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FLASH: Why Wait to Pry Open The Credit Box?

Markets are reacting this afternoon to [news reports](#) that Fannie-Freddie regulator and conservator FHFA will soon announce the GSEs' easing of credit terms to allow the return of 97% LTV loans, while also providing clarity on further improvements to ease lenders' repurchase or "put back" risks. The reports appear to front-run an address that FHFA Director Mel Watt is scheduled to give at a Mortgage Bankers Association (MBA) conference next Monday, October 20, but they also comport with recent chatter that the Obama administration—long committed to the phase-out of Fannie and Freddie—may be on the verge of easing up in order to allow the Enterprises to better facilitate the flow of credit to the housing sector. All amid separate indications that Watt may also soon green light the filling of the HERA Act's Housing Trust Fund (HTF) via the equivalent of a small tax on agency MBS.

Looking at these reported new developments separately, and without benefit of detail, we would make several points. The greenlighting of 3% down-payment loans could further help to correct the adverse credit environment for low and middle income borrowers, and seems to add credence to recently growing expectations of FHA premium reductions and/or net softening of Fannie-Freddie G-fees and LLPA, perhaps as early as 1Q2015. This would obviously be an incremental plus for the mortgage, MI, housing and related retail sectors—but, in our view, it holds even more significance as evidence of a spate of new and positive policy changes finally to come. Since Fannie and Freddie have already gained market share at FHA's expense over the past year, for instance, we doubt the GSEs' would be on the verge of further relative empowerment or advantaging were cuts in annual FHA premiums not also in the offing. [[As we have posited](#) since late July, the November actuarial report for FHA could be key, revealing how much progress has been made toward returning the reserve fund to its 2% minimum capital requirement.] Meanwhile, we remain skeptical of any major new advances in curbing putback/repayment risk, as our most recent regulatory channel checks have suggested that FHFA is largely down to clarifying "life of loan exemptions" as its last related move of any consequence.

Finally, the combination of opening the Fannie-Freddie spigots a bit more widely, while setting to also turn on the HTF, in our view, speaks to: 1) intriguing political timing; and 2) yet another important wrinkle in the ongoing saga over GSE common and preferreds. While inside-the-Beltway analysis might hold that the moves are just the finally-arriving results of Jack Lew's taking over at Treasury and demanding intensified focus on housing—and Seth Wheeler's elevation at the NEC as an administration point man to make things happen—the political calendar must note that the changes are beginning to dribble out less than three weeks before Republicans seem set to retake the Senate. Thus, there are no Hill conservatives around to

Tickers

*MTG, RDN, GNW, ESNT, NMIH,
STI, OCN, NSM, WAC, HD, LOW,
PUL, TOL, PHM, LEN, FNMA,
FMCC, FNMA5, FMCKJ*

criticize, and, even with a brief lame-duck session to follow the elections, their voices and votes won't truly become more consequential until late winter (2015). As a result, the White House may be banking on setting a number of liberalizing moves in motion during the pre- and post-election transition, then daring the Republicans to push back as a first order of business in the new Congress. In our view, this could foretell perhaps the earliest issue framing of the 2016 election cycle. Meanwhile, we'd note that it doesn't take a genius to realize that the GSEs' reinvigoration—begetting further comfort with their continued role, if not newfound addiction to HTF affordable housing dollars—could amount to a huge positive for Fannie-Freddie shareholders and other sector stakeholders betting against the passage of Corker-Warner/Johnson-Crapo-like reform legislation. Perhaps an ironic question to brainstorm, however, is how today's telegraphed changes *might have* been perceived had Judge Royce Lamberth's recent District Court decision pointed to the potentially-forced revisitation of the GSEs' PSPA third amendment terms, if not their conservatorships. [As we have noted](#) separately, we think the legal challenges will continue to play out over many, many years, and thus the initial setback may have had its biggest importance in informing Washington's GSE debate. In this regard, we think the administration might have had more cover to back down or transform its relationship with the Enterprises had the shareholders won the first round - and thus we find today's news intriguing as evidence that White House calculations might be shifting anyway.

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