**May 22, 2025**

**Brian Gardner**
*Chief Washington Policy Strategist*
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

# Potomac Perspective

Despite a social media post from President Trump, we think privatization of Fannie Mae and Freddie Mac is still months away. Significant work remains before the Treasury Department can launch an IPO to recapitalize these government sponsored enterprises (GSEs). Year-end 2025 seems like an ambitious goal, while 2026 seems more plausible.

We discuss some changes to the "One Big Beautiful Bill" (OBBB) and explain that we believe the bill will, in turn, be changed in the Senate next month. We also discuss recent moves in bond yields and the potential impact on fiscal policy. The bond market has not mattered in policy debates for decades. Is this time different?

Lastly, we discuss amendments related to banks and credit cards in the Senate's Stablecoin bill and explain why, despite the headline noise, we think these proposals are unlikely to pass.

- Government Sponsored Enterprises – On Wednesday night, President Trump posted on social media that he is "giving very serious consideration to bringing Fannie Mae and Freddie Mac public." The post will, obviously, generate significant speculation about the administration's plan to privatize these GSEs, but we do not believe action is imminent. This remains, in our view, a late 2025 or — more likely — a 2026 event, and possibly later than that.
    - There are significant issues the administration will need to address, such as how to restructure Treasury's Senior Preferred shares, what to do with the junior preferred shares, how to settle any outstanding litigation, as well as collecting more intel on how investors, especially in the fixed income markets, might react to privatizing the two companies.
    - We have believed that privatization was a goal of the administration, but that it was a lower priority than other issues and was subject to delay if other more pressing matters emerged. "Known unknowns" typically interfere with any administration's plans.
    - Mr. Trump's post does not change our view. He can be impulsive and post on a wide variety of topics that do not lead to immediate action. This is probably one of those instances.
- "One Big Beautiful Bill" – The House passed its reconciliation bill after making several changes. The Senate will work on its own version in June with a goal of passing a final bill in July, but we expect the Senate bill will differ from the House version.
    - Inflation Reduction Act (IRA) tax credit changes – Changes to the bill would accelerate the phase-out of the Production Tax Credit (45Y) and the Investment Tax Credit (45E) from 2031 to 2029 and create a deadline of December 31, 2025, to qualify for the credit. On the Nuclear Production Tax Credit (45U), the bill would delay the expiration date to December 31, 2031, and would allow transferability. We continue to believe the Senate will be more supportive of the IRA's production and biofuel tax credits and could take a different approach than the House's position.

STIFEL

- State and Local Tax Deduction (SALT) – The revised House bill would increase the cap on the SALT deduction to $40,000 per year, but that the deduction would be phased out for taxpayers earning more than $500,000 per year. The cap and income threshold would both increase by 1% annually for 10 years. The Senate is less receptive to SALT relief than the House, since New York and California are not represented in the chamber by Republicans, so we expect the Senate will modify the House's approach.
- Medicaid – Amendments to the House bill would accelerate changes to Medicaid rules to 2026. Again, the Senate could soften the changes made in the House bill.
- Bond Vigilantes Awake? – For the last few decades, debt and deficits have not significantly mattered and have rarely impacted fiscal policy debates. We wonder if things are changing.
  - In the 1990s, Democratic strategist James Carville famously said "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody." Over the last 35+ years, the bond markets have not intimidated Washington, D.C.
  - Recently, however, bond yields have risen as markets seem to be increasingly concerned about the trajectory of the federal government's budget, debt, and the OBBB's failure to change that. The increase in bond yields might be suggesting that we are approaching an inflection point.
  - Lawmakers pay closer attention to voters and polls than they do the financial markets, but if they believe that financial markets are signaling higher interest rates for consumers (i.e., voters), the bond market might have an impact on the OBBB. Republican senators (who will now draft their own version of the bill) are generally not inclined to drastically cut spending or increase taxes, but they will be watching signals from Wall Street, which could affect how they write their bill. Even if the bond market does not impact the final version of the OBBB, it could have an impact on future policy debates.
  - In March, we wrote that the world order seemed to be fundamentally shifting. It is too soon to say whether America's ability to ignore the bond market has ended, but it feels like another old paradigm might be changing.

- GENIUS Act – If the Senate allows an open amendment process when it considers Stablecoin legislation (the GENIUS Act), it could open the door to anti-credit card and anti-bank legislation. We update our thoughts on two possible amendments, which we mentioned earlier this week.
  - Credit Card Competition Act (CCCA) – Retailers have seized on an opportunity to pass a network routing bill authored by Senators Richard Durbin (D-Illinois) and Roger Marshall (R-Kansas). It is still unclear whether a simple majority or a 60-vote super majority would be required to pass this amendment. There is also a question of whether the Senate will actually vote on it. The Senate will not debate the bill until after its Memorial Day recess, and in the meantime, senators will be bombarded by banks and retailers. No politician likes to choose between friends, so we expect there will be significant pressure on Senate Majority Leader John Thune (R-South Dakota) to pivot and not allow the Senate to vote on this legislation. If there is a successful vote on the CCCA, the banking industry would probably lobby against the GENIUS Act, which could kill the Stablecoin effort — one of Trump's priorities.
  - Credit Card Rate Caps – Senator Josh Hawley (R-Missouri) could push his legislation to cap credit card interest rates at 10%. It is highly unlikely his bill would pass, but President Trump is a wild card. He endorsed a rate cap during the 2024 campaign, and although he has been quiet about it during his presidency, Mr. Trump could

breathe life into the Hawley bill if he publicly endorses it. Alternatively, some senators could offer a cap with a higher ceiling than the Hawley bill (25%? 30%?). We have not heard such an effort is underway, but the prospects for a higher interest rate cap are better than for Senator Hawley's 10% proposal.

## Subscribe to Our Podcast!


Season 4 of the Potomac Perspective podcast is underway. To access a broader discussion of these and other topics, please download and listen to the latest episode of our Potomac Perspective podcast.