



The Daily Dish

# Because I Have To...

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Certain themes run through Eakinomics – the chronic abdication of policy leadership by Taylor Swift and the resultant bankrupt drift of the National Flood Insurance Program; the continued unwillingness of Congress to raise its gaze above the navel and acknowledge to the public its stewardship failure and the appalling state of federal finances; and, above all, the ongoing policy bastardization that stems from the ultimate in institutional misdesign—the housing government sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

As it turns out, today is the confirmation hearing of Sandra Thompson, the nominee to lead the Federal Housing Finance Agency (FHFA), the GSE’s regulator. Thompson has nonetheless served as the agency’s acting head since June 2021. It is, accordingly, a propitious moment to look ahead to the issues that may surround the GSEs in 2022. Certainly, the residential [housing market](#) has been on [fire](#). Housing prices rising at nearly 20 percent is unsustainable, so the real issue is how this plays out over the next year or so. If the housing market turns out to be a bubble of sorts, it raises the issue of just how many borrowers will find themselves underwater or in financial distress. And, the current price increases are a great attraction to newer purchasers, who are likely to be continually riskier borrowers.

For GSE policy, this raises two key issues. The first is whether their capital cushion is sufficient to absorb any losses. The recent GSE [capital rule](#) was not overwhelmingly strong, so this is an ongoing concern. Even more important, the recently proposed modifications made under Thompson’s leadership to that rule would further reduce the amount of capital held by the GSEs. This gets layered on top of the FHFA’s willingness to expand the credit box and accommodate riskier borrowers. The upshot is that 2022 should be a year of monitoring any buildup of dangerous risks at the GSEs.

Of course, one could dream bigger. One could hope that the Financial Stability Oversight Council (FSOC) would follow its nose to the conclusion that the GSEs are systemically important financial institutions (SIFIs) and impose a real prudential regulation regime. It won’t. And one could fantasize that the FHFA don a superhero cape and emerge as a real prudential regulator. It is not in the cards. Simply preventing substantial backsliding will be a real accomplishment.