PALs WASHINGTON REPORT

INTRODUCTION:

Campaign rhetoric met legislative reality in March as the Republican plan to repeal and replace the Affordable Care Act (ObamaCare) was derailed by caucus infighting and a lack of policy consensus. Despite personal involvement by the president and significant outreach by senior White House staff, the House Republicans, without any Democratic support, could not come together to provide enough votes to pass a repeal and replace bill. Hoping to force the hand of recalcitrant conservatives, Speaker Ryan put the bill on the House floor for a vote, but ultimately had to the pull the bill after it was clear that it would not pass. Soon after that decision was made, President Trump announced his desire to move to tax reform legislation and his trillion dollar infrastructure bill. Both are initiatives that he hopes will attract some Democratic support. However, it remains unclear how many Democratic members of Congress will work with the president as other legislative battles loom, including a contentious confirmation process for appointing Judge Neil Gorsuch to the Supreme Court and the upcoming deadline to avoid a shutdown and fund the federal government for the remainder of fiscal year 2017 by the end of April.

TAX REFORM:

In the wake of the failure to repeal and replace Obama Care, the Trump administration plans to pivot to tax reform. In a March 25 interview with Axios, Treasury Secretary Steven Mnuchin restated the intent to reform both individual and corporate taxes is about “creating a middle-income tax cut, about creating personal tax simplification, and making U.S. businesses competitive.” At the beginning of this year, both the administration and congressional Republicans had the goal of completing the reform effort by August although that timeline may slip to the fall.

Possible sticking points in crafting the tax plan will include the possible elimination of popular individual tax deductions, including reducing the deductibility value of those for charitable giving, mortgage interest, and state and local taxes. On the corporate side, the border adjustment tax or BAT, which essentially is a tax on imported goods and a tax break for exported goods, is supported by some conservatives and Speaker Ryan, but it is opposed by domestic importers and some economists. Importantly, President Trump has been noncommittal on the BAT and has called it too complicated.

REGULATORY RELIEF UPDATE:

In a March 22 speech before the American Bankers Association, House Financial Services Committee Chairman Jeb Hensarling (R-Tex.), indicated that he planned to reintroduce the bills that make up the CHOICE Act, his replacement for the Dodd-Frank Act, as separate bills in addition to reintroducing the larger, omnibus legislation. By taking this approach, Hensarling hopes to provide a path to enactment for some of the measures through the Senate’s reconciliation process, which requires only 51 votes for passage rather than the Senate’s traditional 60 vote requirement for legislation. Later that day, House Majority Whip Steve Scalise (R-La.) indicated that regulatory relief would be the focus for Republicans after they complete their tax reform efforts. On the Senate side, Senate Banking Committee Chairman Mike Crapo (R-Idaho) stated in a Chamber of Commerce speech on March 30 that bills for housing finance reform and economic growth “will come in a sequence probably after tax reform.” He also indicated that economic growth legislation would be broader than writing reforms for the 2010 Dodd-Frank Act.

On March 13, Federal Deposit Insurance Corporation (FDIC) Vice Chairman Thomas Hoenig revealed that he has briefed congressional staff on a new legislative proposal for regulating the nation’s largest banks. The Hoenig plan would replace the Dodd-Frank regulatory regime with requirements that large banks move their nontraditional services like investment banking or running hedge funds to new affiliates and hold higher capital buffers on the nontraditional services. The affiliates would be separately managed and would fall under an intermediate holding company that would exist apart from the FDIC-insured bank and would be subject to the normal bankruptcy process. Further, the largest banks would be required to have 10 percent capital to provide a buffer against losses.

FLOOD INSURANCE HEARINGS BEGIN:

Both the House Financial Services Committee and Senate Banking Committee held hearings on reauthorizing the National Flood Insurance Program (NFIP). The NFIP is set to expire on September 30, but there is bipartisan support for reauthorization. In a March 9 hearing, House Republicans focused on ways to encourage the private sector to develop a private flood insurance market to compliment the NFIP model, while Ranking Member Maxine Waters (D-Calif.) pushed to eliminate or transfer the NFIP's $25 billion debt to the general fund. In a March 13 hearing in the Banking Committee, Senate Democrats proposed making rates more affordable and repealing surcharges to limit the profits of private insurers that participate in the NFIP.

HOUSING FINANCE REFORM NOTES:

In late March, Mark Calabria, chief economist to Vice President Pence, announced the launching of an administration working group to work on mortgage finance policy within the administration. The main objective of the group will be to craft policy to avoid a taxpayer bailout of Fannie Mae and Freddie Mac in the future. Calabria provided few details about the group but stated that it would produce a set of principles within a few months.

Also in late March, the Federal Housing Finance Agency (FHFA) announced that it would push back the full release of the Common Securitization Platform (CSP) from 2018 to the second quarter of 2019. The CSP would allow Fannie Mae and Freddie Mac to issue a uniform mortgage-backed security. FHFA will continue to update a progress timeline on its website.

Earlier in the month, a coalition of lenders and advocacy groups sent a joint letter to Secretary Mnuchin to ask the administration to allow Fannie Mae and Freddie Mac to keep $10 billion in earnings, rather than delivering them to the Treasury by March 31. The letter argued that continued profit sweeps would lead to dwindling capital levels and possibly another bailout in 2018.

NEW ATLANTA FED APPOINTMENT:

On March 13, Raphael Bostic was announced as the next president of the Federal Reserve Bank of Atlanta, becoming the first African-American to lead one of the Fed's regional banks. Mr. Bostic was a governance professor at the University of Southern California and served as the Assistant Secretary for Policy Development at HUD during the Obama administration. He also worked at the Federal Reserve Board of Governors, where he focused on the Community Reinvestment Act, among other issues. He is succeeding Dennis Lockhart, who retired in February.