



GSE Activity Report

Tuesday, May 23, 2023

Loathing, Loving, and Leaving LLPAs As Is

Summary

Today's HFSC hearing with Sandra Thompson was the anti-LLPA event we [anticipated](#) when it came to Republicans that also saw the stout defense Democrats were sure to provide combined with FHFA's resolute stand on doing nothing to change the LLPAs or guarantee-fees beyond what might come of the pending [RFI](#). More interesting to us were lower-profile exchanges on other pending issues along with the complete absence of anyone on the dais suggesting Congress will ever even pretend to do anything about ending the conservatorships.

Impact

The [last hearing](#) with FHFA featured the ongoing discussion about how Congress should do something about Fannie and Freddie that pervaded every hearing ever since the conservatorships were declared in 2008. Now, even the pretense of Congressional action appears to have abated, with the only discussion of the topic coming from Pete Sessions (R-TX) who wanted to know not what Congress could do, but what FHFA will do. Thompson replied that FHFA can do nothing without Treasury, that nothing should be done until the GSEs are adequately capitalized, and – even then – several regulations (e.g., bank single-counterparty concentration limits) will need to be rewritten if the GSEs out of conservatorship are to perform the role they now have in the mortgage market.

Other interesting lines of inquiry addressed:

- **The Home Loan Banks:** Thompson promised a report on what to do with them by September 30 without providing any insight into what the report might say. Her [testimony](#) lauds the liquidity afforded by System advances, liquidity Republicans cited even as Democrats worried about risk to the FDIC made clear in recent failures;
- **New Products:** Thompson promised that her agency's decisions will be transparent and said that, despite suggestions that Fannie would seek to take on the role of a [title insurer](#), no one has asked her to approve it;
- **CRT:** Rep. Andy Barr (R-KY) complained about the impact of the SEC's conflict [rule](#) on credit risk transfers. He noted that the proposal exempts GSE CRT activity during the conservatorship, arguing that the SEC should provide a blanket exemption instead of the kind of limit Thompson elsewhere and in the context noted above said might impede privatization. Thompson said FHFA has nothing to do with SEC rules but will keep an eye on them; and
- **ARMs:** After complaining about these for a while, Maxine Waters (D-CA) now wants them abolished. Thompson said only that most GSE purchases are of FRMs.

Outlook

Next up is mark-up tomorrow of the GOP legislation expressly repealing recent LLPAs. We expect it will be reported on a party-line vote, languish on its way to the floor, have a tough time passing the floor, and die in the Senate should it actually advance.
