The Daily Dish

Riskaholicism on the Rebound

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Eakinomics: Riskaholicism on the Rebound

In what appears to be a growing trend, today's Eakinomics is a bit of a tirade. Although the level of outrage is not much affected, Eakinomics did have to choose where to direct it. Should it decry an administration and president that so disrespects the core value of individual freedom that it wants to coerce banks into turning over financial data for any bank account over $600? Shameful. But perhaps not surprising for an administration driven by the neo-McCarthyites known as progressives.

But no, let's save that for another day and instead review the bidding on recent regulatory moves by the Federal Housing Finance Agency (FHFA). As more fully detailed in Thomas Wade's latest research, "On September 14, the FHFA announced that it would 'suspend certain portions' of the Preferred Stock Purchase Agreements (PSPA), the regulatory agreement by which the GSEs make quarterly dividend payments to the Department of the Treasury. The 'certain portions' the FHFA note refer to restrictions placed on the GSEs by former FHFA Director Mark Calabria on January 14, 2021, including caps on the GSE multifamily portfolios and on loans secured by a second home or investment properties. The most troubling implication, however, is the suspension of the restriction on 'high-risk' loans, allowing the GSEs once again to purchase loans with elevated risk characteristics." In short, this allows Fannie and Freddie to buy and hold mortgages more likely to go bad.

Then, one day later, FHFA "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." In short, the GSEs would have to hold less capital against the prospect of more loan losses.

This is major league stupid. Endangering the safety and soundness of Fannie and Freddie will not change the sale price of a new, single-family home or rent on a center-city apartment. Neither will purchasing, and thus incentivizing the origination, of riskier mortgages (aka mortgages that should not be originated). These efforts will increase the access to financing and demand for homes and apartments. But they won't lower construction costs, allow zoning for greater density, lower the regulatory burden, or in any way increase the supply of housing units. Greater demand for the same units just means higher-priced, less affordable housing. Stupid. Andthis raises the risk that Fannie and Freddie return to soaking the taxpayer for support.

Now, you might say, "hold on there Eakinomics, these are small changes." But Fannie and Freddie are recovering riskaholics whose mortgage habit cost this country plenty. These changes are about as comforting as seeing George Jones (God rest his soul) nuzzling a bottle of Jim Beam.

In the same way that George Jones had to learn to produce hits sober, the Biden Administration needs to find a way to political popularity that is not dangerous to our collective economic health.