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## WASHINGTON POLICY STRATEGY

# Potomac Perspective

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A federal judge quashed grand jury subpoenas of the Federal Reserve Board, which were part of the criminal probe of Chairman Jerome Powell. The Justice Department immediately appealed the decision. This could delay the confirmation of Kevin Warsh as Fed Chairman and leave Powell in place for the June Federal Open Market Committee (FOMC) meeting.

Housing remains an important political issue as the midterm elections loom. On Friday, President Trump issued a pair of executive orders (EO) related to housing. While neither order is likely to have a material impact on the mortgage or housing markets, they both include some benefits for the industries. Despite housing affordability being a high political priority for the administration, we are less confident than we had been that a housing bill will pass Congress.

Finally, banking regulators will meet this week to propose changes to bank capital rules. The changes have been widely anticipated, and we see them as a possible positive for the sector.

- **Powell** – On Friday afternoon, a federal judge quashed grand jury subpoenas that the Department of Justice (DOJ) had issued to the Federal Reserve Board. The DOJ immediately said that it would appeal the decision. This development could prolong the confirmation process of Kevin Warsh's nomination to replace Jerome Powell as Fed Chairman.
  - As long as the DOJ's investigation into the Fed and Powell continues, it is unlikely that the Senate will confirm Mr. Warsh. Senator Thom Tillis (Republican-North Carolina) had previously said that he would oppose the confirmation of any Fed nominee until the DOJ's investigation is resolved. Tillis, who has expressed support for Warsh, said that the decision to appeal the judge's decision on the subpoenas will only delay his confirmation.
  - The process of vetting Warsh by the Senate Banking Committee can continue. It can review his background check and hold a hearing on his nomination, but with the DOJ's investigation still unresolved, it will probably not proceed any further than that.
  - Powell's chairmanship ends in May, but he can remain in that job until the Senate confirms a successor. The timing of Warsh's confirmation appears dependent on the DOJ's appeal. If the DOJ follows through on its threat to take the case to the Supreme Court, it is possible that Powell could still be Fed Chairman at the FOMC's June 2026 meeting.
  - It is still highly likely that Warsh will be confirmed as Fed Chairman, but the timing of that is uncertain.
- **Housing Executive Orders** – After Friday's close, the White House released the text of two executive orders from President Trump regarding housing – "Promoting Access to Mortgage Credit" (mortgage EO) and "Removing Regulatory Barriers to Home Building" (homebuilders EO). The two orders include several policy changes that are included in housing legislation that is being considered in Congress. We do not see either EO as a game-changer, although they both contain proposals that are positive for the relevant industries.
  - **Mortgage Credit** – The [mortgage EO](#) directs the Consumer Financial Protection Bureau (CFPB), banking regulators, and the Federal Housing Finance Agency (FHFA) to streamline mortgage lending rules including the Ability-to-Repay (ATR) and Qualified Mortgage (QM) rules. The EO seems to target changes to these rules for smaller banks, so it remains to be seen how broad the changes to the rules might be. CFPB has not been enforcing the ATR or QM rules since the start of the Trump administration, so it is questionable how impactful the proposed changes might

be. Still, changing the relevant rules in a way that positively impacts the mortgage market should be more durable than simply not enforcing an existing rule.

- **Homebuilders** – We do not see much of an impact from the [homebuilders EO](#). The main instructions in that order include streamlining federal permitting requirements for homebuilders, creating best practices for state and local governments, and promoting the building of single-family residences in Opportunity Zones. State and local permitting requirements – rather than federal ones – are the bigger barrier to building homes. States can and likely will ignore the best practices recommended by the Trump administration.
- **Rocky ROAD to a Housing Bill** – We have been pretty cynical about House Republicans’ complaints about the housing bill that passed the Senate last week. In the end, we have expected that the House will ultimately fold and that the bill will be sent to President Trump for his signature. Between Iran, the Department of Homeland Security budget impasse, and the President’s insistence on passing the SAVE Act (voting legislation that is unlikely to pass the Senate), the ROAD to 21<sup>st</sup> Century Housing Act seems to be on a back burner, and the odds that it might die in Congress have grown. We still think that the bill will eventually pass the House, but we acknowledge that we are less confident in that view than we have been.
  - Among the changes that we think the House could make to pass the bill is a revision of the build-to-rent (BTR) exemption to the ban on large institutional investor purchases of single-family homes. The Senate bill requires that BTR homes be disposed of within seven years, but the National Association of Home Builders and other trade associations are lobbying for looser rules that seem to have support from some House Republicans.
  - House Republicans also want to include regulatory relief proposals for community banks, but Senate Democratic opposition to these changes might kill the bill in the upper chamber.
- **Bank Capital Rules** – On Thursday, March 19, the banking regulators will propose changes to risk-based capital rules and the global systemically important bank (G-SIB) surcharge that will impact the largest banks.
  - We expect that the proposal will include changes to the standard approach that applies to most banks other than the G-SIBs. These changes are intended to recalibrate existing rules and remove incentives to move some lending activities, such as mortgage lending, out of the banking system.
  - The result of the G-SIB surcharge could lower capital requirements for the largest banks slightly, although other changes in the Basel II rules could result in a slight increase in capital requirements.

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