THE HPC BULLETIN
A MONTHLY NEWSLETTER

Welcome to the December edition of the HPC Bulletin.

In this month's newsletter you'll find: Ed's Insights, Policy Pulse and HPC in the News.

ED'S INSIGHTS

People...

When people think of Washington DC, they think of it being home to countless federal institutions and the place where laws and regulations emerge in an endless stream. But DC is really about *people*, after all, it is the people that make the policy. As 2021 draws to a close, we are being reminded of that yet again.

Rohit Chopra is now firmly running the CFPB and the consequences are already becoming apparent. Graham Steele, a name you may not have heard of but likely will next year, was just confirmed as Assistant Secretary of Treasury for Financial Institutions. I expect him to play a key role at Treasury on housing finance issues, along with Under Secretary Nellie Liang.

Others are still waiting their turn. While Alanna McCargo is expected to be confirmed easily as Ginnie Mae president, that likely will not take place until later this winter. Julia Gordon remains waiting in line for what will probably be a close vote as FHA Commissioner. Many Republicans oppose her nomination (and several others) over concerns with politicized tweets made during the summer 2020 unrest. And while discussion of a new FHFA Director has gone quiet over the past few months, with Acting Director Sandra Thomson asserting control, there is no telling what may happen there next year.

In the bank regulatory realm, Saule Omarova's OCC nomination is in jeopardy. The President just nominated Jay Powell to remain as Fed Chairman and Lael Brainard to replace Richard Clarida as Vice Chair but three other Fed appointments remain unfilled, including Vice Chair for Supervision. It appears a trial balloon was launched recently regarding Richard Cordray, the former CFPB head, for the Vice Chair of Supervision post. That would certainly tilt the position to a more enforcement-oriented leader than it has had before.

HPC has its own personnel news. Mike Gill joined HPC on December 1 as our new SVP for Capital Markets. Mike comes to us from Common Securitization Solutions where he was Chief of Staff, Head of Strategy, and SVP. Mike will enhance HPC's work on secondary mortgage market issues, and I am excited to have him on board.

I want to wish all of you – and your colleagues and families – much peace and joy during the upcoming holidays.

Ed

POLICY PULSE

Supporting proposed changes to the GSE Capital rule that encourage risk transfer

In mid-September, the FHFA proposed several targeted amendments to the Enterprise Regulatory Capital Framework (ERCF) rule, finalized just nine months earlier. The proposal suggested that the fixed leverage buffer, which creates a binding leverage requirement in many cases under the current rule, be replaced with a dynamic leverage capital buffer that is less likely to be a binding constraint and that would encourage better risk management practices by the Enterprises. The proposal would also change the treatment of Credit Risk Transfers (CRTs), which transfer the risk of loss to private investors, to make them more economic. HPC's GSE Capital Working Group analyzed the rule and developed a comment letter in support of the proposed changes. In addition, in response to several questions posed by FHFA, HPC recommended additional modifications to the rule, most notably that FHFA use risk-weighted assets, not adjusted total assets, in calculating the risk-based capital buffers.

HPC's recommendations are all designed to improve the risk-sensitivity of the capital framework and further encourage the GSEs to shift credit risk away from taxpayers via CRT.

Read the Nov. 23 letter

Recommending home valuation improvements to the PAVE Task Force

In November, HPC's Appraisal Working Group finalized and submitted recommendations to the Biden Administration's Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). The working group met with several key stakeholder groups in the preceding months to discuss issues and share perspectives, participated in industry listening sessions hosted by the PAVE task force, and met with FHFA and Appraisal Subcommittee staff. HPC's recommendations address each of the areas under consideration including data collection and dissemination, policy and guidance, industry diversity, and enforcement and compliance. HPC reiterated previous suggestions such as publicly releasing the GSE appraisal dataset and adopting valuation alternatives that rely more heavily on data and technology. New ideas were also proposed, like replacing the mentor-oriented experience requirements with simulation techniques or on-the-job training, restructuring and standardizing the Reconsideration of Value process, and adding undervaluation flags to GSE collateral tools and other platforms. PAVE is expected to release its report in early 2022.

Read the Nov. 3 recommendations

Promoting focus on the government's role in housing finance, as GSE loan limits approach $1 million

In response to the impending increase in the Enterprise loan limits, HPC was asked by several national news organizations to comment on Enterprise and government backing of home loans approaching $1 million. In several resulting stories, Ed DeMarco highlighted that the appropriate role of government in the mortgage market remains an unanswered question that continues to "fly under the radar." Upon announcement of the new loan limits on November 30th, HPC issued a statement that also highlighted the concern that higher loan limits could fuel a runup in house prices, which exacerbates affordability challenges in a supply-constrained marketplace.

Read HPC's Nov. 30 statement

Supporting HUD’s cautionary approach to lowering its mortgage insurance premium

When HUD released the FHA Annual Report to Congress on November 15, which includes the Independent Actuarial Review of the Mutual Mortgage Insurance Fund, HPC issued a statement commending HUD Secretary Marcia Fudge for her stewardship of the fund and the prudent and cautious decision to preserve the current mortgage insurance premium. Three trade publications reported on HPC’s views, which focused on the systemic health of the housing finance system.

Read HPC's Nov. 15 statement

Requesting that Ginnie Mae end “temporary” pooling restrictions

In June 2020, in response to the COVID pandemic, Ginnie Mae imposed significant seasoning and custom-pooling restrictions on the pooling eligibility of reperforming loans; these restrictions have negatively affected market liquidity for these loans and the securities that back them. Ginnie justified the policy change as a measure to protect “market confidence” in their securities, given the buy-out discretion available under the original COVID loss mitigation options for FHA, VA, and USDA loans. With changes to the loss mitigation waterfalls now in place, that discretion has all but disappeared and the rationale for the pooling restrictions no longer exists. Accordingly, HPC and MBA jointly submitted a letter to Ginnie Mae asking that the pooling restrictions be eliminated by March 2022.

Read the Nov. 24 letter

Requesting alignment between FHA and CFPB expectations on foreclosure timelines

HPC joined with two consumer advocacy groups, the National Consumer Law Center and the Center for Responsible Lending, to ask that FHA issue formal guidance, either a clarifying mortgagee letter or administrative waiver, stating that servicers are not obligated to foreclose on borrowers when they cannot demonstrate with confidence that the loan fulfills any of the three temporary CFPB Reg X Safeguards and that they would not need to “prove a negative,” by providing evidence that the CFPB Safeguard could not be met. The letter also asked that the 90-day window to file first legal and the timeline for servicers to complete loss mitigation both be extended to 180 days, to provide sufficient time to resolve the delinquency with the borrower or to move to foreclosure in cases where workout solutions are not feasible.

[Read the Nov. 5 letter]

Seeking deeper engagement with HUD and more time to respond to the draft defect taxonomy

While it is good news that HUD has begun work on a defect taxonomy for servicing loan reviews, its draft publication on October 28th with a 60-day comment period fails to allow for substantive stakeholder consideration and engagement. HPC submitted two letters to HUD requesting additional time to review and comment upon the draft. The first letter was signed jointly with MBA and the second letter was signed with MBA and four consumer advocacy organizations: the National Fair Housing Alliance, the Center for Responsible Lending, the National Consumer Law Center, and the National Housing Conference. The second letter emphasized that servicers are focused now on transitioning borrowers out of forbearance and also stressed the benefit of working collectively and with HUD to design a more comprehensive and workable framework.

[Read the Nov. 19 letter]

HPC IN THE NEWS

On the increase in FHFA Loan Limits:

November 30, 2021:

- **WSJ:** Fannie Mae, Freddie Mac to Back Home Loans of Nearly $1 Million. Quotes Ed DeMarco: “We’re continuing to go down a trail in which we see the Treasury, through the backstop of Fannie and Freddie in conservatorship, backing larger and larger loans, taking up more and more of the market….At some point, you would expect Treasury and the Congress would want to ask, is this really where we want to be going?”
- **CNN Business:** Sky high home prices push Fannie Mae and Freddie Mac to back loans of nearly $1 million. Quotes HPC's statement.
- **HousingWire:** FHFA to back mortgages up to $970,800 in 2022. Quotes HPC's statement.

- **Inman:** Record increase in Fannie, Freddie loan limits fuels debate. Quotes HPC's statement.

November 26, 2021, Scripps National News: Maximum size of mortgage loans government will back increasing after big increase in home prices. Television interview with Ed DeMarco (distributed to local television stations throughout the country) explaining that the anticipated loan limit increase should motivate Treasury, the White House, and Congress to talk about the appropriate role of government in the mortgage market.

November 17, 2021, CNN Business: Sky high home prices may push Fannie Mae and Freddie Mac to back loans of nearly $1 million. Quotes HPC's statement.

November 16, 2021, The Wall Street Journal: Fannie Mae, Freddie Mac to Back Home Loans of Nearly $1 Million as Prices Soar. Quotes Ed DeMarco.

On FHA's draft defect taxonomy:

- **November 22, 2021, National Mortgage News:** HPC calls to extend FHA's servicing defect taxonomy comment period. In a new letter, the Housing Policy Council and four consumer advocacy groups pressed for federal officials to respond to earlier pleas calling for a longer-term comment period and more dialog on a draft servicing taxonomy for government loans.
- **November 17, 2021, HousingWire:** Draft defect taxonomy could have "chilling effect" on FHA market. Quotes Meg Burns: "I think [HUD] would like for this to be the kind of document that would serve as a compliance roadmap that would indicate what is important," said Burns. "Unfortunately, it lacks the detail necessary to serve that purpose."

On FHA's Actuarial report and maintenance of MIP levels:

- **November 19, 2021**, **Inside Mortgage Finance:** Despite Strong MMIF, FHA Holds Off Lowering Premiums. Meg Burns applauded FHA's cautious approach saying that because FHA is the product of choice in a market when conditions are declining, FHA needs to be "much more careful in those times," so it can bolster the overall lending market in times of crisis.
- **November 15, 2021:**
    - **American Banker:** Flush with capital, FHA resists calls to cut insurance premiums. The Housing Policy Council commended the decision to hold off on cutting premiums until "more is known" about the status of the FHA's seriously delinquent loans.

- **HousingWire:** The case for (and against) lowering FHA premiums. Matt Douglas noted that once the share of seriously delinquent borrowers has been reduced, HUD could then take a more holistic look at its mortgage insurance premiums, including the upfront fee and the annual fee for the life of the loan.

On the future of the mortgage market:

- **November 18, 2021, HousingWire:** Why the private-label market will chill in 2022. Ed DeMarco notes that the GSEs, backed directly by the taxpayers, continue to dominate the secondary market, even as housing prices continue to soar. And that is occurring in the context of the Federal Reserve signaling "a general expectation of rising interest rates … that will cool the refinancing market."

Please send us your feedback.

Please email HPC's SVP for Public Affairs, Sheryl Pardo, at Sheryl.Pardo@housingpolicycouncil.org with your thoughts on what was helpful in this month's newsletter and what additional information you would like to see on a monthly basis.

Please email newsletter@housingpolicycouncil.org to add a colleague's email to our list of newsletter subscribers.

With questions or for more information about any working groups, email workinggroups@housingpolicycouncil.org.

Review HPC's newsletter archive here.