Rep. Barr (R-KY) asked Director Thompson if she has spoken to members of FSOC about giving banks capital credit for CRT exposures; Ms. Thompson replied that she would be happy to do so. In addition, Director Thompson mentioned the value of CRT to the Enterprises' safety and soundness in replying to other questions. For example, Rep. Beatty (D-OH) asked the Director if there is anything she wished to discuss that had not been mentioned yet, leading the Director to emphasize the importance of CRT.
- **New Products:** Reps. Hill (R-AR) and Loudermilk (R-GA) asked Director Thompson when they could expect the new GSE products rule to be finalized, with Ms. Thompson responding that FHFA will finalize it in the near term but refusing to commit to finalizing it by the end of the year.
- **Conservatorship:** Many republicans, notably Reps. Wagner (R-MO), Posey (R-FL), and Luetkemeyer (R-MO), asked Director Thompson if she had any plans to end the conservatorships. Ms. Thompson responded that the decision to end conservatorship is in Congress' hands, but FHFA is focusing on the Enterprises' safety and soundness should Congress make that decision. Rep. McHenry specifically asked the Director about the benefits and drawbacks of conservatorship; she stated that it allows for increased alignment and standardization, but also adds to uncertainty regarding the Enterprises' future.
- **Housing Equity:** Chairwoman Waters and Reps. Scott (D-GA) and Pressley (D-MA) asked Director Thompson what the FHFA is doing to address housing racial inequity. Ms. Thompson replied that FHFA has asked the Enterprises to focus on underserved communities, such as previously redlined, rural, or tribal areas. The Director also cited adding positive rental or utility payments to credit-scoring. Rep. Loudermilk expressed concern over the Constitutionality of racially targeted housing programs, arguing they may target one racial group while excluding others. Director Thompson assured him that these programs are focused on underserved communities and are available to all Americans.
- **Regulatory Capital:** Reps Wagner and Luetkemeyer wanted to ensure that the Enterprises are properly capitalized, with Rep. Wagner specifically asking the Director how much capital the Enterprises would be required to hold. Director Thompson answered that they will be required to hold a combined \$300M to facilitate moving credit risk to private investors.
- **Small Balance Loans:** Chairwoman Waters asked the Director what either the FHFA or Congress could do to facilitate more small dollar loans. Ms. Thompson noted that FHFA has instructed the Enterprises to look into small dollar lending and pledged to work with the committee.

- **Third-Party Service Providers:** Rep. Foster (D-IL) asked Director Thompson to explain the Agency's current authority to regulate the Enterprises' third-party service providers. Ms. Thompson confirmed it had very little authority and added that the FHFA has been asking for oversight in this area for several years.
- **Nonbank Mortgage Merger:** Rep. Posey asked the Director if she had any comment on the potential merger of two of what he called "bigtech" mortgage servicers; she expressed no views.
- **Direct Mortgage Insurance:** Rep. Rose (R-TN) asked Director Thompson to speak on what he called "direct mortgage insurance." The Director noted that the Enterprises engaged in a pilot program regarding this several years ago. She stated that she would have to look at the results of that program and speak to stakeholders before forming an opinion.