US HOUSING MARKET: A CONVERSATION WITH FEDERAL HOUSING FINANCE AGENCY DIRECTOR WILLIAM PULTE

Mike Piwowar 00:00

Hello, and welcome to a conversation with Federal Housing Finance Agency Director, William Pulte. In July 2008, the Federal Housing Finance Agency (FHFA) was created by law as a successor agency to oversee the government-sponsored entities, and granted it expanded authorities. Less than two months later, the new agency, FHFA, used its authority to take Fannie Mae and Freddie Mac into conservatorship. Fast forward 17 years to today, and Fannie and Freddie still remain in conservatorship. Now, since taking office as the head of FHFA less than two months ago, to say that Director Pulte has been active would be an understatement. Director Pulte, thank you so much for taking time out of your busy schedule to be with us here today. We'll get into some of your recent actions, but let's begin this conversation with a broader question. What are the administration's overall goals for housing, and what specific roles will FHFA play in achieving those goals?

William Pulte 01:04

Well, I can speak for myself, which is that we want to restore the American Dream for as many Americans as possible. And you know, home ownership was a generational asset in this country, and it's kind of gone away. And in his first term, people could afford a home, but now in his second term, we're going to make sure of it by reversing some of the inflation, and therefore some of the supply issues that we've also had in the country.

Mike Piwowar 01:28

So, housing affordability and supply issues are really important challenges. Any other pressing challenges that you see in terms of priorities?

William Pulte 01:37

Well, just making sure that these entities are safe and sound while also not being bloated and heavily excess spending, and being used as social engineering programs that politicians couldn't otherwise get through Congress.

Mike Piwowar 01:52

So there's safety and soundness as one of your roles, and then housing affordability is the other. There's multiple roles that are sometimes intention: regulator, conservator, and fiduciary for taxpayers, which are sometimes intention. How do you balance these roles? It's tough, you know, I was sitting with the lawyers the first day that I got the job, and one of the things that was really interesting was, they said, you know, you're in many ways, going to have to put on your regulator hat, and then, on the other hand, you're going to have to put on your conservator hat. And it's not something that's intuitive to people, because you think, Oh, I'm either a regulator, or I'm a conservator. But the way that the legislation—as you know, having been a staffer and been around this world—is that congress made it such that you are a regulator and are a conservator. And I haven't been able to really find any other position, that at least I'm aware of, in the federal government that functions as those two things. You know, the conservatorship isn't supposed to be forever. I don't think it should be, but the way that it was set up, you have enormous authority. And I just feel like what we've tried to do is make sure that in the short period of time that we've had, we've effectuated positive change, cut excess expenses, and we're trying to really get these entities to be operationally efficient. Yeah. So mortgage rates right now in the United States are high relative to historical, what we've seen in the past, which is a problem for first-time homebuyers, but also existing homeowners, who, many of them, have currently, you know, 3 percent-ish fixed-rate mortgages. One of the strengths of the US economy has always been labor mobility. And so some questions about, well, does somebody want to give up a 3 percent mortgage to move and get a 6+ percent mortgage? What role can the GSEs play in making mortgage rates more affordable?

William Pulte 03:40

Well, a big role. But, at the same time, we have to be understanding that inflation has really driven mortgage rates to where they are. And so, you have a situation where in the last four years, inflation just went absolutely rampant. And you could say whatever you want about the president, who obviously I think extremely highly of, and I think he fully has his arms around this tariff thing and around inflation. Just my view. But in my view, you had to stop the escalation, and severe escalation in energy prices, egg prices, housing prices. And, until you got some of this inflation under control, I don't think you were going to see any breather in interest rates. And so I think, you know, we should all be hoping that the president is wildly successful with this, and I think he will be, and I think that that will flow through to mortgage rates. And I actually think that this is critical because, you know, right now you have a rate-locked environment where people who have homes, you know, you have new homes, and then you have old homes, and new homes are selling. It's great for the Pulte Homes of the world, my alma mater company. But, it's not really good for the homeowner because they aren't able to access these old homes because people are rate-locked in and they don't want to give up that 3 percent mortgage.

Mike Piwowar 04:51

Yeah. So certainly, right. So the 10-year yield, which has gotten a lot of focus lately, is the —base rate, and a lot of that, you know, is driven by inflation. All those sorts of things. But on top of that, is there anything you can do with some of the fees that have been added-in over time? Are you taking a look at those?

William Pulte 05:08

There is, yeah, and we'll be looking at the fees. We'll be looking at LLPA's, as they call it. They call it "loan level price adjustments." I think of it just as pricing, you know, they try to make it so complicated. It's not really that complicated. It's just, what's the pricing? What is the pricing that we're charging for these loans? And so we're going to try to simplify that. We may change the name from LLPA's to just pricing, you know, we might just look at simple things like that, and we will do a [fulsome] review of pricing, but we're probably going to be looking at that in the next, let's call it two to four months. Right now, it's been focused on getting our arms around the assets, getting the assets to perform well, getting rid of the fraud and getting rid of the mismanagement as well. Because there's been, in my view, gross mismanagement in these companies. You know, there's no better example than, you know, 16,000 people working from home after COVID. And you know, you show up there and they're making popcorn and burgers and pizza, and they got the nicest stuff. I mean, it was incredible. Caramel popcorn, like, from scratch. It was crazy. And I was like, the only one in the kitchen eating it, like, and I was like, living around, like, who you gonna serve this to? There's nobody in the cafeteria. It was crazy. So we said, everybody's got to come back to work. And, I mean, I'll tell you, when I first showed up at Freddie Mac, for example, you know, people were a little bit like, Okay, what's this all about? But now, when I walk through the hallways, you know, people are saying, Thank you. You know, I love being back with people, and they're asking for selfies and all this kind of stuff. I mean, you never thought a mortgage company would ever have something like this, but it's a real environment, and there's an electric feeling to things.

Mike Piwowar 05:18

That's great. So, we'll get into the management piece first, then we'll come back to the fraud piece on there, right? So you know, while a lot of former FHFA directors have made progress in sort of reforming Fannie and Freddie, that they're still in conservatorship, clearly, there's more work to be done. And as you mentioned, you came in and just you fired the boards, installed yourself.

William Pulte 07:08

Not all of them, we got rid of, you know, what we thought was appropriate at the time. And, you know, look, we wanted to take a fresh look at things. We learned from the first administration, at least I did from Mark Calabria. He gave me some great ideas in terms of the boards, things that he wished that he had done. So in that first week or two, we just decided to do it. And that's what's really exciting about the second Trump administration from the first Trump administration, is we're able to learn a lot from what some of our predecessors did.

Mike Piwowar 07:38

Yeah, so you mentioned Mark Calabria. We're not immediate. But first Trump administration, predecessor. One of the things he said is that the law not only allows you to take these firms out of conservatorship, but the law actually requires, at some point, for them to come out of conservatorship. Do you agree with this? I think it needs to be, you know, very seriously looked at. I think that obviously this will ultimately be a question for the President. You know, we have a great deal-maker as president. He knows what he's doing, and my job right now is just on operational efficiency, getting rid of the fraud, getting rid of the bloat, and having these be world-class assets. I mean, these companies generate tens and tens of billions of dollars' worth of earnings a year. These are world-class assets that the US government, that the US taxpayer eventually has an opportunity to benefit from. And, it's just a shame to me as an American. I was very upset walking through the halls of Fannie Mae and Freddie Mac. My dad actually asked me, When you saw the Laura Ingraham interview, do you remember that? Yes.

William Pulte 08:36

The halls were empty. Went viral all over the internet. My dad asked me, and I - it was amazing that my dad asked me this, because it was exactly how I was feeling. And my dad's not in government, obviously, he never has been or anything like that, but he says to me, you know, Did that make you upset? That would have made me so pissed off as an American, and it really did make me upset, because, you know, you go through and you just think, you know, what type of negligence would allow for this type of you know, whether it's air conditioning being blown everywhere and wasted electricity being used, the food we talked about, and it's just - it was disappointing, but at the same time it was invigorating. And we're here to fix it, and we're fixing it, and we'll get it done.

Mike Piwowar 08:52

Yeah, you did the video, and you showed all the cubicles, and everything. Yeah, now you mentioned how profitable they've been over the years, right? So normally, in conservatorship, these earnings would be retained and build up capital, but during a prior administration, they made the choice of having those profits at the end of the year being swept to the Treasury, and so capitalism built up. But in the Trump 1.0 administration, one of the things they did right at the end was to stop the sweep, and they've started building up capital. I think it's accumulated more than, like, $150 billion right now, as you think about a lot of cash, right? And now there's a lot of capital that's in there. How are you thinking about what's the appropriate level of capitalization before you think about taking them out of conservatorship?

William Pulte 10:12

It's a great debate. I don't know if I can give you an exact answer, but

Mike Piwowar 10:16

151 billion?

William Pulte 10:20

More to come, more to come. But I think that's an exercise with Treasury and with the president. I will say, though, that, you know, we have to understand that 150 billion is on the 9 trillion in assets that we own as well. So, but the —book is pretty good. You know, the asset base is pretty strong. You know, we have a 52 percent loan to value on the book. So the businesses are pretty healthy. It's just, you know, I looked at it and said, at least from my perspective, is, like, you know, we have a president. We have a mandate from the president. We have a mandate from the American people for change. And Fannie and Freddie were kind of these untapped assets that really are in need of a turnaround and can unlock serious value, whether that be through some of the things you're talking about, or just even if they were continued to be in government control, like, why wouldn't we maximize the value of these companies? You know, I was fortunate to make some money over the last 10 to 15 years, and I'm just applying the same things I did in business, but with Fannie and Freddie.

Mike Piwowar 11:14

All right. So you're not going to tell us a particular level at this point. What about time-wise? Time, a particular timeline in mind that you say, Look, this is my over-under on what I want to get these things out? We'll see, we'll see, we'll see, we'll see. You know, ultimately, look, the president's busy right now with tariffs and taxes. Eventually, as I said, this will be his call. But what we're doing right now is doing everything that we can to keep our options open and to maximize the value of these companies for the benefit of the American people. Yeah, so we already talked about, you know, more, looking at mortgage rates, trying to get them more affordable. But, you know, connected with that is, with them coming out of conservatorship, Secretary Bessent, and, I think your predecessor, former FHFA Director, Mark Calabria, have also said that any plans [around] next conservatorship needs to be sort of well targeted, well planned, well telegraphed, so that it doesn't have a detrimental effect on rates. How are you thinking about that? Well, I think that actually may be a quote from me, me, and Bessent and I are very well aligned on that, and very much agree that it can't have any negative effect on the mortgage market or upward pressure on rates. The good news is we have a president knows a lot about interest rates, and so it will be done. If it's done, it will be done the right way. Yeah. So you mentioned fraud earlier. You've had at least one high-profile fraud recommendation that you've made. Talk to us a little bit about what types of, you mentioned there's sort of rife in there. What types of examples are you seeing, and what can we expect to see coming up or over the next coming weeks and months?

William Pulte 12:44

I can't believe how much mortgage fraud there is. Like I actually can't believe.

Mike Piwowar 12:49

Like in terms of what? Name it. People saying that they live somewhere that they don't live, people saying that they have jobs that they don't have, people flipping properties to their friends. This is just a general comment, and I just can't believe it. I think it's been understated on the on the residential side, compared to where it is. But, you know, look, at the end of the day, these assets are very safe and sound. I want people to know that. But at the same time, you know, when we do have mortgage fraud, that increases risk, and when we increase risk, that increases pricing. And so, you know, we're trying to get rid of waste, fraud, and abuse, to get better pricing, get mortgage rates down, get the cost of mortgages down. And fraud is one big one. I'm also very focused on multi-family. My first few days there in office, I discovered some multi-family fraud that was very disappointing, and that was actually one of the main reasons that I went about taking the action that I took with the board, and it's one of the reasons that I actually did the chairman role, was because I knew that I needed to get my hands on it in order to figure out what was going on with this multi-family fraud. And you know, it was just kind of this thing where it's kind of like, oh, you know, there's fraud, and, you know, we'll just let it happen. And you just get so, you know, I think people, just the human mind, gets so used to, oh, there's fraud there. And just, you know, thinks of it as normal. It's not normal. And especially on multi-family, you know, you can get hundreds of millions of dollars worth of fraud pretty quickly, and we just can never let a 2008 happen again. But again, the businesses are very safe. The portfolios are very safe. I'm very confident in the companies, but that's just an observation from having been on the job eight weeks. It just surprises me. Yeah, in terms of waste, fraud, and abuse, are the DOGE folks in FHFA? Are they there yet? Are they coming?

William Pulte 14:38

They were in FHFA, and they have been good partners to us, frankly. They came in, they said they wanted a 20 percent reduction. I think by the first time that I had that I was even in office, we had basically, you know, we had taken actions, my team and I, where we were at like 27 percent in terms of active day-to-day head count. So we had surpassed that. And, and Doge, you know, from my understanding, you know, was mostly focused on some other things, but they haven't gotten involved in Fannie and Freddie, but we're doing very similar type of waste, fraud, and abuse actions at Fannie and Freddie, and that's been also fascinating,

Mike Piwowar 15:16

Yeah. So we've had several panels at our conference focusing on the impact of technological innovation, including AI and blockchain. You can see Fannie and Freddie benefiting from both of those, both in terms of operating efficiency, but also potentially rooting out waste, fraud, and abuse, or potentially even in the future, being more transparent about that stuff. How are you thinking about the role of technology in these two institutions? Well, it's huge, but the problem has been that if Fannie and Freddie were still, in many cases, relying on technology from the '70s and '80s. And if I told you the budgets that the team has for IT, you'd be like, Wow, I can't believe that we could spend that much money on IT. So it's a it's a concern. It's something we're laser-focused on. We just added a guy who's really great with AI to the board. We also added Omid Malik, who's a very well-known venture capitalist, and so he brings a whole technology angle to things. So I think there's been a lot of kind of change agents that we put into the company, both at the board level and at the companies, to drive that change. And I think you'll see in the coming years, technology really step up with Fannie and Freddie. It's disappointing that, you know, we have these great assets, we have all this money, all this cash, but, you know, the technology has been, you know, something left to be desired. Let's put it that way. Yeah, I was shocked to learn a few years ago, Ginnie Mae, which is outside of you, still uses COBOL programming, on, on, on some of their stuff. It's just, it's amazing. Speaking of outside your agency, right? So you have to coordinate with other folks in the housing space. You're not the only one. And you've mentioned recently you've been meeting with HUD Secretary Turner as well as private-sector CEOs on that. How have those meetings been going, and how are you coordinating with the HUD secretary? Good. You know, the HUD Secretary obviously has a different type of job in housing, but they're very complementary of each other. And I would say one of the things that's really exciting about this administration is and you know, the CEOs who visited with me and who visit with Scott Turner, from what they've told me, it's like an electric feeling in DC right now. It's just electric, and people are really excited about what's going on. And we work very well with Turner's team, and I think that we're going to continue to but it's, you know, I used to, like, roll my eyes at this words, whole of government approach. But what's interesting is so many people in the administration, the administration is so well aligned that you know you're really all towards going towards that goal of making America great again. And we're going to make Fannie Mae and Freddie Mac great again. There you go. Now in terms of communicating with the public as federal agency heads go, you're probably the leader in terms of using platforms like X, Twitter, or something.

William Pulte 18:06

Potentially, yes, but I'm also the only millennial. I think maybe JD [Vance] is a millennial, but in terms of agency head or cabinet head, you know, it's like, native to me, and people were freaking out when we were posting orders on Twitter. It's like, well, what are you freaking out about? You're complaining that we're not being transparent. And then when we're overly transparent, you find a way to complain. So, you know, what do they say? "Damned if you do, damned if you don't."

Mike Piwowar 18:28

There you go. You talked a lot about the positive directions that things are going. What keeps you up at night? What's the thing you worry most about in your new role? Well, fraud is a big one, but I feel like we're gonna be okay. I know we're going to be okay on that, but that just was, it's just shocking to me that it's become so happenstance. The other thing is just, you know, I think that we got to get this housing prices to not skyrocket as much as possible. And I think that President Trump has arrested that crazy skyrocketing, and we can just hope that he continues to make headway on inflation, and that hopefully that throat flows through to interest rates and the housing supply, and we get this housing market cooking again. Great. Got just time for one last question here. We talked about Fannie and Freddie, but you oversee a number of GSEs, the Federal Home Loan Banks, for example. Anything there in terms of what you've been looking at the Federal Home Loan Banks? No, we just want to make sure that they're safe and sound. We're a regulator there. We're not a conservator, but we're very focused on that. We're going to be getting to the FHL banks probably in the next three months or so. We've got about a trillion dollars' worth of assets there. We have 9 trillion at Fannie and Freddie, and we got about a trillion at the banks, so about 10 to 11 trillion in total. And again, safety and soundness is paramount, but also efficiency is what you're going to see from us under the leadership of Trump, President Trump. Wow, a trillion here, a trillion there, pretty soon you're talking about real money. We are out of time, unfortunately. Director Pulte, thank you so much for taking time out of your busy day today.

William Pulte 19:57

Thank you.

Mike Piwowar 19:58

Thanks.

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