Mortgage Market's Most Powerful Person Just Got Fired. What Are The Implications?

The Federal Housing Finance Agency (FHFA) was born of the chaos that defined the mortgage market at the end of the great financial crisis. In addition to absorbing existing regulatory agencies' duties, its most important and unique role came as the conservator of Fannie Mae and Freddie Mac (collectively, the GSEs).

Conservatorship gave FHFA **all** the powers and responsibilities of the GSEs' directors, officers, and shareholders. This was the only way then Treasury Secretary Hank Paulson would commit taxpayer money to bailing out the GSEs (who were essentially insolvent after the financial crisis, but as you've likely heard by now, were **"too big to fail"**). Incidentally, the FHFA was to be headed by a single director who could not be fired by the president without cause.

Taxpayer money was made available for the GSEs via Preferred Stock Purchase Agreements (PSPAs) purchased by Treasury. Since returning to profitability in 2012, the GSEs have paid dividends on the PSPAs and that total has long since **surpassed** the taxpayer infusion.

In essence, the GSEs are **cash cows** for the government at this point, but they're not without risks or critics. There are some who would like very much to see the GSEs exit conservatorship and for taxpayers to no longer be on the hook just in case something bad happens in the future. This was the driving force of FHFA director Mark Calabria.

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In an effort to set the GSEs on a path to privatization (and smaller footprints in the housing market), Calabria **struck a deal** with outbound Treasury Secretary Steven Mnuchin days before the new administration took office. This was a last ditch effort to lock in Calabria's political ideology and make it harder for successors to derail GSE privatization.

The deal made changes to the PSPAs which required Fannie and Freddie to make several of their own changes throughout the year. The first of these to be implemented was a **cap** on investment properties and 2nd homes (only 7% of GSE acquisitions could fall into this category).

While that wasn't too far from the normal proportion of investor/2nd mortgages, it was close enough that the GSEs had to announce the limitation. As a result, **lenders took immediate steps** to make sure they weren't over the 7% threshold (and thus at risk of being unable to sell those loans to the GSEs). What's the quickest way for a lender to decrease their volume of a certain type of loan? Make them outrageously expensive!

This is why multiple lenders raised rates and fees on Investor/2nd mortgages by **staggering** amounts in a very small window of time. As the year progressed, the GSEs were forced to get more heavy-handed with lenders who were selling them too many of these loans. That drove more business to other lenders who were subsequently forced to raise their rates on Investor/2nd loans to avoid ending up in the same boat. Basically, it's been a **frantic game of hot potato** with investor loans and the only hope for relief was for the recent PSPA changes to be undone.

As of this week, that became a distinct possibility when the Supreme Court ruled the structure of the FHFA was **unconstitutional**. Specifically, the inability of the president to remove a sitting director violated the separation of powers. One day later, Calabria was **out** and his temporary replacement had been named.

Why does this matter? Biden can now appoint an FHFA director who will work with Treasury Secretary Yellen to undo the recent PSPA changes that run counter to the current administration's housing policy goals. Some experts believe that means "all of them." If that happens, the GSEs could immediately relax recent efforts to cap the delivery of specific types of mortgages and lenders could begin dropping their defensive pricing strategies on those loans.

So if you're buying or refinancing an investment property or second home, **does this mean you should wait?** No one can competently advise you on that. It could take months before such changes hit the street, and rates could have risen enough by then to offset the benefit of waiting. Beyond that, there's really not an ironclad guarantee that those specific changes will be undone. And if they are, it would still take time for lenders to gradually lower their guard.

The **safest** and **best** takeaway from all this drama is simply this: the mortgage market is more stable and mortgage credit is more available when there isn't a single person with an inordinate amount of control trying to force the GSEs into smaller, more restricted roles.