

2017 Policy Environment Dominated by Uncertainty and Affordable Housing Challenges

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Engraved from a drawing by H. Schmitt

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2017 Policy Opportunity Against a Backdrop of Uncertainty

- Nothing in Washington is as it was before the 2016 presidential election
- Except for those things that are still the same
- Some reality checks offered as a guide

Reality Check #1: Uncertainty Dominates

- What role will deficits play in policy?
- Will the government be shut down?
- What will tax reform look like?
- How will housing fare?

Reality Check #2: Time is Precious

- Government Shut-down October 1?
- Government default November?
- Obamacare repeal in Senate?
- Flood Insurance October 1?
- Tax reform?

Reality Check #3: Congress– White House Relationship a Challenge

- Less R's than last Congress
 - Senate 52-48 (2 vote cushion)
 - House 239-194 (23 vote R cushion)
- Each has different perspectives
- The 2018 election has begun
 - 10 Senate Ds in states Trump won
 - 23 House Rs in districts Clinton won
 - All eyes on Georgia 6th -- Montana

Reality Check #4: Deficit Pressure

- By 2046, if laws remain unchanged, deficits will grow to 141 percent of GDP, the highest ever
 - Most growth for Soc. Sec. and health care programs are due to aging population
 - Projected spending on programs for people age 65 or older will account for about **half** of all federal non-interest spending

*CBO Long-term Budget Outlook (July 2016)

Mandatory Spending the Real Problem

- Two-thirds of FY 2017 Federal spending (\$2.6T)
- Not subject to appropriations
 - Costs go up with no legislation
- Social Security, Medicare, Medicaid, SCHIP, and interest on the debt
- By 2026, mandatory spending
 - Rises from 11.8 to 15.4 percent of GDP by 2026 (50-year average 10.8 percent)
 - 83 percent of increased spending

Discretionary Spending

- \$1.1T in FY 2017 (29 percent)
- Funded through annual appropriations
 - Most defense spending
 - Transportation
 - Education
 - Housing/economic development
 - Agricultural support programs
 - Etc., etc., etc.

Federal Spending Trajectory (percentage of GDP)

	Social Security	Health Care	Interest on debt	Defense	Non-defense
1991	4.4%	2.5%	3.2%	5.2%	3.5%
2016	4.9%	5.6%	1.4%	3.2%	3.3%
2026	5.9%	6.6%	3.0%	2.6%	2.6%

Reality Check #5: Tax Reform is Very Hard (Very)

- Deficit neutral?
- Different House-Senate approaches
- Impacts housing – and most everything else
- Tax cuts (not reform) possible

Reality Check #6: GSE Reform Not Soon

- F/F are supporting mortgage markets and presenting less risk to taxpayers
- F/F will provide substantial funds to the government
- Absent Legislation, mortgage finance will continue to change under conservatorship

GSE Reform Questions

- Why will F/F run out of capital 1/1/18?
- What is the status of the Affordable Housing Trust Fund and the Capital Magnet Fund?
- How long can F/F operate under conservatorship?
- Cost and availability of mortgage credit?