

Introduction

In early September, news of a deal between President Trump, House Minority Leader Nancy Pelosi, and Senate Minority Leader Chuck Schumer to provide \$15 billion in funding for victims of Hurricanes Irma and Harvey, raise the debt ceiling, and extend government funding until December 8 surprised rank and file Republicans and Washington insiders. Although Republicans in both chambers were initially reluctant to vote for a bill negotiated by the Democratic leaders, 133 House Republicans voted for the legislation which passed the House, 316-90, and the 34 Senate Republicans voted for the bill, which was approved by the Senate 80 to 17. However, the new bipartisan era in Washington was short-lived as renewed Senate Republican efforts to repeal and replace the Affordable Care Act were unequivocally opposed by Senate Democrats. As Republicans pivot to tax reform this fall, there appears to be little appetite among Democrats for bipartisan support of the effort.

Flood Insurance

In the wake of the devastation in Florida, Texas, Puerto Rico and the U.S. Virgin Islands caused by Hurricanes Harvey, Irma, and Maria, there was a renewed push to reauthorize the National Flood Insurance Program (NFIP). The NFIP was recently extended from September 29 to December 8, but the program hit its \$30 billion borrowing cap on September 20. House Financial Services Committee Chairman Jeb Hensarling continues to spearhead legislation that would reauthorize the program for five years, but would also make federal coverage less comprehensive and more expensive in an effort to incentivize private companies to enter the market and sell their own flood insurance policies. Most Democrats and a number of coastal Republicans oppose the Hensarling legislation and are looking for other options. One option, a bipartisan proposal from Reps. Dennis Ross (R-Fla.) and Nancy Kaptur (D-Fla.) to encourage the creation of more private insurance markets, was added by amendment in late September to must-pass legislation to reauthorize the Federal Aviation Administration. Although the House passed the bill with the Ross-Kaptur amendment, the Senate stripped out the flood insurance provision when it considered and approved the FAA bill, kicking the issue back over to the House.

Housing Finance Reform Notes

In late September, Senator Bob Corker (R-Tenn.), a key member on the Senate Banking Committee who has been active in housing finance reform discussions, made a surprise announcement that he will not seek re-election in 2018. His departure from the upper chamber puts a deadline on his involvement in the effort to end the conservatorship of Fannie Mae and Freddie Mac. In a previous session of Congress, Corker teamed with Senator Mark Warner (D-Va.) to push legislation to eliminate Fannie Mae and Freddie Mac and replace them with private firms backed by an explicit catastrophic government guarantee. That bill was eventually amended and adopted by the Banking Committee but it never received a floor vote. There is some speculation that Corker may make a renewed effort to work with Banking Committee Chairman Mike Crapo (R-Idaho) and Ranking Member Sherrod Brown (D-Ohio) on a bipartisan housing finance reform solution. But as chairman on the powerful Senate Foreign Relations Committee, there is an equally good chance that Corker may spend the remainder of his term in the Senate focused on national security issues.

On September 14, six Democratic members of the Senate Banking Committee, including Ranking Member Brown, sent a letter to FHFA Director Mel Watt requesting that the Enterprises be allowed to retain some of

their future profits and build a small capital buffer rather than send all of their profits to the general fund of the Treasury. The signatories argued this step was necessary to minimize the risk of a call on Treasury funds when the Enterprises run out of capital in early 2018. Director Watt did not immediately respond to the letter. When asked about the letter during a speaking event the following day, Treasury Secretary Steve Mnuchin stated that the profits should be sent to Treasury as expected until a housing finance reform solution is found. He further noted that the administration expects to focus on housing finance reform in early 2018.

On September 7, the Milken Institute announced the creation of a new bipartisan housing policy team involving a number of former executives that have been active in the housing finance space. Ted Tozer, former Ginnie Mae president, Michael Stegman, former housing policy advisor to President Obama, Phil Swagel, former Assistant Treasury Secretary for Economic Policy under President George W. Bush, and Lewis Ranieri, mortgage-backed securities pioneer and bond trader, will all participate on the Milken Institute advisory council. Last year, Ranieri worked with housing expert Jim Parrot on a reform proposal that would create a government-owned corporation with a government guarantee of issued securities.

Regulatory Relief: Banking Agencies Propose Simplifying Regulatory Capital Rules

The Federal Reserve, OCC, and FDIC recently proposed a rule intended to reduce regulatory burden by simplifying several requirements in the agencies' regulatory capital rule for financial institutions with less than \$250 billion in total assets and less than \$10 billion in total foreign exposure. In a press release, the agencies wrote that "the proposed rule simplifies the capital treatment for certain acquisition, development, and construction loans, mortgage servicing assets, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions, and minority interest." The proposal has been met with mixed reactions and will be open for public comment for 60 days after its publication in the Federal Register.

FHLBank Support on Hurricane Relief

On September 27, the Council of FHLBanks announced that the FHLBanks established a \$1 million relief fund to help communities in Florida, the Southeast, Puerto Rico, and the U.S. Virgin Islands recover from the damage caused by Hurricane Irma. FHLBank Atlanta and FHLBank New York, whose two districts cover areas of the country most affected by the storm, are each contributing \$275,000 to this relief effort, while the other nine FHLBanks are contributing \$50,000 each. The funds will be allocated to: All Hands Volunteers, American Red Cross, Americares, Operation USA, Salvation Army, United Way Puerto Rico, and Virgin Islands Community Foundation's Hurricane Relief Fund.

PALs Spotlight: Loudermilk Visit to Vinings Bank

In late August, FHLBank Atlanta partnered with the Community Bankers Association of Georgia to host Rep. Barry Loudermilk (R-Ga.), a member of the House Financial Services Committee, for a town hall meeting at Vinings Bank in Smyrna, Georgia. The meeting focused on regulatory relief, the current lending environment, and federal legislative issues. Vinings Bank CEO Dan Oliver kicked off the meeting with a short introduction of the Congressman and a brief overview of the history and business strategy of Vinings Bank. A discussion of regulatory hurdles followed and a number of bankers in the room briefly described how particular regulatory issues affected their ability to meet a business or customer need. Mr. Loudermilk then described the efforts of the Financial Services Committee to pass regulatory relief via the Financial CHOICE Act and other smaller legislative measures. He also spoke about legislation focused on cybersecurity, increasing efficiency within the federal bureaucracy, flood insurance, and the House's plans to address the debt limit and the federal budget process.



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