



REGULATION & LEGISLATION

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Calabria Moves Forward on GSE Reform; Will He Have Help ... or Go Solo?



By John J. McKechnie

New FHFA Director Mark Calabria has only been in office for a few months, but he has already begun to paint a clear picture of his plans for the future of the GSEs, especially conserved mortgage giants Fannie Mae and Freddie Mac.

This confirms speculation that, by its own inaction, Congress has left the GSE reform playing field to the regulators.

But what are the regulators going to do? What limits are there to possible Administration actions? And how fast can they get things done?

These are all questions that will be answered in the coming months as the Trump administration appears ready to test the limits of its own powers, and of congressional willingness to stay on the sidelines.

CALABRIA MOVES AHEAD

In an early May interview on *Fox*

Business, and in speeches later to the National Association of Realtors and Ginnie Mae, Calabria indicated he was preparing to move to end the Fannie/Freddie conservatorships. He said this process would involve raising capital that would be retained by the GSEs prior to their release, and he suggested that Fannie and Freddie could become

private “as early as mid-2020” (although he repeatedly said the process is “not calendar driven”).

Calabria also stated that the recapitalization and release of the conserved GSEs may not occur simultaneously. He commented that the timing will be dependent on balance-sheet factors more than anything else.

Calabria stated that he is “obligated” to end the government stewardship of the GSEs. In addition, he said, “What the law envisions is, you come into conservatorship, you fix the problems, you get out. ... You need to end what was called the ‘Net Worth Sweep’ so that they can start building capital. ... It was insufficient capital that triggered the conservatorship, it’s going to be sufficient capital that triggers an exit.”

Based on these comments, it is likely that, by the end of 2019, GSE capital retention could come through the ter-

mination of the net worth sweep. It would be replaced by a periodic commitment fee paid to Treasury by Fannie and Freddie. This is rumored to be under negotiation between FHFA and Treasury.

TREASURY-HUD PLAN WILL LAY OUT ROADMAP

A blueprint for the future of the GSEs, expected this summer from Treasury and HUD, may lend specifics to the general thrust of the reform discussions.

That plan, ordered by President Trump in March, directs the Treasury to develop a framework for further revitalizing Fannie Mae and Freddie Mac and then releasing them from government control.

It additionally calls for the establishment of new safety and soundness regulations and more stringent capital and liquidity standards. HUD's contribution to the white paper will be to bolster the roles of FHA and Ginnie Mae in providing housing finance support to low- and moderate-income families that cannot be fulfilled through traditional underwriting.

The most important element of this joint plan may not be the introduction of some eye-opening new features on the housing finance landscape, but rather a re-affirmation of existing practices: all signs point to the Administration specifically directing the Treasury in the white paper to preserve access for qualified homebuyers to 30 year fixed-rate mortgages and other mortgage options that best serve the financial needs of potential homebuyers.

There's also buzz that the plan will require the Treasury to maintain a robust cash window for loan sales.

MNUCHIN SIGNALS CAUTION

Amid this flurry of regulatory action, it is possible

that, despite Calabria's hard charging, "Let's get this done" approach, Treasury Secretary Steven Mnuchin may pump the brakes.

In a June interview Mnuchin implied that "re-cap and release" will not be Calabria's unilateral decision: Mnuchin was adamant that the Trump administration won't just let Fannie and Freddie build up their capital buffers and then release the companies.

"What we're not going to do is business as usual with no changes, just re-capitalize them and float them," said Mnuchin, referring to a possible public offering of Fannie and Freddie shares. "There needs to be housing reform as part of this."

Mnuchin also said he backed an explicit guarantee, something that can only be implemented by Congress. This casts some degree of doubt on how ambitious the Trump administration will be absent a legislative fix.

WHERE IS CONGRESS?

And that legislative fix may prove as elusive this year as it has been in every Congress dating back to the mortgage market crisis.

Even though Senate Banking Committee Chairman Mike Crapo (R-Idaho) floated an outline of a GSE reform bill in February, it was considered to be a conversation starter more than a serious proposal, and it has received scant attention.

Crapo's Democratic Senate counterpart, Senator Sherrod Brown (D-Ohio), while publicly insistent that Congress play a major role in shaping the next iteration of GSEs, has privately said that "the system is working fine, and it would be foolish to undertake a big overhaul when it's plainly not necessary."

And for her part, House



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Financial Services Chairman Maxine Waters (D-Calif.) has promised to address reform by initiating a new round of federal spending on low- and moderate housing. Whether that has merit from a policy standpoint or not, it is considered politically a non-starter.

Furthermore, senior Waters staff members commented after one of Calabria's interviews about recapping and releasing Fannie and Freddie that "Chairman Waters thinks the GSEs are functional, doing their jobs, doesn't agree with those who say something has to change.

In her view, all Calabria is going to do ultimately is destabilize the entire system. And for what reason?"

WHAT TO WATCH

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Beyond questions about capitalization, expect a measured push by FHFA to shrink the GSE footprints, which will likely be focused on cash-out refi, investor property and second home exposures at the GSE.

The GSE conservatorship scorecard, which is typically released in December each year, could be the primary avenue for mandating targeted product changes at Fannie Mae and Freddie Mac.

Additionally, some form of Fannie/Freddie capital retention is very likely, as is continued FHFA support for Credit Risk Transfers (CRTs).

Who ever said housing finance reform was a job for Congress? ▲

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