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## How Watt's FHFA Nomination Helps Obama in Housing Debate

By: Victoria Finkle – May 2, 2013

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President Obama's nomination of Rep. Mel Watt to head the Federal Housing Finance Agency is highly likely to stall in the Senate, but that may not matter to the White House.

Analysts saw the announcement as an attempt by the White House - even if Watt's nomination fails - to sidestep criticism about its lack of progress on a reform plan for Fannie Mae and Freddie Mac, and instead cast Senate Republicans as obstructing a way forward from the mortgage giants' conservatorship by blocking the nominee.

"This nomination is driven far more by politics than substance," said Mark Calabria, director of financial regulation studies at the Cato Institute. "From the administration's viewpoint, this is a no-lose situation."

The announcement Wednesday followed months of speculation about whom Obama would pick to lead the agency overseeing the government-sponsored enterprises. His first nominee, former state regulator Joseph Smith, who now monitors the \$25 billion settlement with mortgage servicers, was blocked in 2011 after senators charged Smith was not independent enough from administration.

"Mel has led efforts to rein in unscrupulous mortgage lenders, he's helped protect consumers from the kind of reckless risk taking that led to the financial crisis in the first place and he's fought to give more Americans in low-income neighborhoods access to affordable housing," Obama said Wednesday.

But Republicans have already raised similar concerns about Watt, a North Carolina Democrat who has served on the House Financial Services Committee for his entire 20-year career in Congress, as they had voiced about Smith.

Watt's nomination "gives new meaning to the adage that the fox is guarding the hen house," Sen. Bob Corker, R-Tenn., a member of the Banking Committee, said in a statement. "The debate around his nomination will illuminate for all Americans why Fannie and Freddie failed so miserably."

The nomination comes at a time when interest in housing finance reform is gaining more attention, particularly on Capitol Hill. Edward DeMarco, a holdover from the Bush administration who is now the agency's acting director, has won accolades from the industry for taking steps to try and expand the private market's influence in the mortgage arena even while butting heads with the White House over his policies.

Even if Watt's nomination fails, many observers said it gives the president an opening to change the current narrative that the administration has been slow to put forward a GSE strategy, shifting attention instead to the GOP's resistance to confirming a director with experience on mortgage policy issues.

"This plays into a strategy of looking responsive to" the need for new housing policy, Calabria said. "If DeMarco is there, the conversation over the next six months is, "Why doesn't the administration have a plan?" Now they can spend six months saying, "Why are they blocking us " those obstructionist Republicans?"

Others said the Watt pick serves to satisfy concerns from the president's liberal base about DeMarco, especially before negotiations over the federal budget, when the White House could make concessions to the GOP. It also answers criticism about the lack of minorities and women appointed to administration jobs. Watt, who previously served as chairman of the Congressional Black Caucus, is one in a series of recent appointments that could serve to dispel that criticism.

"It answers two criticisms at once - about DeMarco and from the [Congressional Black Caucus] regarding the lack of diversity," said Brian Gardner, a policy analyst at Keefe, Bruyette & Woods.

Leadership of the FHFA, which has never had a confirmed director, has become a bitter point of contention among financial services policymakers, similar in many ways to the furor over Obama's recess appointment of Richard Cordray to run the Consumer Financial Protection Bureau.

Several administration allies have repeatedly called for DeMarco's ouster, citing his resistance to more dramatic steps to help struggling borrowers. On Wednesday, New York Attorney General Eric Schneiderman called the nomination "a good first step," but reiterated calls on the administration to appoint a new acting director in the meantime until the Senate votes on Watt.

"The president should use his legal authority to replace Edward DeMarco with a new acting director who will start the effort to put FHFA on the side of working families immediately," Schneiderman said.

Some analysts said efforts by the White House to appease its liberal allies is critical as the administration and congressional leaders head into a debate over solving the nation's broader fiscal issues.

The nomination "is an early step in a broader strategy to shore up support from the liberal base in advance of the budget battles to come throughout the spring and the summer," said Isaac Boltansky, a policy analyst at Compass Point Research & Trading. "The White House wants to be able to point to this nomination, in particular, as an instance of when they listened to the more liberal caucus in Congress."

Watt's supporters were quick to sing his praises on Wednesday.

"Throughout his decades long career in Congress he was known for getting results by working with colleagues, consumer advocates and industry leaders," Sen. Tim Johnson, chairman of the Senate Banking Committee, said in a statement. "Mel possesses the intelligence, temperament and depth of knowledge on housing finance policy necessary to succeed as Director."

Sen. Elizabeth Warren, D-Mass., also backed Watt in a statement on Wednesday, calling him a "thoughtful policymaker with a deep background in finance and a long record as a champion for working families."

Still, Corker's protests could be an early bellwether of a tough fight over Watt. In the Senate, 60 votes are required for his confirmation.

Corker is "not by any stretch considered an extremist on the [Senate] committee, so the fact that he has come out early signals where a lot of Republicans are going to be," said Calabria.

And observers said the nomination is not a sign that the administration plans to move any more quickly with its own GSE plan.

"The White House didn't say anything new" about housing finance "in the [proposed federal budget]. Why would they turn around two or three weeks later and announce a new policy direction?" said Gardner.

But others said having a confirmed director in place would put the regulator more in harmony with the administration, laying the groundwork for a more substantive reform strategy.

"Mel's appointment would signal that what you hear coming out of the FHFA in terms of the future of the GSEs will be the administration's position and that's actually a change," said John Taylor, the chief executive of the National Consumer Reinvestment Coalition.