

Introduction

We are six months into the 116th Congress and House Financial Services Committee Chairwoman Maxine Waters (D-CA) has both established her agenda and experienced the challenges of chairing the committee. The committee's clear focus has been on consumers, affordable housing, and improving diversity and inclusion throughout the industry. Chairwoman Waters has also had to shelve, at least temporarily, a bipartisan Export-Import Bank bill that resulted in a backlash from her own caucus. On the other side of the Hill, Senate Banking Committee Chairman Mike Crapo (R-ID) has held a number of oversight hearings and focused on privacy legislation. All of this with the backdrop of 2020 presidential election politics in full swing (see below for more color on this).

Housing Finance Reform Update

In March, the Trump administration issued a memorandum directing the Department of Housing and Urban Development and the Treasury Department to develop a housing finance reform plan. Treasury's top housing advisor, Craig Phillips, recently left the administration, which suggests the report is largely finished and should be released soon.

The past month has also seen slightly contradictory public statements from members of the administration. Federal Housing Finance Agency Director Mark Calabria has indicated a desire to establish a path for the recapitalization and removal of Fannie Mae and Freddie Mac from government control, leading some to believe he would support a recap and release strategy. However, following Director Calabria's comments, Treasury Secretary Mnuchin made a statement clearly noting that the administration will not seek recap and release without substantial reforms.

In spite of the prospective differences, the goal of removing Fannie and Freddie from government control seems to be a shared priority. Release of the administration's plan will be the next step in what is expected to be a lengthy process. This could revive the discussion and provide ample opportunity for further engagement, including potential actions by Congress to expand the conversation and remain relevant in the discussions.

The FHLBanks have been an essential part of the nation's housing finance system supporting the mortgage operations that serve your communities. The FHLBanks will continue to work with you to ensure that the FHLBanks are ready and able to play an appropriate role in any new housing finance system, and most importantly that any reform efforts do no harm to the FHLBanks' ability to be a reliable source of funding to their shareholders.

Fannie and Freddie as SIFIs

The Senate Banking Committee recently held a hearing to discuss whether Fannie Mae and Freddie Mac should be designated as systemically important financial institutions (SIFIs), and how to ensure that the housing finance system is on a durable and sustainable course. Witnesses included Alex Pollock (R Street), Dr. Doug Holtz-Eakin (American Action Forum), and Professor Susan Wachter (The Wharton School).

While the witnesses all generally agreed that Fannie Mae and Freddie Mac should be designated as systemically important, there was some disagreement on whether that should be done under Title I of Dodd-

Frank, making them SIFIs, or under Title VIII, making them systemically important financial market utilities (SIFMUs).

A notable aspect of the hearing was the lack of attendance by committee members. Only six of the 25 committee members attended, prompting Sen. Mark Warner to comment that if the committee, "held more GSE/housing hearings, it may scare away all the members." With the House seemingly allowing the Senate to take the first steps on housing finance reform, this development may demonstrate that senators have already given up on anything meaningful happening on the subject during this Congress.

Current Expected Credit Loss (CECL)

Rep. Vicente Gonzalez (D-TX) and Rep. Ted Budd (R-NC), along with eight bipartisan co-sponsors introduced a bill this month to postpone the implementation of the Financial Accounting Standards Board's current expected credit losses (CECL) standard. The bill ([H.R. 3182](#)) would require the SEC and other agencies to conduct a study of the effects of this standard on the financial services industry. "Our financial system craves certainty," Gonzalez said. "It is important that our rules and laws are not constructed in a vacuum or merely react to the changing climate." While this bipartisan measure is a positive development, it is unclear if the bill will get adequate support from leadership to become law. A similar bill in the Senate ([S. 1564](#)) was introduced by Sen. Thom Tillis (R-NC) and a number of co-sponsors.

Cannabis Banking

There have been several developments recently on cannabis policy. The house has cleared three amendments from Rep. Earl Blumenauer (D-OR) to be considered as part of the appropriations bills to fund the Department of Justice and other agencies.

These bills would not change any laws regarding legalization; instead they would prevent the use of agency funds to enforce specified laws related to cannabis. Because they are part of the appropriations bills, the provisions would expire at the end of the fiscal year. In the end, they may only be symbolic, and never become law. However, the bills indicate a growing focus from Congress on the issue.

Additionally, Rep. Nydia M. Velázquez (D-NY), Chairwoman of the House Small Business Committee has expressed an intent to introduce legislation that would expand Small Business Administration access for cannabis companies operating legally under state law.

The Senate may also soon begin to engage as hearings are expected before the end of the summer.

Executive Order Establishing Council on Affordable Housing

In late June, President Trump signed an executive order establishing a council on affordable housing, with the stated goal of eliminating barriers on affordable housing development. The council will consist of members from eight federal agencies and will be chaired by Housing and Urban Development Secretary Ben Carson. The order instructs the council to look at the effects federal, state, and local regulations have on the costs of developing affordable housing and the economy. Further, the council is instructed to take action to reduce federal regulatory barriers and streamline interagency processes.

National Flood Insurance Reauthorization

The House Financial Services Committee voted unanimously on June 11 to approve a five-year reauthorization of the National Flood Insurance Program (NFIP) with significant reforms to improve affordability, mapping, mitigation, and the NFIP's appeals process. [H.R. 3167](#), the National Flood Insurance Program Reauthorization Act of 2019, would create an affordability demonstration program for low-income policyholders; increase funding for up-to-date mapping technology; and increase funding for mitigation assistance, including expanded opportunities for buyouts and targeted resources for high-risk properties.

[H.R. 3111](#), the National Flood Insurance Program Administrative Reform Act of 2019 introduced by Rep. Velázquez (D-NY), would create a pilot program for investigating pre-existing structural conditions, impose new penalties for fraud, and create an appeals process for homeowners whose claims are denied.

Debt Ceiling Debate

Under the Bipartisan Budget Act of 2018, the debt ceiling was suspended through March 1, 2019. With the debt ceiling now reinstated, Congress must act to allow the government to continue servicing its debt. However, through the use of so-called “extraordinary measures,” the government can shift funds around and continue to pay its obligations on a temporary basis. The Treasury Department has not released an estimate of how long its extraordinary measures can last; however, the Congressional Budget Office [estimates](#) the debt limit will need to be addressed around the end of the fiscal year (September 30, 2019). Thereafter, the Treasury would only be able to pay obligations with incoming tax receipts, which would force some payments to be delayed or missed. While a deal is expected to avoid a potential default scenario, the media can be expected to play up the negative impact on economic market conditions any political battle and rhetoric could have. Perhaps more importantly, as the political debate heats up on this issue, it reduces the time and bandwidth that Congress has to work on other important, but less time sensitive, issues.

Presidential Campaign

The campaigns for the 2020 presidential election are underway. President Trump launched his reelection campaign with a rally in Orlando, FL on June 19.

With more than 20 announced candidates, the contest for the Democratic nomination is the most crowded presidential primary in history. The “top” 20 were divided into two groups for the first televised debates in Miami the week of June 24. The debates were held on successive nights with slates of 10 candidates each spanning the stage. The biggest takeaways were the expected harsh criticisms of President Trump, the direction needed for universal health care, and actions needed to address climate change. The debates also exposed long festering racial wounds, and that the candidates sitting atop the polls today have fragile leads at best.

It is worth noting the first primary contest, the Iowa caucuses, are still more than 220 days away and the general election is nearly 500 days away. Needless to say, this will be a long contest. The next round of debates are scheduled for July 30 and 31 in Detroit.

