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Fannie-Freddie Regulator Said to Plan to Stay On Under Trump

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When Barack Obama leaves office on Jan. 20, Democratic appointees across the government are expected to follow him out the door, to be replaced by officials chosen by Donald Trump. Not Mel Watt -- he isn't planning to go anywhere.

As head of the little-known but powerful Federal Housing Finance Agency, Watt oversees Fannie Mae and Freddie Mac, the companies that underpin nearly half of U.S. mortgages. Watt has told employees and others close to him that he plans to stay at his post after Trump becomes president to serve out a term that doesn't end until January 2019, according to people familiar with the matter who asked not to be named because the discussions were private.

That could make Watt a potential hurdle to any plans Trump and the Republican-controlled Congress have to overhaul the system that finances the nation's housing market. Steven Mnuchin, Trump's nominee for Treasury Secretary, has already said that removing Fannie and Freddie from government control will be a top priority of the incoming administration.

Watt, through an FHFA spokesman, declined to comment.

Unique Role

Watt, a Democrat who was a member of Congress before taking the FHFA job in 2014, is in a unique role. Because the FHFA is an independent regulator, its leadership isn't supposed to be subject to the will of the president.

At the same time, the agency's decisions can have an almost unrivaled effect on a broad swath of the economy. It can affect mortgage rates by lowering or raising the fees Fannie and Freddie charge. It can also make loans easier or harder to get by changing the companies' credit standards.

For investors who own Fannie and Freddie shares, Watt's status could be a deciding factor in whether they get a financial windfall. The companies have been in U.S. conservatorship since they were bailed out during the 2008 financial crisis at an eventual cost of \$187.5 billion. The companies have since paid Treasury dividends of more than \$250 billion. Some private shareholders say the law gives the FHFA director the power to release them into the private market. If that happened, investors who bought when the companies seemed certain to be wound down could make billions of dollars.

"The agency is profoundly important," said Lisa Rice, executive vice president of the National Fair Housing Alliance, adding that she hopes and expects Watt to stay.

Watt's Approval

While Trump's team hasn't articulated a housing-finance agenda, FHFA's role rose to the fore late last month when Mnuchin said the incoming administration plans to free the companies from the government. To make such a move without legislation, the administration would likely need sign-off from Watt.

Watt has made statements suggesting he might be amenable to allowing the companies to retain more capital. The current bailout terms require them to send nearly all of their profits to Treasury, and by 2018 they will have no capital buffer to protect against losses. In February, he called the companies' shrinking buffers "the most serious risk and the one that has the most potential for escalating in the future."

At the same time, Watt has consistently said that housing-finance reform must be done through Congress, suggesting that he might not back any solution that Trump tries to push through on his own.

In May 2014, Watt said he believed FHFA had the authority to end the conservatorship, "but the alternatives would not be desirable alternatives." The agency's goals "are consistent with continuing the operation of Fannie and Freddie in the here and the now and we'll do that until there is legislation passed," he said at the time.

In November 2014, Watt told reporters that in the long-term he wouldn't rule out recapitalizing and releasing the companies and that the Treasury Department would have to start that conversation.

Congressional Input

Treasury is forbidden to sell its stakes in Fannie and Freddie without congressional approval until 2018 under the terms of legislation passed last year.

“Congress has made its position known clearly that if you’re going to end the conservatorship, they want a voice in that decision,” said Michael Stegman, who helped shape housing policy in the Obama White House and is now a fellow at the Bipartisan Policy Center in Washington.

Still, some groups have pushed for Watt and the administration to act without Congress.

“The best thing to do is to recap and release,” said National Community Reinvestment Coalition President John Taylor, who argues that preserving the companies is necessary to protect their mandates to serve lower income borrowers and fund affordable housing.

Fannie and Freddie don’t make mortgages. They buy them from lenders, wrap them into securities and make guarantees to investors in case of default. Through the first half of the year, they backed 43 percent of new mortgages, according to the Urban Institute’s Housing Finance Policy Center.

Trump Pressure

It isn’t yet clear whether Trump and the Republican Congress want Watt to leave and what leverage they could bring to bear to make it happen.

A recent court ruling said a president should be able to remove the director of the Consumer Financial Protection Bureau at will and said the FHFA has a similar governance structure. That decision is under appeal.

While Watt plans to stay, there are tactics lawmakers could use to make his life unpleasant, including frequent congressional hearings, investigations or other public conflicts. Watt turns 72 years old next year.

Before he started his five-year term in January 2014, many Republicans believed that Watt would tell Fannie and Freddie to lower credit standards, slash prices and take other steps that reflected his two-decade tenure in Congress as a North Carolina Democrat.

Instead, Watt has taken more measured steps, often frustrating members of both parties.

His predecessor refused requests to slash mortgage balances for borrowers who owed more than their homes were worth. This year, Watt released a program to reduce principal, but one that was much smaller than some advocates sought.

Replacement Unknown

The middle path taken by Watt could reduce the urgency among Republicans to seek a replacement, especially while Trump barrels through dozens of other confirmations, said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute.

That doesn't mean advocates of more mortgage lending to low- and moderate-income borrowers aren't concerned. Taylor, of the National Community Reinvestment Coalition, said affordable housing advocates have encouraged Watt to stay.

Taylor said he hopes Watt increases the number of loans Fannie and Freddie back to low- and moderate-income borrowers and lowers their fees.

"We and others are worried about what the replacement would look like," he said.