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December 2018 – Legislative and Regulatory Update

This month, the Federal Home Loan Banks saw an increase in the number of Community Development Financial Institution members; President Trump indicated his intent to nominate Mark Calabria to lead the Federal Housing Finance Agency; the Senate confirmed Kathy Kraninger to lead the Consumer Financial Protection Bureau; and the Federal Deposit Insurance Corporation's deposit insurance fund surpassed its statutory minimum.

Details about these and other developments below.

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## Housing Policy

### Federal Home Loan Banks See an Increase in Number of CDFI Members

Forty-eight non-depository community development financial institutions (CDFIs) were members of a Federal Home Loan Bank in 2017, up from 45 the year before. Outstanding advances to non-depository CDFIs rose in 2017, totaling \$161.7 million. A year prior, nonbank CDFI advances totaled \$121.7 million.

### Trump to Nominate Mark Calabria to Lead the FHFA

The White House indicated its plans to nominate Dr. Mark Calabria as the next director of the Federal Housing Finance Agency (FHFA). If confirmed by the Senate, Dr. Calabria would succeed current agency director Mel Watt, whose term will end in January.

Dr. Calabria currently serves as the chief economist for Vice President Mike Pence. Prior to that, he worked at HUD, he served as a Republican aide on the Senate Banking Committee, and he was director of financial regulation studies at the Cato Institute.

Dr. Calabria has previously expressed skepticism about the role of Fannie Mae and Freddie Mac in the mortgage market, and he may use his position to limit the Enterprises' scope.

Dr. Calabria's appointment was lauded by several Republican lawmakers. "At a moment in time when the future of housing finance policy in our country will be permanently shaped by the next FHFA director, I can think of no better or more responsible person for the role than Dr. Calabria and applaud President Trump for his outstanding pick," said House Financial Services Committee Chairman Jeb Hensarling (R-TX).

### Trump Administration Looking to Move Fannie Mae, Freddie Mac Out of Conservatorship

Treasury Secretary Steven Mnuchin recently stated that the Trump administration would like to work with Congress to free Fannie Mae and Freddie Mac from government conservatorship, though it is considering pursuing some unilateral changes.

"I would like to get them out of conservatorship," Mr. Mnuchin recently stated during an interview with Bloomberg News. "My preference would be to do something that has bipartisan legislative support." Mr. Mnuchin didn't specify what Treasury might do unilaterally, though he indicated that securing Senate confirmation of a new Federal Housing Finance Agency (FHFA) director will be key to the administration's efforts.

Mr. Mnuchin has repeatedly stated that addressing Fannie and Freddie is a priority for

the Trump administration, though Treasury hasn't outlined a specific plan. Earlier this year, the White House released a proposal, suggesting that Congress should remove Fannie and Freddie's charters and end their conservatorships.

## FHA Official to Serve as Acting Deputy HUD Secretary

Brian Montgomery, commissioner of the Federal Housing Administration, will serve as the acting No. 2 of the Department of Housing

and Urban Development (HUD) following the resignation of Deputy Secretary Pam Patenaude.

HUD Secretary Ben Carson recently announced that Ms. Patenaude will step down in January. Ms. Patenaude plans to return to private life after a 35-year career in housing. As deputy secretary, Ms. Patenaude led the department's disaster recovery response. Prior to serving in the Trump administration, Ms. Patenaude was the HUD assistant secretary for community, planning and development under President George W. Bush.

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# Banking and Economic Policy

## Final Rule Implements Extended Exam Cycle for More Banks

Federal financial regulators recently issued a joint interim final rule that makes qualifying banks with up to \$3 billion in assets eligible for an 18-month on-site exam cycle. Prior to the passage of S. 2155, a banking regulatory relief bill, only banks with under \$1 billion in assets were eligible. Under the final rule, insured depository institutions will qualify if they have an "outstanding" or "good" composite rating.

## Kathy Kraninger Confirmed as CFPB Director

In a 50 to 49 party-line vote, the Senate recently confirmed Kathy Kraninger to a five-year term as director of the Consumer Financial Protection Bureau (CFPB). Until recently, Ms. Kraninger was an associate director at the Office of Management and Budget.

At a press briefing during her first day in office, Ms. Kraninger said her early focus will be on data security and privacy. She added that she will use the agency's enforcement powers as needed but that a previous CFPB practice she referred to as "regulation by enforcement" is "certainly pushing the envelope."

## Banking Groups Call for PACE Loan Rulemaking

In a recent comment letter to the Consumer Financial Protection Bureau several banking groups called on the bureau to quickly initiate a rulemaking to further regulate Property Assessed Clean Energy (PACE) loans, as directed by S. 2155. PACE loans allow homeowners to finance through their property tax assessments the purchase and installation of energy-efficient retrofitting, such as solar panels and high-efficiency air conditioners. Many lenders have concerns with PACE loans because they often take lien priority over first mortgages.

## FDIC's Deposit Insurance Fund Rises

The Federal Deposit Insurance Corporation's deposit insurance fund (DIF) rose by \$2.6 billion in the third quarter to total \$100.2 billion. The DIF reserve ratio rose to 1.36 percent, exceeding the statutory requirement of 1.35 percent of insured deposits. Industry groups noted that the recapitalization of the fund was completed two years earlier than expected. For banks above \$10 billion in assets, this milestone marks the end of "surcharge assessments."

# What Others Are Saying about the FHLBanks

“The (Federal Home Loan Banks’ Mortgage Partnership Finance® Program) and related programs have a built-in infrastructure to help community banks, savings and loans, and credit unions aggregate mortgages, syndicate credit risk and access the secondary mortgage market.”

— Milken Institute

“The community benefits from (FHLBank Dallas’ Partnership Grant Program) because the funds enable (our) organization to focus on its mission.”

— Clifton Williams, Community Development Officer, Guaranty Bank & Trust Company

“The FHLBank System has a diverse and global investor base.”

— Standard & Poor’s

“We’re so happy to partner with (FHLBank Dallas) in contributing to the betterment of the community.”

— Brandon Kelly, Community Reinvestment Act Director, Home Bank

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