



FHFA Nominee Faces Senate Skepticism of Skills to Oversee GSEs

By Cheyenne Hopkins - June 27th, 2013

U.S. Representative Mel Watt will face lawmakers skeptical of his knowledge of housing-finance issues today when he appears at a Senate Banking Committee hearing on his nomination to oversee Fannie Mae and Freddie Mac.

Watt, a North Carolina Democrat selected by President Barack Obama to head the Federal Housing Finance Agency, gets a chance to make his case before a panel including senators who this week offered a bipartisan plan to eliminate the two U.S.- owned companies and replace them with a government reinsurer.

“The most important thing that Watt has to show in the hearing is that he does in fact understand housing finance, which he does,” said Julia Gordon, director of housing finance and policy for the Center for American Progress. “Many of the attacks on his nomination have centered on the idea that he doesn’t have the right technical expertise.”

The Watt nomination is Obama’s second attempt to fill the FHFA post held since 2009 by Acting Director Edward J. DeMarco, who has been criticized by Democratic lawmakers and consumer-advocacy groups for doing too little to help homeowners struggling in the wake of the financial crisis. The president’s first choice, former North Carolina banking commissioner Joseph Smith, withdrew in 2011 amid Republican opposition.

“Mel Watt is the second well-qualified nominee President Obama has sent to the Senate,” Banking Committee Chairman Tim Johnson, a South Dakota Democrat, said in an e-mail statement. “It is my hope that this time politics will be put aside so that we can focus on the management and oversight of the housing finance system.”

Republican Support

Watt’s chances of gaining confirmation remain unclear. He would need support from at least five Republicans to gain the 60 votes needed for Senate confirmation if he’s backed by all 55 lawmakers who caucus with the Democrats in the 100-member body. Senator Richard Burr of North Carolina is the only Republican who has endorsed him so far.

Brian Gardner, senior vice president for Washington research at Keefe, Bruyette & Woods Inc., gives Watt a 50/50 chance of winning confirmation.

“It’s not likely it’s going to happen but it’s not out of the question,” Gardner said in an interview.

Watt, 67, backed a measure that would let bankruptcy judges force lenders to cut principal owed on mortgages -- a tactic that he called a legal "sledgehammer" against banks. Republicans say they will attack that position, his past support for Fannie Mae and Freddie Mac (FMCC), and his qualifications for the job. Watt has served in Congress since 1992.

Technical Expertise

Republican resistance to the nomination has centered on a view that the leadership of FHFA is better suited to a person with technical rather than political expertise.

"I just hope for a technician that knew a lot about the substance of Fannie and Freddie," Senator Bob Corker, a Tennessee Republican, said in an interview. "I've raised those personally with him and publicly but I'd hope we'd have a technocrat and not a politician."

Mark Calabria, director of financial regulation studies at the Cato Institute, said that view is a bad sign for Watt.

"Corker's usually a swing vote, so when the moderates come out against you it's not a good sign," Calabria said in an interview "It's hard for me to see any Republican votes."

On June 25, Corker and Senator Mark Warner, a Virginia Democrat, introduced a bill that would liquidate Washington-based Fannie Mae (FNMA) and McLean, Virginia-based Freddie Mac. The measure could restart debate on a sweeping overhaul of U.S. housing finance.

Supports Concept

Watt embraced the general concept of that plan in written testimony prepared for the hearing.

"The good news is that a broad consensus has emerged on the direction that our next steps must take us -- towards a system driven by private capital that minimizes the risk to taxpayers," he said.

Senator Mike Crapo of Idaho, the Banking Committee's top Republican, said he still has "very significant concerns" about Watt's nomination.

"I'm going to be interested in knowing whether he has the expertise to be able to manage two multi-trillion entities as we try to move toward a housing reform policy, and then secondly what his feelings are in terms of the direction that we should take for housing reform," Crapo said.

In an interview in May, Watt said it would be "putting the cart before the horse" for him to give specifics on what he'd do as FHFA director, adding that his congressional positions wouldn't necessarily translate into a regulator's portfolio. He said he'd draw on his background practicing real estate law in Charlotte, North Carolina, as well as his legislative work on housing matters.

Overseeing Conservatorship

The FHFA director is responsible for overseeing the U.S. conservatorship of Fannie Mae and Freddie Mac, which have operated under federal control since they were seized amid soaring

losses in 2008. The agency's chief also has the power to set and modify terms for the 50 percent of existing U.S. mortgages owned or backed by Fannie Mae and Freddie Mac.

The two companies provide liquidity to the housing market by purchasing mortgages and packaging them into securities on which they guarantee payments of principal and interest.

The rebounding housing market has turned around the companies' financial condition. Both are posting record profits after drawing \$187.5 billion in taxpayer aid to stay afloat in the wake of the 2008 credit crisis.

Banking District

Watt's congressional district, which has the second-largest concentration of banking-industry operations next to the New York district that includes Wall Street, also includes pockets of poverty, according to Watt's website.

In December, he signed a letter urging Obama to include in his budget talks with Republicans a provision that would require Fannie Mae and Freddie Mac to reduce principal on some of the loans they guarantee. Republicans may ask Watt to defend his calls for principal reduction of troubled mortgages, a step that DeMarco has opposed.

"The odds are against him but if he can do a good job convincing Republicans that he's not going to politicize Fannie and Freddie he has a shot," said Jaret Seiberg, an analyst at Guggenheim Securities LLC's Washington Research Group.