How Politics (Un)usual Might Influence the Industry

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This e-book is based off of the Mortgage Market Guide webinar presented by Vantage Production.

2017 Mortgage Industry Outlook
What Lenders Can Look for in the Year Ahead

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What the mortgage industry offers, America needs.

Lenders help families. Lenders put families in homes. And that tends to get forgotten in the hubbub of today’s non-stop news cycle.

This e-book aims to cut through some of the headline noise and dig into trends facing the mortgage industry—including its lenders, clients and referral partners—in 2017.

Politics

Reality Check

Throughout the 2016 election process and heading into the new presidency, many people speculated over regulatory changes under a Donald Trump administration. In particular, political pundits and industry experts speculated over a decrease in federal oversight.

The United States is bigger than the presidency regardless of who won.

The reality is that the United States is bigger than the presidency regardless of who won. While the regulatory environment may shift under each president's direction, federal regulation won't go away. The Dodd-Frank Wall Street Reform and Consumer Protection Act is not going to be eliminated. The Consumer Financial Protection Bureau (CFPB) is not going to be eliminated.

What's going to happen is the regulatory environment will be refined. Hopefully politicians and folks in the industry will keep an eye on what works, correct what doesn't work, and that will be good for everyone.

What Is It? Why Does It Matter?

Dodd-Frank Wall Street Reform and Consumer Protection Act

Following the 2008 financial crisis, this act was signed to prevent the excessive risk-taking that led to the crisis. The law provides protections for American families and led to the creation of a new consumer watchdog (the Consumer Financial Protection Bureau) to prevent mortgage companies and pay-day lenders from exploiting consumers. The new rules aimed to build a safer, more stable financial system that provides a robust foundation for lasting economic growth and job creation.

Consumer Financial Protection Bureau

This U.S. government agency makes sure banks, lenders and other financial companies work for consumers, responsible providers and the economy as a whole. The CFPB aims to protect consumers from unfair, deceptive or abusive practices and take action against companies that break the law. The CFPB also arms people with the information, steps and tools they need to make smart financial decisions.

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The State of Enforcement

What the mortgage industry, its clients and referral partners need to keep in mind is that if federal regulation lessens under a Trump administration, the states will take on a more activist posture. What the CFPB might give up, states might pick up.

Few people are talking about the role of the states' attorneys general and how state financial services regulators may be stepping up their game to enforce consumer financial protection laws. State regulators have become more competitive, and no regulator wants to be accused of missing anything. If these regulators are faced with a less aggressive CFPB, they may ratchet things up, especially in Democrat-controlled states, which already tend to have an activist approach to enforcement.

Nobody wants to see the regulatory pendulum swing back to where it was 10 or 15 years ago.

The states are geared up to monitor and regulate the mortgage industry. And when you read about instances of state fines and penalties, they can be just as onerous as CFPB and other federal fines.

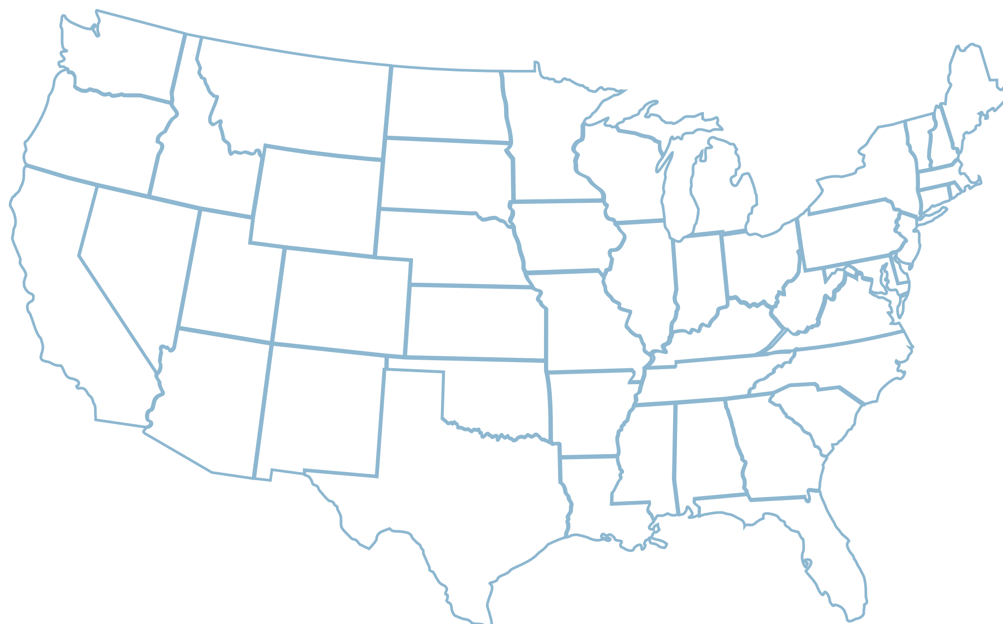
Bottom line: The regulatory environment will shift. Will we have fewer regulations? Everyone hopes so, but nobody wants to see the regulatory pendulum swing back to where it was 10 or 15 years ago. On the other hand, it's hard to stop a pendulum in the middle.

$10.1 billion

Approximate amount of relief to consumers from CFPB enforcement activity.

2011 through July 15, 2015

Source: Consumer Financial Protection Bureau



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The Doctor's Diagnosis for Fannie and Freddie

At the time of this writing, Dr. Ben Carson was confirmed by the Senate to oversee the Department of Housing and Urban Development (HUD).

Carson is expected to reverse President Barack Obama's aggressive enforcement of fair housing laws, including the use of disparate impact, which is a legal doctrine under the Fair Housing Act stating that a policy may be considered discriminatory if it has a disproportionate "adverse impact" against any group based on race, national origin, color, religion, sex, familial status or disability when there is no legitimate, non-discriminatory business need for the policy.

People also believe Carson is interested in curtailing the mortgage interest deduction given it was part of his presidential platform when he ran in the primaries. We could also see a reversal in HUD's Fair Housing Act guidance regarding criminal screening in the housing process.

Many believe, however, that fair housing is going to take a backseat to reforming Fannie Mae and Freddie Mac.

Since 2008, industry experts have been asking what's going to happen with Fannie Mae and Freddie Mac.

Fannie Mae and Freddie Mac were created by Congress to:

- Provide ready access to funds on reasonable terms to the thousands of banks, savings and loans, and mortgage companies that make loans to finance housing.
- Buy mortgages from lenders and either hold these mortgages in their portfolios or package the loans into Mortgage Backed Securities (MBS) that may be sold. Lenders use the cash raised by selling mortgages to engage in further lending.
- Attract secondary mortgage market investors who might not otherwise invest in mortgages, thereby expanding the pool of funds available for housing.
- Help stabilize mortgage markets and protect housing during extraordinary periods when stress or turmoil in the broader financial system threatens the economy.

Did You Know?

Both Fannie Mae (1938) and Freddie Mac (1970) were chartered by the U.S. government to help ensure a reliable and affordable supply of mortgage funds throughout the country.

Today, both are shareholder-owned companies that operate under a congressional charter.

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Despite all the plans that have been floated out by the industry or politicians regarding Government Sponsored Enterprise Reform, nobody has a strong plan that looks at policies and how those policies will impact lenders, borrowers and other areas of housing. The discussion needs to play out in Congress.

These discussions pose high-level questions about what is an appropriate use of taxpayer money.

Bottom Line: From a big picture perspective, the discussion over Fannie and Freddie really highlights the role of the federal government in housing in many ways. These discussions pose high-level questions about what is an appropriate use of taxpayer money, about whether or not taxpayer money should be used to subsidize housing, and about who should be responsible for consumer education.

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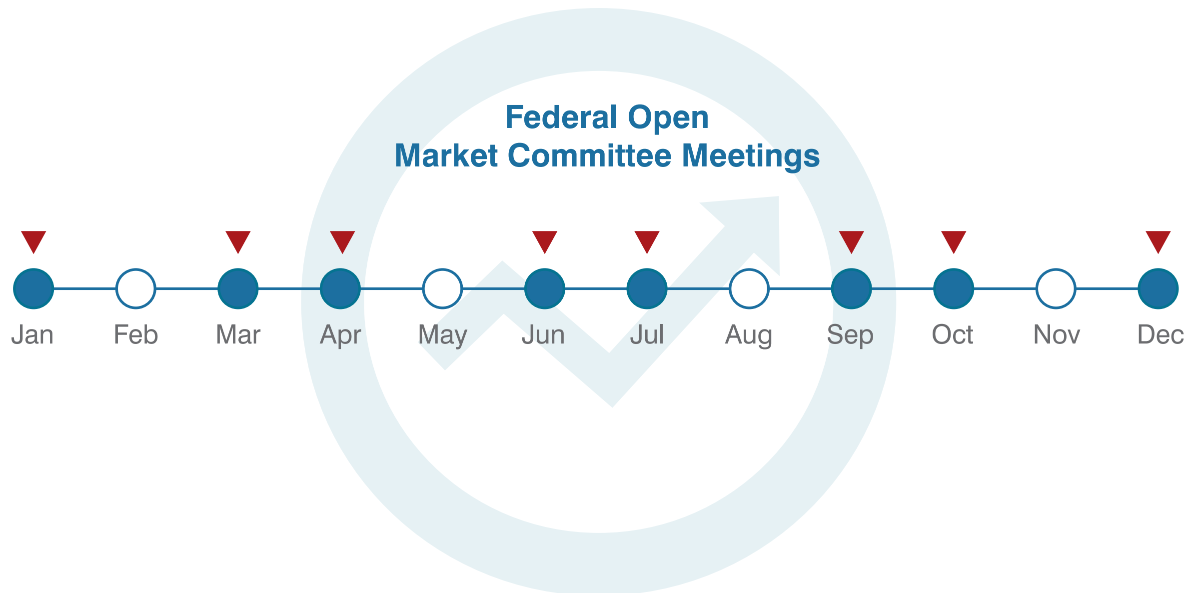
Inflation

The Fed Said

The Federal Open Market Committee (FOMC) is a 12-member committee made up of the seven members of the board of governors and five Federal Reserve Bank presidents. It meets eight times per year to determine the near-term direction of monetary policy.



When the FOMC met in December 2016, markets already had anticipated a hike to the Federal Funds Rate. Investors were ready for the quarter-percent increase to the short-term rate.

What investors weren't ready for was Federal Reserve Chair Janet Yellen's remarks that three more potential rate hikes were foreseeable in 2017 as economic activity and the labor market continue to strengthen and inflation moves closer to the Fed's target objective of 2 percent.

The Fed Funds Rate is the benchmark rate at which bankers lend to one another overnight. While this rate is not directly related to longer-term interest rates for things like home loans, when this rate changes, other rates may follow suit because of current market conditions.

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Monetary Policy Versus Fiscal Policy

An important distinction to be made is the one between monetary and fiscal policy.

- **Monetary policy** relates to interest rates and influencing the money supply (what the Federal Reserve does).

- **Fiscal policy** relates to tax rates and levels of government spending that influence economic activity.

Monetary policy is what the FOMC weighs in on throughout the year following each Federal Open Market Committee meeting. Fiscal policy is what the president and members of Congress weigh in on. Here is where the two focuses may butt heads in the near future.

On the campaign trail, Trump talked about boosting the economy. That could be a problem for the new administration for a variety of reasons, one of which is unemployment. The unemployment rate is at a nine-year low and well below the best optimistic projections. In general, the lower the unemployment rate, the slower the pace of job growth that can be handled and sustained in the economy without driving wages and prices up too quickly. If wages and prices rise too quickly, the Fed shifts from being concerned about deflation to being concerned about price increases that are out of hand.

If the FOMC wanted to tap the brakes on interest rates, Trump's anticipated spending and tax cuts could prompt a faster rate of increases than the three foreseen in 2017.

On top of that, the United States is only one piece of the puzzle. Signs of synchronized economic rebound abound around the globe. World economies are doing pretty well.

Bottom line: Our economy is doing better than it was one year ago and even five years ago. There are pockets of problems in our nation that aren't doing as well as others economically, but the economic picture of our nation overall is good.

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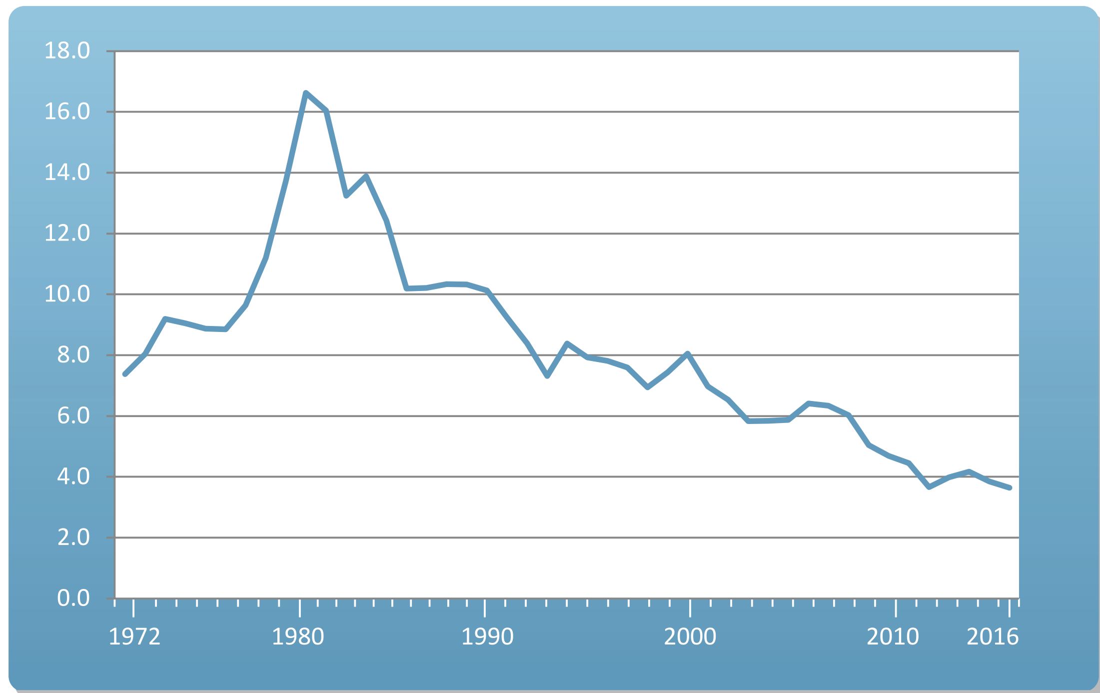
A Historic Look at Home Loan Rates

At the close of 2016, home loan rates hit their highest levels in two years. That being noted, the rates are still in historic territory as the chart below illustrates.



30-Year Fixed Home Loan Rate History
Annual Average Since 1972
Source: Freddie Mac

If our economy continues to strengthen, short-term and long-term interest rates could move higher.

Bottom Line: If rates move higher because the economy is doing well, this should also mean consumers are doing better economically. And if consumers are doing better economically, this means the potential for more first-time homebuyers, which in turn, is good for real estate agents, builders, furniture and appliance retailers, insurance providers, and so many more.

Because the economy is doing well, this should mean consumers are doing better economically.

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