

WASHINGTON REPORT

AUGUST/SEPTEMBER 2019

The summer was busy in Washington as members of Congress sought to finish their work and leave town for the August recess, and then focused on housing finance reform when they returned in September. In this update we will highlight the deal reached by Congress and the administration on the budget and debt ceiling, the continuing trade war, and action by the Federal Reserve to lower interest rates. We'll also cover the Consumer Financial Protection Bureau's (CFPB) proposed changes to the Qualified Mortgage (QM) Patch, the hearings on the BB&T/Sun Trust merger, the Senate Banking Committee letter to regulators on community banks, the hearing on cannabis banking, and housing finance reform.

BUDGET DEAL

- Before leaving town for August recess, Congress passed a bipartisan budget agreement that sets budget levels for the next two years and lifts the debt ceiling. The president signed the bill into law and as a result neither the debt ceiling nor spending levels are expected to stimulate much debate during the 2020 campaign cycle.

FED ACTION ON INTEREST RATES

- The Federal Reserve lowered its benchmark interest rate for the first time since the financial crisis. In a statement following the Federal Open Market Committee meeting in July, Chairman Jerome Powell cited a weakening global economic picture, trade policy uncertainty, and stable inflation as reasons for lowering the benchmark rate by a quarter point. Powell also said the move was designed to reduce the downside risk to continued U.S. economic expansion, while also noting that the health of the economy and outlook for continued growth are still good. However, trade war uncertainty is expected to continue weighing on global growth and early reports are that the Fed may be preparing for another rate cut this year.

HOUSING FINANCE REFORM UPDATE

- The administration's housing finance reform proposal was released on September 6, providing a framework for both administrative and legislative action.
- With regard to the FHLBanks, the proposal recommends FHFA reconsider its 2016 rule that barred captive insurance companies from FHLBank membership and suggests Congress consider expanding FHLBank membership to additional classes of mortgage lenders.

- Given the current political environment, regulatory hurdles, and prevailing priorities at FHFA, the probability for either comprehensive housing finance reform legislation or a re-write of FHFA's 2016 membership rule is considered low in the near term. The Senate Banking Committee held a hearing on Tuesday, September 10, to discuss the administration's proposal. The witnesses were Treasury Secretary Steven T. Mnuchin, HUD Secretary Ben Carson, and FHFA Director Mark Calabria.
- The hearing was well attended by members on both sides of the aisle, with the notable exception of Senator Elizabeth Warren (D-MA). Chairman Crapo noted in his opening statement that Fannie Mae and Freddie Mac (GSEs) are still too big to fail, are even more leveraged than before, and taxpayers are still on the hook. Crapo also said it is Congress' primary role and responsibility to reform the housing finance system, but noted that complementary changes could be made administratively and he encouraged the witnesses to act accordingly.
- Ranking Member Brown (D-OH) opened his remarks by aggressively suggesting the administration's plan only served Wall Street at the expense of the American people who are struggling to find affordable housing.
- Despite various disagreements over the effectiveness of the plan to address affordable housing, and differences on the GSE's role in multifamily housing, the overall tone of the hearing suggested a consensus around enacting legislation rather than letting the administration set the future course of the GSE's.
- The proposal and the hearing will drive industry headlines for the coming weeks, but it is unlikely that a comprehensive legislative package becomes law this year or next year due to the constraints of the legislative calendar, the current political environment, and the upcoming election cycle.
- On a related note, on Friday September 6 the Fifth Circuit Court of Appeals ruled that the FHFA's structure is unconstitutional because it does not provide the president adequate oversight of the agency's director. The court indicated that the proper remedy is to sever the "for cause" provision that protects the director. The ruling could have implications for housing finance reform efforts and could lead to further discussion of the Treasury Preferred Stock Purchase Agreement and the net profit sweep.

TRADE ISSUES (U.S.-CHINESE TARIFFS)

- The administration announced a new 10 percent tariff on the remaining \$300 billion in Chinese goods that avoided previous duties, before also announcing a delay for some tariffs until the end of the year. The stated purpose for the delay was to avoid negatively impacting American consumers during the holidays.
- China responded by devaluing their currency and halting the purchase of U.S. agricultural imports by state-owned firms. Additionally, China announced counter-tariffs, which were maintained even after the administration announced the delay.
- China has taken other actions domestically to soften the blow for Chinese consumers, and they have also lodged a complaint against the U.S. with the World Trade Organization.
- The trade dispute is likely to contribute volatility in the market and further degradation of global economic outlook.

SENATE BANKING COMMITTEE LETTER

- Senate Banking Chairman Mike Crapo (R-ID), along with several other Republican members of the committee, sent a jointly signed letter to the leaders of the Federal Reserve, Comptroller of the Currency, and FDIC calling for lowering the regulatory burden on community banks as a means for spurring further economic growth. The letter notes that recent laws passed by Congress have been beneficial for the economy and the banking industry, but more could be done to help "highly-capitalized community banks." Specific suggestions in the letter include replacing Basel III with the simpler Community Bank Leverage Ratio, working to offset the concerns raised with the Financial Accounting Standards Board's changes regarding current expected credit losses (CECL) accounting standards, and realigning agency rules with those of the Commodity Futures Trading Commission on certain margin requirements. While no direct changes are expected in the near future, the letter demonstrates a focus by the committee on community banks and other smaller financial institutions in an effort to prevent or change one-size-fits-all rules for banks.



SENATOR PERDUE VISIT TO FHLBANK ATLANTA

- On August 19, Senator David Perdue (R-GA) visited the Bank and met with the senior leadership team and other staff. The leadership team provided the senator an overview of the Bank and a brief history of the FHLBank System. The Bank's recent financial results and products and programs available to shareholders, including their impact in communities throughout the Bank's footprint, were also discussed. Senator Perdue discussed the current political environment in Washington and the outlook for the remainder of the congressional session. He also discussed his experience in business and noted the importance of banks and the availability of credit. Given the current political environment, the senator said he doesn't expect a lot of action on major legislative initiatives the remainder of the year, aside from spending bills necessary to fund the government.

QM PATCH

- CFPB released an Advance Notice of Proposed Rulemaking (ANPR) seeking comment on whether it should revise Regulation Z's definition of a "qualified mortgage" in light of the pending expiration of the so-called QM patch in January, 2021. The ANPR indicates CFPB's intent to allow the QM patch to expire as scheduled, and asks for comments on specific possible amendments to the Regulation Z. CFPB cites a study released earlier this year that found lenders generally offered QM patch loans even when they could have made a loan that qualified under the rule. The ANPR was published on July 31, 2019 and is open for comment for 45 days from the date of publication.

MEMBERS NOT RUNNING FOR REELECTION

- To date 23 members of the House and Senate have either vacated their seat or announced plans not to seek reelection in 2020. The vast majority of the retiring members are Republicans from safe or moderately safe seats. The members from the FHLBank Atlanta footprint are highlighted below:
 - Rob Woodall (R-GA-7th) (Retiring)
 - Martha Roby (R-AL-2nd) (Retiring)
 - Johnny Isakson (R-GA) (Retiring)
 - Bradley Byrne (R-AL-1st) (Running for U.S. Senate)

SPECIAL ELECTION UPDATE

- On September 10, voters went to the polls in North Carolina's 3rd and 9th Congressional Districts. The 3rd district seat was open following the death of Rep. Walter Jones in February. Republican Greg Murphy, a member of the North Carolina state house, defeated Democrat Allen Thomas, former mayor of Greenville, to become the new representative for the 3rd district. The 9th district vacancy arose after the state elections board declined to certify a winner in the 2018 election and ordered a new election. Republican state senator Dan Bishop narrowly defeated Democrat Dan McCreehy to become the new representative for the 9th district.

BB&T/SUNTRUST MERGER HEARING

- The House Financial Services Committee held a hearing on the BB&T and SunTrust proposed merger. BB&T Chairman and CEO Kelly S. King, and SunTrust Chairman and CEO William H. Rogers, testified that their planned merger will improve the combined bank's ability to serve customers by boosting investments in better technology, products, and services. Mr. King emphasized the need to provide "real-time satisfaction" to customers, while making sure that customers in rural areas have access. Mr. Rogers pointed to cyber threats as the greatest current challenge to the banking industry, and said that the merged bank, Truist Bank, will have the scale needed to address those threats effectively. The North Carolina Commissioner of Banks has approved the merger, but final approval from the Federal Reserve Board and the FDIC remains pending. Committee Democrats were largely skeptical of the merger, voicing concerns that the larger bank would harm consumers, while Republicans were largely supportive and focused on the regulatory environment as the primary cause for banks seeking mergers.

CANNABIS BANKING

- Recent comments by Chairman Crapo have provided some hope that Congress may act to pass cannabis banking legislation before the end of the year. In an interview with a cannabis industry website, Crapo referenced a recent Senate Banking hearing by saying, "I think all the issues got well vetted. We now need to....move forward and see if there's some way we can draft legislation that will deal with the issue." However, he also noted the uphill battle legislation will face in the Senate, in spite of bipartisan support. While it is a bipartisan issue, the most vocal support, to date, has come from Democrats.
- Upon Congress' return in September, the House is expected to vote on the SAFE Act, which will likely pass with bipartisan support. While passage is not certain, the question remains how many Republicans will join with Democrats to pass the bill. If the bill passes with broad bipartisan support, it would put pressure on the Senate to act more quickly. In the Senate, if the votes for passage can be gained, the attention will shift to available legislative vehicles in this Congress. To clear the Senate, cannabis banking legislation will likely need to be included in a broader legislative vehicle rather than a stand-alone piece of legislation.
- Even if the political stars don't align for cannabis banking legislation before the end of the year, this is an issue that is not going away. There is a good possibility of a narrowly focused legislative package becoming law in the near future, but it is likely to fall well short of any full cannabis legalization.

For more information contact:

Michael Huff
Vice President
Director of Government Relations
FHLBank Atlanta
202.638.3091 (office)
202.436.5494 (cell)
MHuff@fhlbatl.com

To view this report and previous reports online, please visit <http://corp.fhlbatl.com/resources/pals/>