

## Introduction

July was a month of upheaval in the nation's capital. The Senate Republican leadership was unable to write and pass an Obamacare repeal bill that would satisfy all members of their caucus. Senators Lisa Murkowski (R-Alaska), Susan Collins (R-Maine), and John McCain (R-Ariz.) joined with a united Democratic caucus to bring down the "skinny repeal" bill championed by Majority Leader Mitch McConnell (R-Ky.). On the opposite end of Pennsylvania Avenue, palace intrigue wracked the White House and resulted in a number of staff changes, including the dismissal of former communications director, Anthony Scaramucci, who only lasted ten days.

Anxious for a legislative win, Republican leaders are ready to pivot to an issue on which they believe they can find consensus: tax reform. The White House has announced an ambitious timeline for overhauling the tax code, with top legislative staffer Marc Short calling for committee markups of legislative proposals in September and floor consideration of a tax reform bill completed in both chambers by November. However, there are a number of other issues on the legislative calendar that must pass and may delay consideration of a tax reform bill. In September, Congress will face deadlines to keep the government running, lift the debt ceiling, and reauthorize federal programs supporting flood insurance, children's health insurance, and the Federal Aviation Administration.

## Housing Finance Reform Update

The Senate Banking Committee continued its series of hearings on housing finance reform in July. During a July 20 hearing on small lender access, Chairman Mike Crapo (R-Idaho) reaffirmed his desire to pursue a bipartisan bill that can get 60 votes. Crapo outlined the following "consensus principles" driving the legislative debate: (1) preserving the "to-be-announced," or TBA, market and the 30-year fixed-rate mortgage; (2) having a "paid for" explicit government guarantee reinforcing mortgage-backed securities; (3) ensuring a level playing field for small lender access to the secondary market; and (4) ending the conservatorships of Fannie Mae and Freddie Mac. Ranking Member Sherrod Brown (D-Ohio) emphasized the importance of small lenders in providing access to credit in rural and urban areas, and he underscored the need for reform legislation to provide adequate support for affordable housing, including the rental market.

In the House of Representatives, Financial Services Committee Chairman Jeb Hensarling (R-Texas) is expected to reintroduce the PATH Act in the fall, but thus far no hearings have been scheduled. Treasury Secretary Steve Mnuchin has stated that he is supportive of reform efforts but has not provided any policy guidance. Earlier in March, Mark Calabria, chief economist to Vice President Mike Pence, announced the formation of a group to work on mortgage finance policy. The main objective of the group will be to avoid a future taxpayer bailout of Fannie Mae and Freddie Mac. No policy details have emerged yet. Over the past several weeks there has been increased commentary regarding housing finance reform, and protecting the role of the FHLBanks in providing liquidity and other banking services to their members remains critical.

## Regulatory Relief

On July 27, Treasury Secretary Steve Mnuchin appeared before the House Financial Services Committee to give testimony regarding the state of the international financial system. During the hearing, the Secretary restated the administration's support for regulatory relief for smaller institutions. Specifically, Mnuchin suggested that the \$50 billion asset threshold that triggers "enhanced prudential standards" under the Dodd-Frank Act should be raised to at least \$250 or \$300 billion. He further stated that regulators should

also be given authority to exempt “uncomplex” banks that are larger than \$300 billion from these standards. Representative Blaine Luetkemeyer (R-Mo.) has introduced a bipartisan bill that is modeled on this approach. H.R. 3312, the “Systemic Risk Designation Improvement Act,” would eliminate the \$50 billion threshold and would allow the Federal Reserve to determine which institutions that have not been identified as systemically important financial institutions should be subject to enhanced prudential regulation.

## Flood Insurance

With the authorization of the National Flood Insurance Program set to expire on September 30, Senate Banking Committee Chairman Crapo and Ranking Member Brown joined together to introduce a bipartisan bill to reform the program and extend its authorization through September 30, 2023. The bill makes several changes to the current program. These include updating flood maps and authorizing sanctions on communities that fail to identify and develop mitigation plans for areas with repetitively-flooded structures. Crapo and Brown also indicated that they were open to amendments at a future committee markup.

In the House, Financial Services Committee Ranking Member Maxine Waters (D-Calif.) continues to oppose the bill championed by Chairman Hensarling. Democrats, and some Republicans that represent coastal areas, are concerned that the Hensarling bill will scale back coverage for certain structures, as well as increase surcharges and premiums. Hensarling believes the bill will improve the ability of private insurers to compete for market share, but the opponents fear the legislation potentially raises costs for homeowners who rely on the federal flood insurance program, which is currently \$25 billion in arrears. House Leadership wants the bill to pass under “suspension of the rules,” which requires a two-thirds majority vote, so Hensarling will likely need to make additional changes to get reluctant Members of Congress to support the measure.

## FHFA and the Enterprises

In a recent speech to the National Association of Real Estate Brokers, Federal Housing Finance Agency (FHFA) Director Mel Watt stated that the Enterprises will not adopt the use of new credit scoring models until at least 2019. Noting that the decision to not adopt a new scoring model was difficult, Watt indicated that FHFA would seek public input on the issue later in the year. Senators Tim Scott (R-S.C.) and Mark Warner (D-Va.) recently introduced legislation that would require FHFA to direct the Enterprises to accept new credit scoring models.

## PALs Spotlight: Rep. Roby Visits MidSouth Bank

On July 10, Representative Martha Roby (R-Ala.) visited MidSouth Bank in Dothan, Alabama, as part of the “Take Your Lawmaker to Work” initiative. FHLBank Atlanta partnered with the Alabama Bankers Association to organize the visit. Representatives from MidSouth Bank, including Davis Malone, the bank’s CEO, and Michele Patterson, briefed the Congresswoman on how the bank uses FHLBank Atlanta Affordable Housing Program (AHP) set aside products to help veterans and their families purchase or rehabilitate their homes. Issues including regulatory relief and housing finance reform were also discussed. Rep. Roby mentioned the meeting on social media and asked for additional information and future updates on the AHP program. If your institution is interested in hosting a member of Congress for a visit, FHLBank Atlanta stands ready to assist you!

