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# Changes in Washington Could Also Bring Opportunities

By John J. McKechnie

**T**he Chinese word for “change” is comprised of 2 characters: one is danger and the other, opportunity.

In looking ahead to the 2019 playing field in Washington, this seems like an appropriate place to start when looking at the opportunities triggered by the changes that will occur on Capitol Hill and in the Administration.

## THE NEXT CONGRESS

The most obvious difference in the next Congress will be the new Democratic House majority that takes control January 3. Under the leadership of incoming House Financial Services Committee Chairwoman Maxine Waters (D-CA), housing issues will principally be viewed through the prism of “affordable housing”—the function of the federal government that provides housing to people of modest means.

In two different public speeches since the November elections, Congresswoman Waters has laid out a vision that includes more federal funding for public housing and hinted that any form of GSE reform would include an expansion of Fannie/Fred-

die/FHLB contributions to affordable housing grant programs administered by FHA and the Federal Housing Finance Agency (FHFA).

Also, of specific interest to credit unions is the introduction of sweeping Affordable Housing legislation in both the House and Senate that would, among other things, subject credit unions to the Community Reinvestment Act (CRA).

This would be controversial, given the 40-plus-year history of credit unions being exempt from the regulation. Look for House to hold hearings on CRA that specifically push back against Trump administration proposals to weaken CRA and allow banks more latitude in complying with it.

One issue that seems to always be on the cusp of being addressed, yet always stays off the congressional agenda, is GSE reform. Since the federal government took control of Fannie and Freddie in the fall of 2008, Congress has paid lip service to the notion of ending the GSE conservatorships and finding a new model that accentuates private capital and minimizes taxpayer risk.



The Republican majority on the Senate Banking Committee is likely to take the lead on any legislation, but ... there is likely to be very little middle ground between the free-market oriented Republicans and the low-income housing focused Democrats.

As one senior Senate Banking Committee staffer commented, "If an entirely Republican Congress couldn't get GSE reform done, what makes you think divided government will do any better?"

## REGULATORY ARENA

The principal venue to look at here is the Federal Housing Finance Agency.

Vice Presidential Economic Advisor Mark Calabria was nominated by the White House on December 11 to be FHFA Director, replacing Obama-appointed Director Mel Watt. There will undoubtedly be concerns—both in markets and on Capitol Hill—regarding some of Calabria's stated views, including his misgivings regarding securitization, his previous advocacy for GSE receivership, and his reticence regarding federal backing of the 30-year mortgage.

Furthermore, Calabria would likely embrace policy shifts intended to modestly shrink the role of Fannie Mae and Freddie Mac in the market.

Another, more hopeful view is that Calabria would be measured and tactical in implementing footprint-reduction policies, given the centrality of housing in the economy and the primacy of the Trump administration's growth agenda.

Key issues surrounding Mark Calabria:

**Would Calabria Be Confirmed?** There is a sense that Calabria's Senate confirmation could be difficult given his previous statements, but the odds would ultimately favor confirmation, for the following reasons:

- Calabria is a former Senate Banking Committee staffer, which has been a benefit for other former staffers navigating the nomination process.
- We look to think tanks and academia for novel thinking, but many of the proposals are intended to be more theoretical than actionable, which is likely to be one of Calabria's retorts during a Senate hearing.
- Senate Republicans added to their majority, which provides them with additional cushion in clearing nominees.

Expect Calabria to soften his stance on certain issues and ultimately win confirmation on a largely party line vote.

**Expect Calabria to pursue a measured, tactical push to shrink GSE footprints**, which is likely to include some combination of a reduction of the multifamily lending caps, a curtailment of cash-out refi's, loan limit changes, underwriting restrictions, pricing increases, and additional pilot program transparency.

**His past statements on Fannie/Freddie receivership have been controversial.** There has been some concern regarding Calabria's previous advocacy for putting the GSEs into receivership.

In 2011 Senate testimony, Calabria argued for "moving Fannie Mae and Freddie Mac into receivership" (meaning they could be dismantled and sold into the private sector). Since then, the GSE reform conversation has shifted materially due in large part to administrative changes made by the Fannie and Freddie as well as the FHFA, which blunts the argument for receivership. The reality is that the receivership conversation is unrealistic, given the complicated nature of such a move, the current political climate, and the considerable economic implications.



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**His position on GSE capitalization will come into focus.** A 2015 White Paper by Calabria argued that the GSE conservatorships ignore legal and economic precedent. Notably, the paper criticized the Obama administration for "rejecting any attempt to rebuild the capital" of the GSEs and "stripping all net value from Fannie Mae and Freddie Mac long

after Treasury has been repaid." Calabria has said that in terms of capital, "around 8 percent (real, not risk-weighted) would be appropriate" for the GSEs.

Expect a broader conversation regarding the future of the GSEs during the Trump administration, which could conceivably include capital retention and a pathway to ending the conservatorship. However, exiting conservatorship is likely a bridge too far, at least in the near-term.

**When will the FHFA transition occur and how will it play out?** FHFA Director Watt's term ended on January 6, 2019. While the precise procedural path ahead is uncertain, a likely scenario is that FHFA Director Watt departs sometime in January. The White House would then designate Comptroller Joseph Otting as acting head of FHFA, with Senate consideration and confirmation of Calabria as FHFA Director occurring in the first half of 2019.

Bottom line: With new players come new priorities. But the central place that housing plays in the U.S. economy guarantees that a great deal of attention, and a great deal of caution, will surround reform issues in 2019 and beyond. ▲

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