



# Weekly Washington Update

## Washington Policy Summary and The Week Ahead - February 25, 2013

### Highlights

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- **Bernanke on the Hill.** Federal Reserve Chair Ben Bernanke will go to Capitol Hill to deliver his semiannual Humphrey-Hawkins monetary policy testimony. He will first testify before the Senate Banking Committee (Tuesday at 10:00am) and then the House Financial Services Committee (Wednesday at 10:00am). Given that “Fed Speak” has been particularly perplexing recently (even by Fed standards), Bernanke’s testimony on Tuesday will be the marquee event of the week. We expect Bernanke to reaffirm his commitment to the Fed’s extraordinary measures. Simply put: the composition of the Fed’s policymaking arm, the FOMC, remains decidedly dovish and we expect its current policies to continue unabated at least through 2013. We do not believe that the recent focus on the Fed’s eventual exit strategy, as detailed in the latest FOMC minutes, is indicative of a near-term shift in policy. We expect Bernanke’s testimony to serve as policy clarifier given the conflicting nature of recent Fed commentary and, most notably, as a reminder of the Fed’s commitment to QE.
- **Sequester This Week.** Congress returns this week to take one more shot at avoiding the budget sequester which is scheduled to take effect on Friday. All eyes will turn to the Senate given that a deal will need to be made in that chamber before the House will move. We believe this last-ditch attempt will fail and that the sequester will go into effect on March 1 as scheduled. Our conversations continue to illustrate the lack of urgency regarding this subject on Capitol Hill. Lawmakers are willing to trip the sequester and then spend March trying to formulate a deal. In our view, this will result in a brief government shutdown on March 27 when the most current continuing resolution expires. The politics of this situation must get worse before they can get better.
- **Senate Banking Looking at the FHA.** The Senate Banking Committee will hold a hearing on the FHA on Thursday at 10:00am. The committee will hear the testimony of outside experts from organizations such as the National Association of Realtors and Mortgage Bankers Association. The issue of FHA reform remains a focus on Capitol Hill in 2013. The House Financial Services Committee has already held two hearings thus far and intends to hold at least one more in the next month. It is becoming increasingly clear that House Republicans are focused on mandating fundamental changes to the agency’s mission, which lessens the likelihood of a FHA reform bill in 2013. Furthermore, FHA Commissioner Galante’s testimony guided toward the FHA not needing a bailout from Treasury in FY 2013, which removes a potential catalyst for legislative action.
- **The Week Ahead.** As detailed in our calendar on page 2 of this document, the week ahead will be a busy one. We will be watching the Bipartisan Policy Center’s presentation of its new housing finance report on Monday at 11:00am. Tuesday will start with the release of both the FHFA and S&P/Case-Shiller indices at 9:00am. Following that, eyes will turn to Capitol Hill as the Senate Finance Committee will vote on Jack Lew’s nomination to be Treasury Secretary and Ben Bernanke testifies before the Senate Banking Committee. Late that afternoon the CFTC will hold a roundtable discussion on LIBOR which we expect will largely echo Chairman Gensler’s comments last week. Gensler will then go to the Hill on Wednesday to testify before the Senate Agriculture Committee. On Thursday the FRBNY will release its Q4 2012 Household Debt and Credit Report. This report is widely watched on Capitol Hill and by regulators. Once again, we believe the story that emanates from this report will be the steady increase of student debt outstanding (and delinquencies). And, finally, the week ends with the budget sequester deadline. **Please see page 2 for a detailed calendar for the week ahead.**

## The Week Ahead in Washington Policy (February 25 - March 1, 2013)

| February/March 2013  |  |   |   |  |
|--|--|---|---|--|
| Monday   | Tuesday  | Wednesday   | Thursday  | Friday   |
| 25   | 26   | 27  | 28  | 1  |
| <p><b>11:00am:</b> The Bipartisan Policy Center holds a public event for the release of its housing finance report.</p> <p><b>5:00pm:</b> Acting Treasury Secretary Neal Wolin delivers remarks in Chicago.</p> <p><b>7:00pm:</b> Dennis Lockhart (Dovish, Non-FOMC voter) delivers a speech at the University of Tennessee.</p> | <p><b>9:00am:</b> S&amp;P/Case-Shiller and the FHFA home price indices for December 2012.</p> <p><b>10:00am:</b> Conference Board's consumer confidence reading for February.</p> <p><b>10:00am:</b> Ben Bernanke testifies before the Senate Banking Committee.</p> <p><b>10:00am:</b> New Home Sales (January).</p> <p><b>10:00am:</b> Senate Finance Committee votes on Jack Lew's nomination and holds a hearing on the budget.</p> <p><b>10:00am:</b> A House subcommittee holds a hearing on compensation at TARP firms. SIGTARP will testify.</p> <p><b>10:30am:</b> Senate Budget Committee holds a hearing on the 10 year budget.</p> <p><b>1:00pm:</b> The CFTC holds a roundtable on LIBOR.</p> | <p><b>7:00am:</b> Weekly mortgage applications.</p> <p><b>8:30am:</b> Durable Goods Orders data for January.</p> <p><b>10:00am:</b> Ben Bernanke testifies before the House Financial Services Committee.</p> <p><b>10:00am:</b> Pending Home Sales Index for January.</p> <p><b>10:00am:</b> The Heritage Foundation holds an event focusing on the Dodd-Frank Act's impact.</p> <p><b>2:00pm:</b> House Armed Services Committee holds a hearing on the sequester's impact on defense.</p> <p><b>2:30pm:</b> Gary Gensler, head of the CFTC, testifies before the Senate Agriculture Committee.</p> | <p><b>8:30am:</b> Weekly unemployment claims.</p> <p><b>8:30am:</b> Q4 GDP (second estimate) release.</p> <p><b>9:00am:</b> House Judiciary Committee holds a hearing on the impact of regulations on business.</p> <p><b>10:00am:</b> Senate Banking Committee holds a hearing on the FHA and will hear testimony from NAR and MBA.</p> <p><b>10:00am:</b> The Joint Economic Committee holds a hearing on the state of the U.S. economy.</p> <p><b>11:00am:</b> The FRBNY will release its Q4 Household Debt and Credit Report.</p> <p><b>12:30pm:</b> Sarah Bloom Raskin (Dovish, FOMC voter) delivers a speech at the Banking Outlook Conference.</p> | <p><b>Budget Sequester Deadline</b></p> <p><b>8:30am:</b> Personal Income and Outlays for January.</p> <p><b>9:55am:</b> University of Michigan Consumer Sentiment Index (final) for February.</p> <p><b>10:00am:</b> ISM Manufacturing Index for February.</p> <p><b>10:00am:</b> Construction Spending data for January.</p> <p><b>12:30pm:</b> Charlie Evans (Dove, FOMC voter) delivers a speech at the CFA Society of Iowa's annual dinner.</p> <p><b>10:00pm:</b> Ben Bernanke delivers a speech in San Francisco on the impact of low interest rates.</p> |
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Source: CQ, Financial Times, Calculated Risk, American Bankers Association, Bloomberg, Compass Point

## Color Key

Events/Speeches

Data/Report Releases

Congressional Hearing

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## The Week in Review (February 18 - 22, 2013)

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**Compass Point introduced a biweekly Mortgage Market Monitor. We hope to detail meaningful trends in the market as well as developments in both the legislative and regulatory spheres.**

This report will give a summation of what is happening in the mortgage market, from movements in primary-secondary spreads to mortgage origination volumes and market capacity indicators. We believe it is important for investors to keep track of these key indicators in order to make educated near-term and long-term decisions surrounding the mortgage market's impact on equities. We plan to publish this report bi-weekly and provide one-off updates on any key items that are of particular focus. In addition, we will also provide Washington policy updates. Considering the future of mortgage finance will be shaped by the decisions on Capitol Hill and within the administration over the next couple of years, it is important investors stay in front of any key legislation or new regulation.

Please see [here](#) for the complete report.

**There has been renewed chatter about potential G-Fee increases from the FHFA. We expect a 20 basis point increase in 2013.**

On February 19, Inside Mortgage Finance published an [article](#) stating that one former GSE official expected a 50 basis point increase in the G-Fee this year. We believe that the conservator of the GSEs, the Federal Housing Finance Agency (FHFA), will continue increasing G-Fees in 2013 but expect the increase will be ~20 basis points. A more dramatic increase would focus unwanted attention on the FHFA's efforts in the near-term and would break with the agency's methodical approach thus far. We detail below the existing landscape for G-Fee increases as well as the continuing concern surrounding the FHFA's state-level proposal.

For more details, please see our note titled: "[GSE G-Fee Increases Expected in 2013 but Not a Doubling of the Fee.](#)"

**Nevada took a meaningful step towards interstate poker, further highlighting the potential impact of the state-by-state strategy the industry is using.**

On February 21, Nevada passed a measure which makes it the first state to approve interstate gambling. This will allow Nevada to enter into compacts with other states which have passed interactive gaming laws in order to create a broader customer base. We view this as an important step in the state-by-state strategy online poker proponents have embraced since efforts on the federal level failed to gain the necessary traction at the end of 2012.

For more details, please see our note titled: "[Nevada Takes Important Step Towards Interstate Poker.](#)"

**The CFPB has reportedly sent letters to banks about their auto lending practices.**

Bloomberg [reported](#) that the CFPB has sent letters to at least four banks regarding potentially discriminatory auto lending practices. The article did not name the specific banks that received these letters. Instead, the article detailed the CFPB's concern that these institutions have violated the Equal Credit Opportunity Act (ECOA), a law from the early 1970s aimed at banning discrimination in lending. The issue is whether "dealer markup" – a practice where the dealer charges the borrower a higher rate than the bank quoted – is discriminatory. We believe the CFPB's authority in this instance is noteworthy. The Dodd-Frank act expressly provided a CFPB carve-out for auto dealers. For this reason, the CFPB's use of its bank supervisory authority as well as the ECOA demonstrate the bureau's relatively narrow authority over the industry. The CFPB is concerned that banks have been expanding too rapidly into subprime auto financing markets and by sending these letters they are able to send a regulatory warning to that effect.

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|-------------------|--------|---------|----------------------------------|--------|---------|
| Rating            | Number | Percent | Rating                           | Number | Percent |
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| Neutral           | 64     | 56      | Neutral                          | 1      | 2       |
| Sell              | 3      | 3       | Sell                             | 0      | 0       |
| Total             | 115    | 100%    | Total                            | 11     | 100%    |

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