

COMPLIANCE & REGULATION

Will Trump Tackle Housing Finance Reform?

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WASHINGTON – Housing was the talk of the campaign two presidential elections ago, but it stayed under the radar in the 2016 race, leaving plenty of room to speculate about President-elect Donald Trump's likely mortgage policy for the next four years.

On the one hand, without a crisis, observers said there is little incentive for him to move quickly on the issue.

But the unresolved question of what to do with Fannie Mae and Freddie Mac – both in conservatorship since before Barack Obama's election – will loom large over the future Trump administration.

Exactly how Trump would address the issue is a complete mystery. The issue was never raised on the campaign trail.

"The disappointing part [of the election] has been that the Trump campaign has had very little to say about housing," said Patrick Sinks, the chief executive of MGIC Investment Corp. and the chairman of U.S. Mortgage Insurers, a trade group for the private mortgage insurance industry.

Trump may also be reluctant to weigh in on a subject that has tripped up policymakers in the past.

"Lots of people have put a lot of thought into [government-sponsored enterprise] reform, but it is incredibly difficult to get a super-majority consensus on it," said Dennis Kelleher, the head of the advocacy group Better Markets.

With the GOP in control of the House and the Senate closely divided, it's clear that any housing finance reform legislation would need significant bipartisan support – and it's not at all obvious how that can happen. The last bipartisan effort died two years ago after progressive Democrats said the bill would not do enough to promote affordable housing.

"Any new housing policies will have to be bipartisan and carefully negotiated," said John Dalton, head of the Financial Services Roundtable's Housing Policy Council.

Yet Trump may eventually have to address the issue as Fannie and Freddie are projected to run out of capital by 2018. The two GSEs have a line of credit with the Treasury Department, but as part of their conservatorship they are required to transfer their profits and a portion of their operating capital to the Treasury, a structure that was meant to force Congress and the next administration to reform the housing finance market.

Some speculated that Trump will at least start allowing the GSEs to rebuild capital so that the issue will not come to a head. Recapitalizing the GSEs and releasing them from conservatorship might prove too difficult a lift, given opposition from Republican and Democratic lawmakers.

"We believe that recapping and releasing the GSEs will prove difficult without legislation, but our sense is that there is a high likelihood of capital retention if Trump takes the White House," wrote Isaac Boltansky, an analyst at Compass Point Research & Trading in a note to clients.

Ed Groshans, an analyst at Height Securities, argued in a note to clients that Trump would delay dealing with the issue as long as possible.

The complete exclusion of housing as a priority means that the issue of housing finance reform would not come to the forefront unless he were reelected to a second term," he wrote. "In our view, the GSEs will continue to pay all earnings to Treasury well into the second term of the next President, assuming reelection."



IMAGE: Bloomberg News
Donald Trump's views on housing finance reform remain a complete mystery, raising questions about whether he will seek changes or defer to others in Congress.

Joseph Murin, who previously served as president of Ginnie Mae during the George W. Bush and Obama administrations, said Trump may leave the issue to GOP lawmakers.

"There are people on the Hill eager to retool the government-sponsored enterprises and move them forward," said Murin, now the chairman of the investment advisory firm Jjam Financial. "Folks on that side of the aisle believe in housing finance reform. They believe that a structure needs to be put in place that allows the government to participate in catastrophic coverage, not first-tier coverage."

Beyond GSEs

Outside of housing finance reform, Trump is expected to shake things up. Some predicted that he would seek new leadership of the Federal Housing Finance Agency.

"[Director] Mel Watt will be gone," said A.W. Pickel III, president of the Midwest Division at AmCap Mortgage Ltd. in Houston, a lender and servicer of government and GSE loans.

Trump is also expected to be supportive of big businesses, but it is unclear what his single-family-housing policies are or what they could portend for smaller lenders, said Brent Nyitray, director of capital markets at iServe Residential Lending in Stamford, Conn.

While Trump has been involved in home mortgage lending and has ties to the industry, more of his work has involved large commercial real estate projects.

"It could be good or it could be bad [for single-family lenders]," said Nyitray.

Trump and the Republicans have shown interest in reforming the Consumer Financial Protection Bureau, but Senate Democrats retain enough influence to make that challenging at best.

Still, CFPB Director Richard Cordray's term will expire in 2018, giving Trump an opportunity to influence the agency at that time. The agency's fate may also depend on pending litigation.

The GOP will also likely to push legislation that will lighten the regulatory burden on lenders.

"It's pretty obvious the Republicans are [for] less government in housing," said Brian Montgomery, vice chairman of The Collingwood Group and a former Federal Housing Administration commissioner.

But no one expects sweeping action because other issues are higher priority, such as health care reform.

"If you ask most lenders, the market works today," Sinks said. "A lender wants to originate a loan, insure that loan and turn around and sell that loan to the GSEs and replenish their capital and start the process over again. That works. And it keeps humming along."

As long as that remains true, the incentive to take big chances won't be there.

"The bigger issue is what the right role for government in housing is," Sinks said. "That's going to take legislative action and [lawmakers in either party] just don't seem to be in a hurry to resolve it."