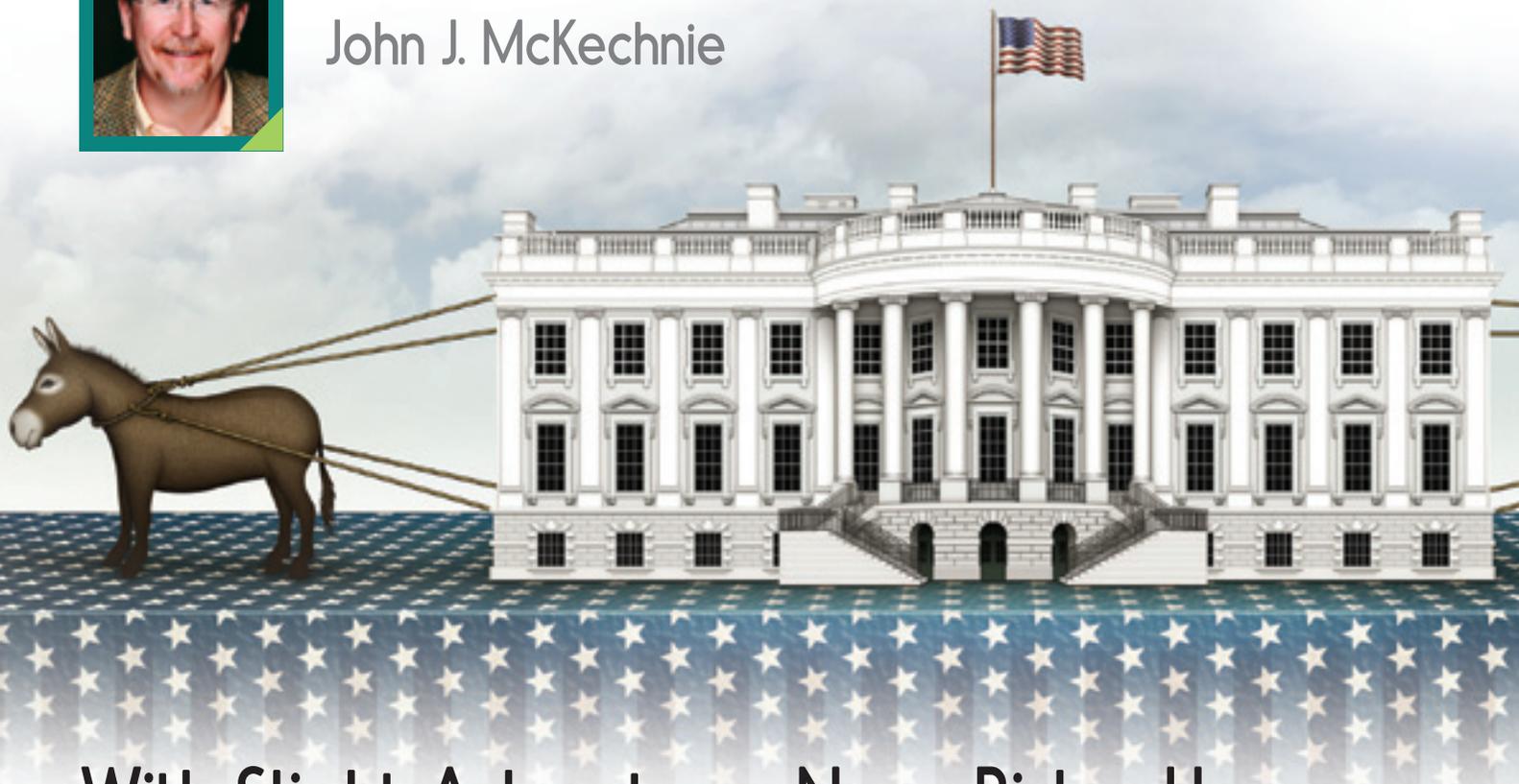




REGULATION & LEGISLATION

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With Slight Advantage Now, Biden Has a Chance to Put His Stamp on Housing Policy

By John J. McKechnie

The Biden administration took office in January, and with the surprise Democratic sweep of both Senate seats in Georgia, it means that, for the first time since 2010, Democrats will control both chambers of Congress as well as the Presidency.

While those majorities are narrow in both Chambers, they are significant in that they provide incoming President Joe Biden with an opportunity to put his stamp on policy.

Specifically, Senate control for Democrats means that Biden will have more latitude with appointments, including those that will shape the debate over housing finance issues in Washington.

Credit unions would be wise to pay close attention to possible changes to GSEs and the mortgage finance space, particularly concerning access to the

secondary market.

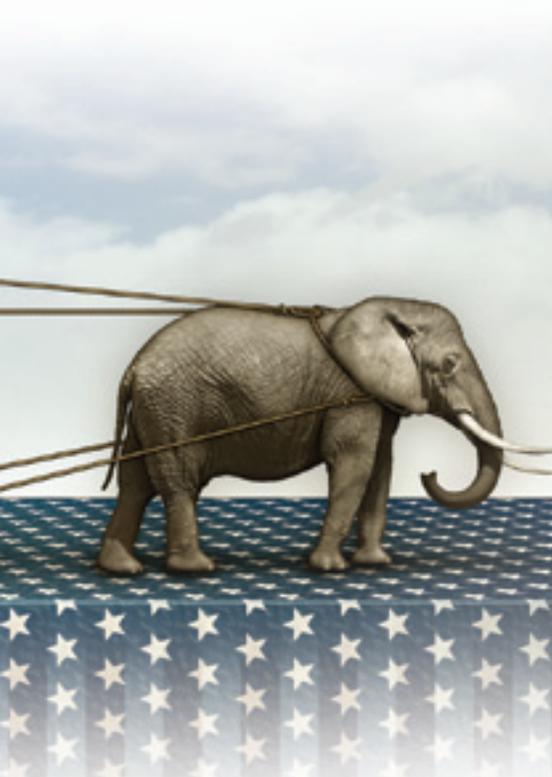
Here are a few items for credit union lending professionals to consider:

GSE Conservatorship Conflict: The most important factor regarding possible GSE reform is FHFA Director Mark Calabria, or more specifically, his ability to stay in office until his term ends in April 2024. The Biden ad-

ministration may seek to force him out earlier, but their ability to do so hinges on a case pending before the Supreme Court that is expected to be decided in June.

According to congressional sources, housing finance expert Mark Zandi and Wharton School of Finance Professor Susan Wachter are on Biden's short list to replace Calabria if the high court decides he can be replaced before his term is finished.

Actions already underway by Calabria are likely to create tension with the new Administration, according to senior Hill Democrats with ties to the incoming Biden team. These include the new Fannie/Freddie capital rule, issued last November 18, and changes



to the GSE's agreement that sweeps quarterly profits back to Treasury.

These moves by FHFA were widely seen as an attempt to accelerate the GSE's release from conservatorship before President Trump's term ended.

GSE reform will not be a Biden priority, but stopping Calabria's efforts to end Fannie/Freddie conservatorships will be. In the event Calabria remains in office past next year, Biden will likely issue executive orders and advisory bulletins to check Calabria's reform plans.

Potential FHLB Impacts: The 11 Federal Home Loan Banks are also affected by the GSE reform drama. Even if Calabria stays put, the Biden administration will likely pressure FHLBs to promote minority homeownership, minority depository institutions (MDIs) and CDFIs.

This in turn could reduce available FHLB liquidity, something that may have an unintended impact on credit

unions and small banks. As one senior FHLB executive stated, "If affordable housing goals become a driver, small lenders will have to compete with affordable housing interests in a way they never have before."

Affordable Housing Expansion: On a related note, Biden has discussed a plan to increase the supply of affordable housing. Biden will be enthusiastically joined in this by both House Financial Services Chairman Maxine Waters and incoming Senate Banking Chairman Sherrod Brown, both of whom have supported the establishment of a \$100 billion Fannie/Freddie Affordable Housing Fund to upgrade affordable housing stock.

Credit unions should watch for a rollout of an administration blueprint next year to further this goal, including incentives aimed at inducing financial institution participation in the Housing Fund.

Credit Scoring Oversight: Of significant interest to mortgage-lending credit unions will be the creation of the Public Credit Reporting Agency, a new function housed in CFPB that would provide consumers with a government option for credit scoring.

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Incoming President's Economic Team: Meanwhile, the Biden economic team continues to take shape. First and foremost (in this and every administration) is the Treasury Secretary pick. Biden has announced former Fed Chair Janet Yellen as his nominee, a move that was widely seen as a nod to stability and experience. Other choices are:

- Labor economist and Clinton/Obama administration veteran Cecilia Rouse for chair of the Council of Economic Advisers.
- BlackRock executive Brian Deese for director of the National Economic Council. Deese had served in the Obama National Economic Council as senior advisor on financial regulatory policy.
- Rep. Marcia Fudge (D-OH) as HUD Secretary. Although she represents an urban district, Fudge has taken an interest in rural issues, including housing, during her seven terms in the House.

WILL IT BE THE STATUS QUO?

Most congressional observers predict intra-party tension in Democratic ranks between the more activist left and cautious moderates.

It is clear that FHFA Director Calabria's grand plans to end Fannie/Freddie conservatorships will be delayed, if not derailed. It is not clear what the day-to-day impact will be on mortgage lending.

In other words expect a stalemate, and a new housing finance/secondary market that looks a lot like the current one.

Status quo, anyone? 

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