Insight

Comparing Trump and Biden Administration Policy: Housing

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Executive Summary

- A Biden-Trump election contest affords voters the unusual opportunity to compare the presidential records of both candidates in assessing the next presidency's likely impact on housing policy.
- The Trump presidency was characterized by efforts to capitalize the government-sponsored enterprises (GSE) with a view to privatization, while the Biden presidency instead reversed much of this progress in the failed pursuit of affordable housing goals while ignoring safety and soundness mandates.
- The next president will need to navigate a complex web of ongoing and new policy concerns, from the appropriate role of the GSEs to the nation's persistent lack of housing inventory, issues that would be challenging enough even without the background of persistent high inflation

Introduction

As it becomes increasingly clear that the 2024 federal election will see a rematch between former President Donald Trump and the incumbent President Joe Biden, voters are afforded an unusual opportunity to judge both candidates not simply on campaign promises but on the regulatory record of their presidencies. Housing inventory is at record lows, prices remain high, and shelter is the single most significant contributor to consumer price inflation. It is increasingly likely that affordable housing will take a central place in the presidential policy debate.

Policies

Trump Administration Initiatives

GSE Reform

Early into Donald Trump's presidency, his administration issued a wide-ranging?reform and reorganization plan ?for the federal government, which indicated an intention to embark on mortgage finance reform via the privatization of government-sponsored entities (GSEs) Fannie Mae and Freddie Mac. A healthy and free secondary mortgage market requires that Fannie Mae and Freddie Mac be stripped of the systemic privileges that have allowed them to dominate the industry artificially. That the GSEs have remained wards of the state since the 2007–2008 financial crisis represents an omission made all the more astonishing given the primary role of the collapse of subprime mortgages in triggering the crisis.

Yet the Trump Administration remains the only administration to advance the cause of GSE privatization. Hot on the heels of?two days of hearings?in the Senate Committee on Banking, Housing, and Urban Affairs, the Trump White House released a?presidential memo?directing primarily Treasury Secretary Steve Mnuchin to develop a plan for comprehensive housing finance reform. Treasury subsequently released a sweeping blueprint for regulatory reform, providing detailed instructions to Congress and the Federal Housing Finance Agency (FHFA).

Enterprise Capital Requirements

Ten years after the Housing and Economic Recovery Act introduced safety and soundness regulations that included requiring the FHFA director to advance a risk-based capital framework for the GSEs, the FHFA finally released a proposal on enterprise capital requirements. The proposal would require that the GSEs hold in capital the higher of a minimum leverage ratio or a risk-based capital requirement. Yet given the proposal would have only gone into effect if the GSEs were removed from conservatorship and recapitalized, the proposed rule, while welcome, remained an unlikely proposition.

Capitalizing the GSEs

The year 2019 saw significant administrative housing finance reform under FHFA Director Mark Calabria . The jewel in the crown of these reforms was a significant project of recapitalization that saw the leverage ratio of the GSEs improve from 1,000-to-1 to 500-to-1, significantly reducing the risks the GSEs posed in the event of another housing crisis. The FHFA followed this up with a re-proposed capital rule that would require Fannie and Freddie to hold a combined $244 billion in capital, far higher than the combined $23.5 billion they held at the time,and would add a significant number of additional capital buffers borrowed liberally from banking regulation.

Ending the Qualified Mortgage Patch

The Consumer Financial Protection Bureau (CFPB) requires that all mortgage borrowers have a debt-to-income ratio of below 43 percent (the “Qualified Mortgage,” or QM, rule), but it created an exception for mortgages backed by Fannie Mae and Freddie Mac (the QM Patch). The QM Patch allows Fannie and Freddie to breach CFPB regulations by backing mortgages to borrowers with a higher ratio of debt to income, but in early 2019 the CFPB indicated that it would allow the QM Patch to expire in 2021, eliminating this privilege. While allowing the QM Patch to expire likely decreased mortgage availability, particularly for those with low incomes, it also necessarily significantly decreased the systemic risk implicit in the U.S. housing sector.

The Coronavirus Pandemic

In the face of the economic and social disruption caused by the coronavirus, Congress passed?three significant stimulus packages?to provide relief to the American economy, businesses, and consumers. With an estimated trillion-dollar price tag, the third stimulus package is one of the largest and most significant stimulus packages in U.S. history. The CARES Act would allow those with mortgages backed by federal loans to request six months of mortgage forbearance; tenants of homes that received this forbearance could neither be evicted nor charged fees or penalties for the nonpayment of rent. In addition, the CARES Act appropriated to the Department of Housing and Urban Development $5 billion in additional funding for Community Development Block Grants as well as additional funds for housing programs designed to support vulnerable communities.

Biden Administration Initiatives

The Coronavirus Pandemic

The American Rescue Plan Act of 2021 (ARP) represented the Biden Administration’s response to COVID-19 in the form of a $1.9 trillion stimulus plan. Unlike the measured, targeted stimulus packages Congress released during the Trump presidency, the ARP sought to achieve long-term Democratic policy goals under the guise of an immediate response to the challenges of the coronavirus, directly causing the rapid inflation that remains in place today. For housing, the most significant aspect of ARP was $40 billion in housing aid, although noticeably absent were any extensions to eviction moratoria.

GSE Reform

Since taking office, President Biden made clear his desire to vastly expand the role of the GSEs in the provision of subsidized affordable housing; new FHFA Director Sandra Thompson took little time to reverse reform progress made under previous Director Mark Calabria. To the Biden Administration, the role of the FHFA is to use the GSEs to provide affordable housing, seemingly?*at any cost*, and that it is more important that the FHFA director empower this mission than perform their statutory duties as a safety and soundness regulator. To this end, the Biden Administration has expanded the role of the GSEs in the market, increased the risk they pose, and moved the GSEs back to where they were before: without hope of privatization. Most notably, in September 2021 the FHFA suspended portions of the agreement between itself and the GSEs, allowing the GSEs to ignore limits on loans on second homes, the GSEs' involvement in multifamily markets, and the cash window limits the GSEs have access to. The most troubling implication, however, was the suspension of the restriction on "high-risk" loans, allowing the GSEs once again to purchase loans with elevated risk characteristics.

The Federal Housing Administration (FHA) has?significantly expanded its role?since the financial crisis and, with the GSEs, guarantees over $7 trillion in mortgage-related debt to the borrowers least able to repay. The FHA's book of mortgages is considered so toxic that even Ginnie Mae, the Government National Mortgage Association, has proposed?a 250 percent risk weight?on gross mortgage service rights that make up the majority of the FHA's business. Former FHFA Director Calabria has warned that the FHA is?setting the market up for failure?with its poor underwriting standards, the risk of which could topple the housing market.

Enterprise Capital Requirements

Shortly after suspending part of the governing agreement the FHFA announced in a proposed rulemaking that it would amend the GSE enterprise regulatory capital framework, reducing the amount of capital the GSEs would be required to hold. Allowing the GSEs to hold onto more capital makes them significantly less vulnerable to economic stress (and indeed, the GSEs do not hold anything like the capital required by the Federal Reserve if they were private entities). The FHFA only a day?later proposed easing the enterprise capital requirements?on the GSEs from the 4 percent set under the previous administration to 3 percent, in effect cutting the combined capital requirement of the GSEs from $294 billion to $220 billion.

Ending the Qualified Mortgage Patch

In December 2020 the CFPB announced via a notice of proposed rulemaking that it would extend the date at which new QM rules would come into effect, effectively delaying the "sunset" of the rule. Fortunately, the effects of this delay were somewhat mitigated by additional guidance released by the GSEs in April 2021 indicating that they would cease buying loans that do not meet the revised QM rules.

Conclusions

The next president will need to navigate a complex web of ongoing and new policy concerns, from the appropriate role of the GSEs to the nation’s persistent lack of housing inventory. These issues would be challenging enough even without the background of persistent high inflation, but – when it comes to housing policy – the American public can assess both candidates’ ability to tackle future challenges based on their track records.