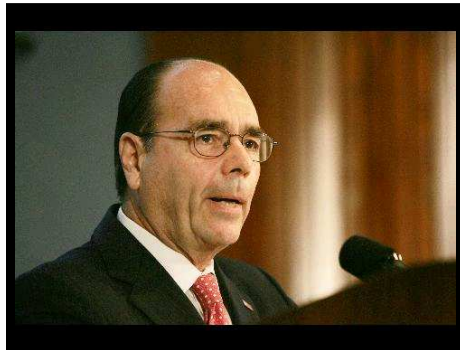




Fannie, Freddie Overseer Quits With 'Regrets' (Update2)

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By Dawn Kopecki



Aug. 6 (Bloomberg) -- **James Lockhart** is resigning as **Fannie Mae** and **Freddie Mac**'s regulator as the mortgage-finance companies emerge from a housing crisis with their future roles in doubt.

"Everybody that was involved in the mortgage markets regrets that we didn't see how bad things were going to get," Lockhart, director of the Federal Housing Finance Agency, said in an interview yesterday. He said he plans to leave the agency this month and return to business.

The Treasury Department has committed as much as \$400 billion to keep the two companies from going bankrupt while President **Barack Obama**'s policy makers figure out how to restructure their operations. Among

options under consideration by the administration and lawmakers are turning them into public utilities, liquidating them or separating them into a "good bank" of strong assets and a "bad bank" of weak ones.

During Lockhart's tenure, Fannie Mae and Freddie Mac, which buy mortgages from lenders, posted \$150 billion in combined losses as the housing market plummeted, leading to their takeover by the government in September. They have received \$84.9 billion in federal aid since November, which Lockhart said last month they won't be able to repay in full.

Lockhart's departure isn't likely to shift the direction of the FHFA because he has "already been quite accommodative to Obama," said **Mark Calabria**, director of financial regulation studies at the Cato Institute, a Washington policy research organization. "He's fully supported the Obama administration's plan to use Fannie and Freddie for broader efforts beyond safety and soundness."

Exploring Options

A Treasury report in June said the Obama administration "will engage in a wide-ranging process and seek public input to explore options regarding the future" of Fannie Mae and Freddie Mac, delivering a report to Congress when the president gives his fiscal 2011 budget in February.

Asked about a Washington Post report indicating the administration was considering a good bank-bad bank split of the companies, White House spokeswoman **Jen Psaki** said in an e-mailed statement, "We are in the preliminary stage of the process, the systematic development of options has not taken place and no decisions have been made."

The companies' shares, roughly 80 percent of which are owned by the U.S. government, surged on the news of Lockhart's resignation and added a combined \$1.5 billion in market value. Fannie Mae closed up 30 percent to 74 cents, and Freddie Mac closed up 31 percent to 80 cents on the New York Stock Exchange.

No Candidate Readied

The administration doesn't have a candidate lined up to replace Lockhart, said a Treasury official who asked not to be identified. The role Lockhart's successor will have in shaping housing policy hasn't been decided, the official said.

Ed DeMarco, Lockhart's top deputy, will serve as acting director, Lockhart said in a statement today.

Treasury Secretary **Timothy Geithner** "would have preferred I stayed," said Lockhart, 63, a lifelong Republican who previously said he intended to resign soon after Democrats took control of the White House.

"It became very apparent to me in January that we were still in the storm, it made no sense to leave at that point," Lockhart said. He said he has been discussing with Geithner the timing of his resignation over the last three months.

Former President **George W. Bush**, a high school and college friend, appointed Lockhart to run the agency in 2006.

"It's hard to retire on the money I've made over the last 7 1/2 years," said Lockhart, who joined the Bush administration in 2002 and commutes from his home in Greenwich, Connecticut. "It's time to get back there."

The Obama administration has been using Washington-based Fannie Mae and McLean, Virginia-based Freddie Mac in its efforts to revive the housing market and avert foreclosures.

\$5.4 Trillion in Home Loans

The companies, which may report second-quarter earnings as soon as tomorrow, together account for about \$5.4 trillion of the \$12 trillion U.S. home loan market.

Under Lockhart's oversight, Fannie Mae and Freddie Mac expanded their business into riskier types of mortgages, such as subprime and Alt-A loans, which he has called the main catalyst for their losses. Alt-A loans are also called "liar loans" because they required little or no documentation of income.

"Every board meeting we had with the two boards we talked about the credit risk in their portfolios, and it was a hard slog convincing the companies and the market overall that there could be a problem," Lockhart said.

In March 2008, six months before the companies were placed in conservatorship, Lockhart lowered their capital requirements. He publicly described the two as "adequately capitalized" weeks before Treasury and FHFA seized their operations amid fears the two might fail.

Capped Portfolios

"The good news is we did cap their portfolios" in 2006, which prevented the companies from expanding further into riskier loan products, he said.

Fannie Mae was created in the 1930s under President **Franklin D. Roosevelt's** New Deal to revive the economy. Freddie Mac was started in 1970. The companies were designed primarily to lower the cost of home ownership by buying mortgages from lenders, freeing up cash at banks to make more loans.

They make money by financing mortgage-asset purchases with low-cost debt and on guarantees of home-loan securities they create out of loans from lenders.

Lockhart was tapped to run FHFA after serving as the deputy commissioner and chief operating officer of the Social Security Administration from 2002 to 2006.

He worked for four years before that as the chief financial officers of software consulting firm Netrisk Inc. and for two years as a managing director at Smith Barney. Earlier, Lockhart was executive director of the Pension Benefit Guaranty Corp. and was the treasurer of Gulf Oil Corp., which merged with Standard Oil in 1984.

He attended prep school, Yale University and Harvard's business school with Bush.

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