



GSE Activity Report

Tuesday, July 18, 2023

40 Percent!?

Reuters is reporting [today](#) and other sources are echoing three regulatory sources saying that the impending capital rewrite will propose risk weighted assessments (RWAs) between 40 and 90%, up from the minimum 20 and 70% [Basel standards](#). The rationale according to Reuters is a desire not to set big-bank RWAs lower than those applicable to smaller banks. However, the rule could also amend smaller-bank RWAs if regulators are or become so inclined.

Will they? At this point, we would guess yes, in part because there's a strong school of thought at the Fed and Treasury that wants to cut the GSEs down to size. The only way to do that is comparable RWAs and the only way to get them is by giving banks a 20% RWA for low-risk loans. [As we've noted](#), this would give big banks a strong platform from which to adversely select the GSEs, offer new MBS, expand portfolios, and side-swipe MI.

Another reason the agencies may bend on mortgages is that they will be under such heavy political pressure to ease the big-bank rules that they will almost surely need to give somewhere. Giving here to get GSE equivalence and buying off small banks – and thus many Members of Congress – along the way is an appealing political proposition and, we would think, a small price the agencies will happily pay to get the super-big banks on the market- and operational-risk criteria that matter the most to them.

We shall see. Stand by for our in-depth analyses after the agencies release the proposals on July 27.