



White House Quietly Working Behind the Scenes on GSE Reform

By: Donna Borak – August 5, 2013

While the Obama administration has publicly kept its distance from the housing finance reform debate during the past two years, it has been privately working in recent months to help move a bill forward.

The administration has often been criticized for its conspicuous absence from the reform debate, with some arguing it's clear the issue is not a top priority for the White House.

But the administration has been reluctant to engage on the issue openly, fearing that would provoke Republican opposition to any measure it supports. Instead, it has discreetly provided advice to lawmakers working on a bipartisan approach in the Senate.

"The second term of the Obama administration seems to be taking this approach on bill after bill," said Edward Mills, a financial policy analyst at FBR Capital Markets and former Hill aide. "They are certainly engaged, but given the political dynamics on the Hill, the message the White House has received is: the more public they are about certain things the harder it is to get compromises."

The administration has adopted a wait-and-see approach, working behind the scenes with lawmakers, but delaying offering its opinion openly until the moment is right on Capitol Hill.

"Engagement is very low, but that's very deliberate," said Jeb Mason, a managing director with the Cypress Group. "They're still trying to play a constructive role at this stage, but very much an arm's-length constructive role."

For now, the administration has stuck to its talking points, reiterating the principles it hopes will be included in any finance reform plan that the president will ultimately sign. The White House has said it wants to ensure that U.S. taxpayers are never left on the hook for a potential bailout of the system, private capital returns to the mortgage markets, and access to credit for creditworthy borrowers is maintained.

But the White House may begin to be more outspoken as the issue gains ground legislatively.

"There's a lot of negotiating under way," said Karen Shaw Petrou, a managing partner at Federal Financial Analytics. "Lots of talk about how to rewrite this and rewrite that, and there's a lot of work by the administration," which has been "very involved trying to structure something that's ready to go."

President Obama ▼ last week vowed to revamp the current housing finance system and take a new approach to help strengthen homeownership in the U.S.

"We'll work with both parties to turn the page on Fannie Mae and Freddie Mac and build a housing finance system that's rock solid for future generations," Obama said in a speech at Knox College in Illinois on July 24 as part of a string of campaign-style speeches on the economy.

The president did not provide specifics, but it's possible he may offer more details in several other planned speeches during his U.S. tour.

"The White House is very privately doing what it can to encourage this debate to get down the field," Mason said.

The administration released a white paper in early 2011 that outlined three options for reform, including full privatization of the government-sponsored enterprises as well as two ideas for a government guarantee, but it did not endorse a specific approach. Since then the White House has largely remained mum on the subject, with Republicans routinely criticizing it for failing to put forth a concrete plan.

To deflect such arguments, some suspect "you'll see a greater embrace of the bipartisan path forward" by the administration as the debate roils on, Mills said.

Treasury Secretary Jacob Lew has already started sending that message by announcing that administration officials have begun to work with Senate leadership on both sides of the aisle on housing finance reform, namely Chairman Tim Johnson, D-S.D., and Mike Crapo, R-Idaho, the ranking member of the Senate Banking Committee.

"We've been engaged with the chairman and the ranking member in the Senate," Lew said in an interview with Bloomberg Television on July 18. "And they're looking for a way to accomplish goals that very much reflect our goals."

Observers said the Treasury's input to date has been limited to broad principles and has not yet included specific recommendations. That is partly because Johnson and Crapo have focused first on introducing a bill that would reform the Federal Housing Administration before moving on to broader housing finance reform.

The Senate Banking Committee passed the FHA bill on Wednesday, but lawmakers suggested they may combine it with a broader reform package when Congress returns from recess in September.

In the interview, Lew refrained from endorsing either of the two GSE reform bills that have recently been introduced in the House and the Senate by Financial Services Committee Chairman Jeb Hensarling, R-Texas, and Sens. Bob Corker, R-Tenn., and Mark Warner, D-Va., respectively.

Without getting into specifics, he said there were details in both bills that were "going to require more work and we're going to have to scrutinize," but reflect the "kind of direction we have to go." He also stressed the importance of having a "bipartisan solution," such as the Senate's bill. Hensarling's bill is strictly Republican-supported legislation, which has already been attacked by Democrats.

"They're trying to maintain some flexibility," said Mark Calabria, director of financial regulation at the Cato Institute, referring to Hensarling's bill.

The administration has also already publicly thrown its support behind the Corker-Warner effort by issuing a statement shortly after the legislation was released.

"It's very important now for the administration to engage, especially if they don't like what's in the Hensarling bill," Mills said. "The further that goes without an alternative being equally advanced, then the more it'll establish itself as the Republican position. While the administration will never sign it into law, I think they recognize with Corker-Warner there have been a number of Republicans who have co-sponsored it, so they are trying to make that more of the bipartisan position or the Republican-supported position - the more they're likely to see a GSE reform that they can live with and which gets them off the sidelines pushing for stuff."

Observers do not expect the administration to start taking a more active role until much later in the process.

"You're really going to see the Treasury try to maximize its influence once it gets to conference," said Calabria, referring to the process by which House and Senate bills are reconciled.