



FedFin Client Report

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Housing Takes on Immediate Political Impact, Will Action Follow?

Client Report: MORTGAGE122

Executive Summary

Although there was no need for further evidence that campaign season has begun, today's Senate Banking housing hearing surely confirmed it. Chair Brown (D-OH) used his opening [statement](#) and virtually all of his questioning to focus on Ohio-specific issues; GOP senators argued forcefully that Biden Administration policies reduce housing supply and hike unaffordability. Sen. Brown talked about the need for legislation in several instances, but it remains to be seen if he plans near-term action on a specific proposal. Perhaps hoping for this, Sen. Cortez-Masto (D-NV) questioned FHFA Director Thompson about Home Loan Bank mission compliance, pressing colleagues to support a bill she [introduced](#) in the last Congress to double the System's affordable-housing obligation and alter other aspects of their operations. Sandra Thompson announced that FHFA this year will issue proposals to address the Banks' mission and "streamline" AHP activities – she did not say how – as well as sharply constrain insurance-company members with a new, ongoing requirement for mortgage-finance activities.

Analysis

Opening Statements

Chairman Brown's opening statement was largely a campaign statement, noting rising housing costs and stressing the need to address the housing shortage with a local focus. The Chairman also promoted his housing-related bills, including S.3930 to provide down payment assistance to first-time homebuyers, S.1514 to provide mortgage assistance to public service workers, and S.2224 to remove interest and depreciation reductions for large private investors in single-family homes. Ranking Member Scott (R-SC) blamed rising housing costs and supply issues on Bidenomics and called for housing regulators to testify before Congress more often.

Testimony

Adrienne Todman, four weeks into her role as Acting HUD Secretary, emphasized that the committee's support is critical to ensuring access to housing. She also discussed the Department's recent clean audit history, efforts to repair public housing, and the Biden

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Administration's Housing-Supply Action Plan. FHFA Director Thompson noted that the FHLBanks were voluntarily increasing their affordable-housing commitments following the agency's [report](#) last year, saying also that the agency will this year issue proposals on the FHLB mission, aligning membership eligibility (i.e., demanding mortgage-finance commitments from insurance companies), and "streamlining" affordable-housing requirements, with this warranted, she said, by the Banks' taxpayer benefits. Ms. Thompson also reinforced the CFPB's closing-cost [campaign](#), noting how this adversely affects affordability and LMI refinancings, laying out the case to require lenders to pay for their own title coverage at least in refis.

Q&A

- **Member Eligibility:** Sen. Warren (D-MA) took issue with the member-eligibility rule, suggesting requiring members instead to hold residential mortgage assets on an ongoing basis; as noted, FHFA plans to do so. Sen. Warren also criticized FHLBs lending to troubled banks, reminding the FHLBs of the System's mission to provide liquidity for affordable housing and community development.
- **GSE Credit Risk Transfers:** Sen. Rounds (R-SD) expressed support for CRTs as a way to protect taxpayers, asking Director Thompson why they trended down in 2023; Ms. Thompson said that CRTs were low in 2023 because they are based on loans purchased by the GSEs which were limited due to interest rates, reiterating her support for credit risk transfers as an important safety and soundness measure.
- **Multifamily Loan Refinancing:** Sen. Britt (R-AL) noted the magnitude of debt-funded multifamily loans that will need to be refinanced in the coming years that are unable to do so under higher rates, urging Director Thompson to revisit the GSEs' regulatory capital standards to provide for countercyclical adjustments for multi-family loans.
- **LLPAs:** Sen. Tillis (R-NC) took issue with FHFA's directed changes to the LLPA Matrix, seemingly decreasing rates for higher-risk borrowers. Ms. Thompson called this a misunderstanding, stating that borrowers with high credit scores are not subsidizing borrowers with low ones, stressing the agency's commitment to rating for risk and noting how MI requirements are not in the LLPA matrix but are nonetheless mandated for high-LTV loans.
- **Racial-Based Favoritism:** Sen. Vance (R-OH) questioned FHFA's [equitable-housing standards](#), which he said required the GSEs to favor minority borrowers as evidenced by a Fannie down payment-assistance "slush fund." Ms. Thompson replied that such programs are location-based, not race-based; Sen. Vance countered that programs should be solely income-based.
- **Conservatorship:** Sen. Hagerty (R-TN) called for the FHFA to end the conservatorships, arguing that efforts should be made to raise private capital and return

Fannie and Freddie to the private market. He also stated that the government may be reluctant to relinquish control due to their large role in the housing market. Sen. Tillis suggested that FHFA should not have independent control over policy decisions involving the conservatorships.