

Bloomberg

White House Said Near Decision on Leader of Fannie Mae Regulator

By: Clea Benson - Apr 18, 2013

Edward J. DeMarco, who has served as acting director of the Federal Housing Finance Agency since 2009, is scheduled today to update a Senate panel on the FHFA's oversight of Fannie Mae and Freddie Mac. It's unclear how much longer he'll be guiding those efforts.

Long-stalled White House plans to nominate his replacement are now accelerating, according to two people familiar with the discussions who asked to remain anonymous because the process isn't public.

President Barack Obama's administration is vetting a short list of candidates including Mel Watt, a Democratic congressman from North Carolina, and Mark Zandi, chief economist at Moody's Corp. subsidiary Moody's Analytics, among others, the people said. Both Zandi and Watt have declined to comment.

"The FHFA is at a point now where it is a full-functioning agency with clear parameters and practices, and so a leadership change at this time would be less traumatic than two or three years ago," Isaac Boltansky, a policy analyst with Compass Point Research and Trading LLC, said in an interview.

Lawmakers created FHFA in 2008, shortly before regulators seized Fannie Mae and Freddie Mac as they neared bankruptcy.

Though there's no leading candidate, a nomination could come as soon as background checks are complete, the people said. Still, it's not a sure thing that DeMarco's days are numbered as FHFA acting director. The position requires Senate confirmation and it's unclear whether any candidate named by Obama can win enough Republican votes to get the job.

Loss to Profit

During DeMarco's time as their regulator, Fannie Mae (FNMA) and Freddie Mac have swung from surviving on taxpayer life support to posting record profits. The two companies, which currently back about half of existing home loans, package mortgages into securities on which they guarantee payments of interest and principal. Democratic and Republican lawmakers and Obama have called for the enterprises to be wound down and replaced. A potential change in leadership just as the companies are returning to profitability could have an impact on their future.

"As the debate moves forward about what Fannie and Freddie should look like, whoever is the FHFA director is going to carry some outsized weight," Mark Calabria, director of

financial regulation studies at the Cato Institute, which favors free markets, said in an interview.

DeMarco, a career civil servant, was hired as a deputy director at the agency that preceded the FHFA during the administration of President George W. Bush. He was elevated to his current post as acting head of the independent regulator by Obama in 2009, a job that was always supposed to be temporary until a permanent nominee could be confirmed.

Policy Clash

DeMarco's emphasis on protecting U.S. financial interests has clashed at times with White House efforts to extend relief to homeowners.

DeMarco has blocked debt reductions for borrowers with loans backed by Fannie Mae and Freddie Mac whose homes have lost value, saying that there is no clear financial benefit to taxpayers. That position has sparked a steady drumbeat of protest from consumer groups who've called for his ouster.

It's unlikely that major housing policy shifts would occur if a new FHFA director is confirmed. The number of loans that would be eligible for principal reduction is limited. At the same time, DeMarco has hired deputies who are carrying out a multiyear blueprint for gradually shrinking the enterprises in the absence of broader action from lawmakers.

Mainstream Candidates

"I seriously doubt any candidate who would be confirmed by the Senate would represent a dramatic change from current policy," Boltansky said.

Zandi, who served as an adviser to Republican Senator John McCain's 2008 presidential campaign, has called for the enterprises to be dismantled. Watt serves on the House Financial Services Committee, the panel that oversees housing policy.

With his tenure uncertain, DeMarco is continuing with long-term plans including an effort to create a common mortgage securitization platform that would serve as a utility to be used by Fannie Mae, Freddie Mac and private securitizers. The agency also is encouraging the companies to explore transactions in which they share risk with private financiers.

All of this is a prelude to congressional action, DeMarco said in written testimony prepared for today's hearing.

"Few of us could have imagined in 2008 that we would be approaching the fifth anniversary of placing Fannie Mae and Freddie Mac (FMCC) in conservatorship and that we have made little meaningful progress to bring these government conservatorships to an end," he said.