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Washington Policy — Flash Note

Deep Dive On FHFA/GSE Expectations Under New Leadership

The FHFA, which oversees the GSEs and the FHLBs, is the most powerful entity in mortgage finance and it is now under new leadership. In this report, we detail our expectations for the FHFA's policy priorities under new leadership. The note outlines our thoughts on the FHFA's next actions as well as the likeliest medium- and longer-term policy shifts. The table on page 10 provides a brief summary of the pertinent issues with additional details on the preceding pages. At the highest level, we believe:

- Acting FHFA Director Thompson will focus initially on reversing Calabria-era policies, especially the GSE footprint limitations included in the PSPA;
- There will be a pronounced focus on expanding the GSE credit boxes, but we expect the initial moves to be targeted and for supply constraints to be an overhang;
- The 10bps TCCA decision by the end of the year should provide insight into how the new leadership is thinking about pricing and supply constraints;
- The UST/FHFA PSPAs will be reopened in the coming months to remove provisions relating to the GSE footprints, but the precise timeline is unclear and some limitations will resurface in other forms;
- The GSE multifamily caps will be removed from the PSPAs, returned to the conservatorship scorecard, and softened;
- The GSEs will once again fully embrace CRTs, although Fannie Mae may need a bit more clarity regarding the FHFA's capital framework before restarting their machine;
- The manufactured housing space warrants watching given the Biden administration's focus on affordable housing, but it will take time to see if policymakers actually bridge the divide between rhetoric and reality;
- Ending the GSE conservatorships is nowhere near the top of the policy agenda at the moment, but that issue tends to resurface over time; and
- We believe Acting Director Thompson is likely to be in that seat well into 2022 and could be atop the FHFA for the foreseeable future.

Sandra Thompson Could Be In Her Role For Some Time, but the Name Game Continues

On June 23, the Supreme Court of the United States (SCOTUS) released its decision in *Collins v. Yellen*. The decision resulted in former FHFA Director Calabria being dismissed and the White House elevating Sandra Thompson to the role of Acting Director.

We believe that Acting Director Sandra Thompson will be in her seat at least through this year and likely beyond. We offer the following points in support of this view: (1) Director Thompson is a respected leader who has deep institutional knowledge given that she has served under four different directors; (2) given that the position now serves at the pleasure of the president, five-year confirmations no longer carry the same weight, which lessens the utility of spending floortime on confirmation; (3) her focus on the “widespread lack of affordable housing and access to credit, especially in communities of color” appears conceptually consistent with the Biden administration’s housing priorities.

Despite our belief that Acting Director Thompson will be in this seat into next year and possibly beyond, there has been a fair amount of chatter regarding who could be tapped as the nominee. In no particular order, we have heard the following names: Sandra Thompson, Eric Stein, Susan Wachter, Mark Zandi, Bob Ryan, Meg Burns, Jim Parrott, and Bharat Ramamurti. Rather than opine on who might get the nomination, we think there is one over-arching point that warrants

consideration: the FHFA Director now serves at the pleasure of the president and will therefore advance policies consistent with the White House's vision or face dismissal. Fellow D.C. denizens can't help but play the name game, but in this instance the market's interest should be low. Whoever is in that seat will advance the White House's priorities, which in this case are affordability and access.

Access/Affordability A Central Focus With A Handful Of Initial Steps Expected

In her first statement in the new role, Acting Director Thompson said: "There is a widespread lack of affordable housing and access to credit, especially in communities of color. It is FHFA's duty through our regulated entities to ensure that all Americans have equal access to safe, decent, and affordable housing." With affordability as the guiding light for the Biden administration, we believe it is fair to assume that there will be a pronounced focus on expanding the mortgage credit box. At the highest level, the pronounced focus on affordability should be viewed as directionally positive for firms exposed to first-time homebuying such as mortgage insurers and lower price-point homebuilders (e.g., CCS, LGIH, DHI).

There are a number of dials that can be turned in service of this goal, but we expect an initial focus on the following:

- Reversing the footprint limitations in the most recent PSPAs through another amendment with UST, with a focus on the product limitations and Qualified Mortgage mishegoss (see next section);
- A more targeted focus on expanding existing programs for low- and moderate-income (LMI) borrowers, which could come in the form of changes to the income limits and associated pricing for the HomeReady and Home Possible programs;
- A broader assessment of GSE G-Fees, which could lead to a flattening of the GSE loan level pricing adjustments (LLPAs) grid over time.

The focus on affordability is laudable, and there are a bevy of policy options to expand the GSE credit box, but our sense is that FHFA leadership will move deliberately in the coming months given the complexity of these issues, the overarching lack of supply, and the realities of the policymaking process.

PSPA Amendment Focusing On Footprint Is Next Mile Marker to Watch

As a reminder, the January 2021 PSPA amendments included a number of footprint reduction policies, including a new cap on high-risk mortgages at 6% of portfolio, a cap on high-risk refis at 3% of portfolio, restrictions on cash-window transactions at an aggregate of $3B, and a cap on second homes/investment properties at 7%. The PSPA also hard-wired compliance with Director Calabria's capital rule, forced adoption of the CFPB's recent QM Rule, and included a new multifamily cap structure.

PSPA Will Be Reopened, but Timeline Is Admittedly Murky

We believe all of these limitations will be either removed or watered-down through a PSPA amendment by early next year, although a handful of these limitations will be reincarnated in the conservatorship scorecard or through other avenues (e.g., LLPA grid, automated underwriting systems). Reasonable minds can debate the merits of each limitation, but we firmly believe that none of these should have been in a contractual agreement of this nature.

Some Limitations Will Continue, Albeit In A Different Form

Some of the product limitations in the PSPA will be addressed via other means. For example, we expect:

- the GSE multifamily caps will return to the conservatorship scorecard, albeit in a softened fashion;
- although our base case is that the 7% cap on non-owner occupied loans will be removed from the PSPAs, we could envision a less restrictive cap construct being included in the conservatorship scorecard, which would serve as a less restrictive limitation without hindering the cross-subsidization these loans provide;
- the $3B aggregate cash window limit will not survive, but we could see the figure moving substantially higher so that it only captures the largest lenders, which would limit its impact given that those lenders already have alternatives in place (e.g., capital markets capacity);
- the high-risk loan cap will be removed from the PSPA in favor of other supervisory strictures.

Temporary Provision In Current PSPA Could Provide Latitude In The Interim

We firmly believe that the PSPAs will be amended to remove the aforementioned product limitations, but we fully admit that the timeline is murky. The FHFA could alleviate some of the more pressing issues relating to the cash window and second/investor homes by providing some supervisory leeway. Beyond that, there is a belief in certain circles that the FHFA could use a provision in the current PSPAs to provide a modicum of underwriting flexibility in the near-term, especially if the effort to amend the PSPAs bleeds into next year. Specifically, the current PSPA includes a provision allowing "temporary flexibilities for underwriting during times of exigent circumstances." There is some debate as to whether this provision provides a means of effectively reinstating the QM Patch to provide additional underwriting flexibilities, at least until the new compliance date in October 2022, but our sense is that new leadership at the FHFA will examine this possibility.

Additional Resources

Please see HERE for our most recent PSPA note and HERE for a Ballard Spahr blog explaining the recent QM developments.

Selected GSE Footprint Limitations Included In January 2021 PSPA Amendment

Selected GSE Footprint Limitations
Imposed July deadline for complying with CFPB underwriting rule
Limited purchases of new high-risk mortgages to 6% of portfolio
Limited purchases of high-risk refis to 3% of portfolio
Restricted cash-window transactions to a combined $3 billion
Capped loans secured by second homes and investment properties at 7%

Source: American Banker, UST, Compass Point

TCCA Fee Decision Later This Year Will Provide Insight Into Policy Stance

In 2011, Congress enacted legislation – the Temporary Payroll Tax Cut Continuation Act of 2011 (TCCA) – that increased the cost of the GSE guaranty fees (G-Fees) in order to offset the cost of a temporary payroll tax cut. Specifically, the TCCA required the FHFA Director to increase the G-Fees by an amount to "appropriately reflect the risk of loss, as well the cost of capital allocated to similar assets held by other fully private regulated financial institutions," but the legislative text mandated an increase of at least 10 basis points. Accordingly, ~20% of the G-Fee charged on Fannie Mae's new volume in 1Q21 was sent to the Treasury Department in order to pay for a two-month payroll tax cut seven years ago. Even in the storied annuals of budget gimmickry, this was a uniquely puerile policy decision.

The 10bps TCCA G-Fee, which generated an aggregate of $4.5B in 2020, is set to sunset at the end of this year. In our view, there are 3 possible options:

- the 10 basis point TCCA fee expires without Congressional or administrative action, which would reduce GSE pricing;
- the TCCA increase sunsets, but the FHFA Director maintains the same level of G-Fees, which would send the corresponding funds to the GSEs rather than the Treasury Department; or
- Congress extends the 10 basis point G-Fee increase for an as-yet-unknown budgetary purpose.

At least at the moment, we do not have a sense for how the FHFA will address the expiration of the TCCA as we can make a viable argument for each of our three scenarios. If the TCCA fee is allowed to expire without action, it will be framed as both consistent with Congressional direction and positive for borrowers in so much as it lowers GSE pricing. If the TCCA fee expires but Acting FHFA Director Thompson requires the continued collection of that 10bps, we would expect her to announce a corresponding review of GSE G-Fees that could lead to more targeted changes in the future (e.g., reduce LLPAs). As a reminder, the FHFA undertook a detailed review of G-Fees in 2014/2015 and we could envision a renewed examination given the combination of market and policy changes in recent years. Finally, we have not heard much from Capitol Hill, but Congress could look to the GSE piggybank once more for budgetary offsets. Notably, the CBO estimates that allowing the TCCA to sunset and imposing a new 15bps fee would raise $30B over a decade.

GSE Credit Risk Transfer Issuance Should Return to Normal

Former FHFA Director Calabria's GSE capital framework effectively removed the economic benefit of issuing credit risk transfer (CRT) transactions. Specifically, the capital rule included a 10% risk-weight floor for retained CRT exposure and a 4% leverage ratio requirement. Both GSEs suspended CRT issuance at the outset of the pandemic, but only Freddie Mac returned to the market. Fannie Mae, on the other hand, stated the following in its most recent filing: "We have not entered into any new credit risk transfer transactions since the first quarter of 2020 as we continue to evaluate their costs and benefits, including a reduction in the capital relief these transactions provide under FHFA's enterprise regulatory capital framework."

Given that the GSE capital framework either slowed or stalled CRT issuance, there is a focus on both if and when the capital rule will be altered. We are confident that the capital framework will be reopened and softened, but that effort could take time. Most of our contacts suggested that if the direct reference to the capital rule in the PSPA is removed, and Acting Director Thompson issues clear guidance that the rule will be reopened, Fannie Mae will return to the market.

Our Expectations Going Forward

Rather than add our voice to an already crowded CRT chorus with another missive on the key consideration – costs, benefits, pricing, structures, counterparty risk, GSE footprints – we will cut to the chase: new leadership at the FHFA will fully embrace CRT. Although the precise timeline is unknown, we expect Fannie Mae to begin issuing CRT in the near future and there should be a renewed conversation regarding the merits of the lender risk-sharing structure discontinued during former Director Calabria tenure.

Additional Resources

For those interested in learning more on this issue, we recommend the following:

- The FHFA's CRT performance report from May 2021
- The Urban response to the FHFA's report
- Don Layton's response to the FHFA's report
- Tim Howard's post on the FHFA's report
- This American Banker article on the CRT slowdown

Focus On Access/Affordability Laudable, but Housing Supply Shortage Remains An Overhang

Under new leadership, the FHFA is expected to focus intently on access and affordability, which is a laudable goal, but we continue to believe that the nation's housing supply shortage will be a persistent overhang.

Framing the Problem

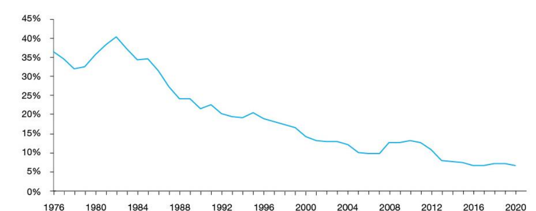
As per Freddie Mac , the housing supply shortage increased to 3.8 million units in 2020, up from 2.5 million units in 2018. Furthermore, only 7% of new home construction in 2019 would qualify as starter homes, which compares to ~40% in the 1980s.

Freddie Mac's Housing Stock Assessment

		2018			2020		
	HVS, Millions	Actual	Target	Gap	Actual	Target	Gap
(1)	Households	121.2	122.5	1.3	125.8	126.2	0.4
(2)	Vacant Units	17.0	18.3	1.3	15.4	18.9	3.5
=(1)+(2)	Housing Stock	138.3	140.8	2.5	141.2	145.0	3.8

Source: Freddie Mac, Compass Point

Entry-Level Home Construction As A Share of New Construction



Source: Freddie Mac, Compass Point. Note: Entry-level defined as homes <1,400 square feet

Broader Policy Conversation Focusing On Supply Shortage

The White House's infrastructure proposal includes $213B in funding for affordable housing through a number of initiatives, but the following component warrants attention given the nation's housing supply shortage: "It pairs this investment with an innovative new approach to eliminate state and local exclusionary zoning laws, which drive up the cost of construction and keep families from moving to neighborhoods with more opportunities for them and their kids."

There is no singular panacea to the nation's housing supply shortage as there are several contributing factors including labor limitations, financing standards, land/lumber costs, and zoning restrictions. There needs to be a comprehensive effort to address the nation's housing supply

crisis, but this proposal is undeniably a step in the right direction. For more details on the nation's housing supply shortage, we recommend this piece from Jim Parrott and Mark Zandi.

Multifamily Cap Will Be Removed From PSPA and Returned to Scorecard

We firmly believe that the GSE multifamily cap will be removed from the PSPAs and returned to the annual GSE conservatorship scorecard, which is a far more appropriate mechanism for regulating GSE market share. Our sense is that Director Calabria's flat cap, which replaced an ineffective exemption construct, is likely to be maintained. We also believe that the mission-driven mandate will be retained, but we expect more operational flexibility via a shift away from the 52-week trailing assessment period, the return of quarterly reviews, and a reduction in the target threshold. We also believe that the FHFA could reintroduce a broad green lending exemption and return the high-cost areas to the affordable definition. Although it could take time to amend the PSPAs, we believe returning the multifamily caps to the conservatorship scorecards should be viewed as a positive for multifamily lenders and the broader market.

Historical Context On Recent GSE Multifamily Cap Changes

Given that we expect a change in the GSE multifamily cap, we thought it useful to first provide some historical context:

- **September 2019 Multifamily Cap Change.** In September 2019, the FHFA announced revisions to the construct of its multifamily lending caps. Specifically, the FHFA announced that the new multifamily loan purchase caps would be $20B billion per quarter for each GSE. Notably, however, the "new caps apply to all multifamily business – no exclusions." In effect, FHFA replaced the cumbersome exemption construct with a flat cap construct and a minimum threshold for "mission-driven" volume.
- **November 2020 Multifamily Cap Change.** On November 17 the FHFA released its GSE multifamily cap decision for 2021. At the highest level, the FHFA (1) reduced the multifamily lending cap at each GSE from $20B per quarter in 2020 to $17.5B per quarter in 2021, (2) increased the mission-driven threshold from 37.5% to 50%, and (3) introduced a new 20% threshold sub-mandate for units at or below 60% area median income (AMI). Please see HERE for our note.
- **January 2021 PSPA Change.** The GSE multifamily cap construct is now hardwired in the PSPAs with some important tweaks. The letter agreement states, "Each GSE will cap multifamily acquisitions at $80 billion over the trailing 52-week period and will require that 50% of these acquisitions are mission driven, as defined by FHFA." Also, the headline cap figure will move annually with CPI. This compares to the FHFA's most recent multifamily cap, which set a $70B cap for 2021, increased the mission-driven threshold from 37.5% to 50% YoY, and introduced a new 20% threshold sub-mandate for units at or below 60% AMI. Please see HERE for our note.

Manufactured Housing Space Warrants Watching Given Focus On Affordable Housing

We continue to believe that the manufactured housing space – including companies such as UMH, SUI, ELS – could benefit from the overarching focus on affordability and access. As a matter of context, Housing Matters , notes that the "per square foot cost of producing a manufactured home is less than half the cost of constructing comparable stick-built, single-family detached homes because of greater supply-chain flexibility, regulatory consistency, and lower on-site labor costs. This puts manufactured-housing developers in a position to close local affordable housing gaps more quickly than traditional home builders, yet planners often underestimate manufactured housing's potential for alleviating affordable housing supply shortages."

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With affordability as the guiding light, we believe the FHFA could be more inclined to modestly expand manufactured housing initiatives as part of its Duty to Serve (DTS) effort and beyond. Although it was only a brief statement, we found the following comments from FHFA Acting Director Sandra Thompson noteworthy:

> Manufactured housing is one option that has potential to grow the affordable housing supply without subsidies. And Duty to Serve has already produced demonstrable results in increasing Enterprise support for manufactured housing.
>
> For example, the Enterprises almost doubled their purchases of loans secured by manufactured housing titled as real property between 2017, the year before Duty to Serve was implemented, and 2020. In addition, both Enterprises exceeded their loan purchase targets for manufactured housing communities with tenant pad lease protections—providing new and important protections for residents in these MHCs.
>
> And manufactured housing is an especially important resource for many rural communities. Rural areas tend to have limited housing options and older housing stock. Getting an accurate appraisal can also be difficult. Fortunately, despite the challenges presented by the COVID-19 pandemic, 2020 saw the Enterprises still able to exceed some of their goals in the rural housing market. FHFA looks forward to them doing even more to connect rural areas to national housing finance.
>
> FHFA expects the Enterprises to live up to their mission obligations and help ensure that investment capital reaches underserved markets. Fannie and Freddie have a responsibility to identify the obstacles these communities face in accessing mortgage credit and affordable housing, as well as a duty to develop strategies for overcoming them safely and soundly.

The DTS plans are not the only effort to track in this saga as this issue intersects with the FHFA's capital rule and certain PSPA limitations, but the final DTS plans later this year should provide some insight into how new leadership will view the manufactured housing discussion.

Potential Policy Shifts To Track

The DTS plans will not be finalized until later this year, and we are still awaiting more detail on Acting Director Thompson's policy vision, but potential avenues for action include:

- Increasing the real property purchase targets from the proposed DTS levels;
- Including objectives/targets to purchase chattel loans during the DTS period, which in turn could be used to implement a flow program and eventually viable securitization structures;
- Advancing innovative financing structures similar to this UMH deal ;
- Additional disclosures, consumer protections, and research would all be positive for manufactured housing space.

Helpful Resources

For more details on DTS, we highly recommend this Lincoln Institute paper . For more on recent administrative developments at the FHFA/GSEs, we recommend this CRS report .

What Does This Mean for the Effort to End the GSE Conservatorships?

Former FHFA Director Calabria did his best to put the GSEs on a path to exiting conservatorship, but the effort fell short due to a handful of inconsistent policy actions, the outcome of the presidential election, and what proved to be an unwilling dance partner atop the Treasury Department. With the Biden administration now controlling both sides of the PSPA, ending the GSE conservatorships is nowhere on the policy agenda.

The effort to end the conservatorships will resurface in the future, just as it has repeatedly over the past 13 years, but the precise timeline is unclear. There is ongoing litigation in a handful of

venues, but those cases will take time and no outcome is guaranteed. More broadly, we could envision the conservatorship issue reappearing as part of housing affordability discussions (i.e., calls to monetize the government's warrants) or as an administrative policy that can be pursued if we see a divided Congress. For the time being, however, the effort to end the GSE conservatorships left the building with Director Calabria.

Other One-Off Thoughts

We include below a number of other thoughts regarding the road ahead for the FHFA.

New Product Rule Will Provide Insight Into Future Pilots, Including Risk of EPMI/IMAGIN Resurrection

On October 19 FHFA Director Calabria spoke at the MBA conference and announced a proposal that would address the process for introducing new products at the GSEs. This proposal is intended to address broader concerns regarding GSE charter creep on a go-forward basis, but some have expressed a concern that on overly prescriptive approval process could stifle innovation.

At the highest level, the proposal presents a framework for the consideration of new products at the GSEs. In terms of process, the GSE would submit the new product for FHFA review and within 15 days a determination would be made by the FHFA. If the product is not deemed a new product then the GSE may proceed. If the product is deemed a new product then the FHFA would publish a public notice for comment before then deciding whether to approve, reject, or alter the product.

We will track the finalization of this rule closely because we believe it will provide some insight into how Acting Director Thompson views GSE pilots. While this issue may not matter to many market participants, it is an area of interest for mortgage insurers given concerns that the recently deceased EPMI/IMAGIN pilots could be resurrected.

Seller/Servicer Eligibility Requirements Still On the Agenda

As a reminder, the FHFA released a seller/servicer eligibility proposal in January 2020 that were originally scheduled to become effective that summer. In June 2020, however, the FHFA announced that it will re-propose the minimum financial eligibility requirements from GSE seller/servicers to incorporate "lessons learned from the evolving COVID-19 national emergency." Given the forbearance fights in 2020, the general expectation was that former Director Calabria would finalize more onerous standards once clear of the crisis. We offer the following thoughts on this front:

- The issue is now in Acting Director Thompson's hands, which has led to a fair amount of prognostication in policy circles. Although the timeline for finalizing this new standard is unclear, a number of contacts noted that Acting Director Thompson – a FDIC veteran – could view the proposed standards favorably.
- At the highest level, a more robust capital/liquidity framework will benefit larger market participants and could catalyze consolidation.
- For more details on the FHFA's previous proposal, we recommend our former colleague Chris Gamaitoni's report Ripple Effects from FHFA Proposed Servicer Counterparty Rules , which analyzed the original proposal. Our colleague estimated that minimum capital requirements would increase by 10% to 25% and minimum liquidity would increase by 15% to 60% in a low delinquency environment with the cash crunch coming in a rising delinquency environment.

Reversing the 50bps Refi Fee Was An Easy First Step

On July 16, Acting FHFA Director Thompson announced that the 50bps Adverse Market Refinance Fee (AMRF) will be eliminated for loan deliveries effective August 1, 2021. We did not view this fee as a material factor given exemptions (e.g., small balance, low income borrowers) and our estimate that it would only increase the consumer rate by ~10bps. Reversing this fee was low-

hanging fruit for the new leadership at the FHFA, but upcoming decisions relating to the TCCA fee and the footprint limitations in the PSPA could prove more complicated and time-consuming.

Capital Rule Will Be Reopened and Softened, but Rulemaking Takes Time

We firmly believe that Director Calabria's capital rule will be reopened and softened. We can envision a number of changes, including tweaks to the overall construct and a more favorable treatment of CRTs. Given that the rule's practical impact is limited at this point, and rulemakings always take longer than expected, our sense is that this will be a 2022/2023 effort. Please see HERE for our note on the capital rule.

Another Push To Expand FHLB Membership Expected, but Don't Expect Quick Action

We expect another push to expand FHLB membership, which is an area of interest for mREITS and IMBs, but we do not believe this will be a top priority for the FHFA.

Framing the Road Ahead for the FHFA Under New Leadership

Entity	Issue	Details	Our View	Timeline
FHFA	The 50bps adverse market refinancing fee (AMRF)	This 50bps fee became effective on 12/1/20 with exemptions for small balance loans and low-income borrower programs.	Acting Director Thompson announced that this fee will end for loan deliveries beginning on 8/1/21.	Announced
FHFA	Streamlined refi program	The PSPA includes some leeway for the introduction of a streamlined refi program, which would go beyond the Low AMI/small balance refi program introduced earlier this year.	Although a true HARP-like program would not have as much impact given the equity position of most borrowers, there could be more streamlining and incentives to reach borrowers in need. For example, we could see the 80% AMI requirement for Fannie Mae's RefiNow offering moved to 100-120% AMI.	2H21
FHFA	10bps TCCA fee	The 10bps TCCA fee sunsets at the end of the year without Congressional intervention.	Despite the TCCA raising $4.5B last year, we have not seen much public debate. Our contacts are largely split on this issue as some expect continued collection while others believe it will sunset. We lean toward the former, but our confidence is admittedly low.	2H21
FHFA	GSE seller/servicer eligibility requirements	The FHFA released a new proposal in 2020, but withdrew this proposal in June 2020.	We expect a new proposal during this regime. Although the timeline is unclear, the most recent regulatory agenda stated that the proposal would be released this summer.	2H21
FHFA	Enterprise Housing Goals	Rather than finalizing a three-year plan, the FHFA only finalized a plan for 2021.	This is a vitally important effort. The timeline is unclear, but it will be a top priority.	4Q21
UST/FHFA	UST/FHFA reform plan	As per the recent letter agreement, the UST and FHFA should "endeavor" to transmit a reform proposal to Congress by 9/30/21	This was in the PSPA, but the language is not binding and we do not expect anything of consequence.	4Q21
UST/FHFA	New PSPA includes a cap on high-risk mortgages at 6% of portfolio	As per the most recent PSPA amendment, high-risk loans is defined as loans that have 2 or more of the following features: a combined loan-to-value (LTV) greater than 90%; debt-to-income ratio greater than 45%; and credit score less than 680	There was never a clear justification for including limitations of type in a contractual document and they will be removed accordingly. Product limitations can be reintroduced via other supervisory means as necessary.	4Q21 / 1Q22
UST/FHFA	New PSPA includes a cap on high-risk refis at 3% of portfolio			
UST/FHFA	New PSPA includes a $3B aggregate restriction on cash-window transactions	As per the most recent PSPA amendment, “each GSE will limit volume purchased through the cash window to $1.5 billion per lender during any period comprising four calendar quarters.”	We firmly believe that these limitations will at least be recalibrated to target only the ~10 largest originators rather than the 100+ it would have captured in 2020.	4Q21 / 1Q22
UST/FHFA	New PSPA includes a cap on second homes and investment properties at 7% of portfolio	As per the most recent PSPA amendment, “The GSEs will limit the acquisition of single-family mortgage loans secured by second homes and investment properties to 7% of single-family acquisitions — aligned with their current levels — over the preceding 52-week period.”	This cap should be removed from the PSPA, but our sense is that it could resurface in the conservatorship scorecard or elsewhere. A number of contacts have suggested that there is a better case for investor properties versus second homes, but both contribute to the cross-subsidization and this cap should be increased at a minimum.	4Q21 / 1Q22
UST/FHFA	PSPA's latest GSE retained portfolio cap reduction	The PSPA cap on the GSEs’ retained mortgage portfolios will be lowered from the current cap of $250 billion to $225 billion by the end of 2022	We could see this specific provision being retained given that (1) previous PSPAs have included reductions and (2) it should not have a meaningful impact.	4Q21 / 1Q22
FHFA	Prior Approval of Enterprise Products	This rule outlined a process for the GSEs "to obtain prior approval from the FHFA Director for a new product and provide prior notice to the Director of a new activity."	New leadership should be more receptive to new pilots/products, but "charter creep" concerns and this new standard will be governors.	4Q21 / 1Q22
UST/FHFA	GSE multifamily cap hardwired in the PSPA	The letter agreement states, “Each GSE will cap multifamily acquisitions at $80 billion over the trailing 52-week period and will require that 50% of these acquisitions are mission driven, as defined by FHFA.”	Our view is that this cap will be taken from the PSPAs and returned to the conservatorship scorecard. The scorecard is far from perfect, but it is better than the PSPA and we believe the mission-driven focus will remain.	4Q21 / 1Q22
FHFA	GSE capital rule	Director Calabria's GSE capital rule was viewed as ambitious by supporters and fanciful by opponents. Either way, it will be altered under this regime.	In due time, the capital rule will be reopened and softened. We can envision a number of changes, including a more favorable treatment of CRTs.	2022 or beyond
FHFA	Enterprise Liquidity Requirements	As per the FHFA, "The proposed rule establishes four quantitative liquidity requirements that address the short, intermediate and long-term liquidity needs of the Enterprises."	This effort will likely move to the back-burner, but we could see this effort resurface in the coming years.	2022 or beyond
FHFA	GSE Living Will rule	This rule mandated resolution plans that "would facilitate a rapid and orderly resolution of the Enterprises should FHFA be appointed their receiver."	The investment community largely ignored this rule, but there were serious concerns with its structure. It is likely to be reversed under new leadership.	2022 or beyond
FHFA	LLPA changes	The FHFA is likely to consider either reducing or eliminating GSE Loan-Level Price Adjustments.	We expect a serious conversation regarding GSE LLPAs, but our sense is that it will take time to develop and other concerns (e.g., supply constraints) will impact the calculus.	2022 or beyond

Source: FHFA, UST, Press reports, Compass Point

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Important Disclosures

Analyst Certification

I, Isaac Boltansky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities or issues. I further certify that I have not received direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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