

Trump's pick of Calabria as housing chief roils advocates

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President Donald Trump's nomination of libertarian economist Mark Calabria to be the country's top housing regulator will touch off a bruising battle in Congress over the government's role in the financing of American mortgages.

Calabria, Vice President Mike Pence's chief economist, has a long record of criticizing housing policy, giving Democrats plenty of ammunition during a Senate hearing to confirm him as director of the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac.

"He's on the record ... as highly skeptical of many of the historically successful elements of our housing finance economy," said National Housing Conference CEO David Dworkin. "There's a big difference between having strong opinions in the private sector or in academia and having your hand on the throttle that controls one-sixth of the economy."

In 2015, Calabria wrote that one way to fix Fannie and Freddie, which dominate the mortgage-finance market, would be to "end the housing goals" — a reference to the companies' mandate to serve low-income communities. He also suggested tightening homebuying standards, requiring "minimum down payments of 5 percent and minimum FICO scores of 700."

Fannie and Freddie, which were taken into government conservatorship at the height of the housing crisis, currently have programs for low-income borrowers that allow them to get mortgages with a 3 percent down payment and a credit score as low as 620. Calabria's proposal would hit the poor and minorities hardest, since minorities are disproportionately likely to have lower credit scores.

He has also endorsed eliminating the 30-year fixed rate mortgage at the center of the American housing market and called securitization — the pooling of mortgage loans into securities that are then sold to investors — a "false god."

Because mortgage-backed securities are easier to sell than whole mortgages, they bring more investors into the market — ultimately giving lenders more funding to make loans. As of the third quarter of this year, there were \$9.7 trillion in outstanding mortgage-backed securities in the U.S., according to SIFMA data.

Calabria was officially tapped on Tuesday to replace current FHFA Director Mel Watt, the last remaining Obama-appointed financial regulator. Watt is scheduled to leave the post on Jan. 4, when his five-year term expires.

Calabria, who could not immediately be reached for comment, is a known quantity and has seldom been shy with his opinions about Fannie and Freddie: In 2016 he urged the FHFA to put the companies into receivership without waiting for action from Congress.

Yet even as housing advocates voiced concern over the news Monday that Trump would nominate him, they conceded that there's little chance of thwarting his confirmation.

Calabria "is the best of the ideologues" the White House could have picked, one advocate said, pointing to the former Cato Institute scholar's deep knowledge of housing finance and reputation as a thoughtful person.

He also isn't alone in his disdain for Fannie and Freddie, which Treasury seized in 2008 to prevent their collapse. The over-extended companies had spent years dabbling in increasingly risky loans and many Republicans blamed them for the crisis.

A mid-2000s accounting scandal and a reputation for hard-nosed lobbying tactics made the mortgage financiers lots of enemies in Washington by the time they entered government control, and lawmakers have been debating what to do with them ever since.

But Fannie and Freddie's centrality to the mortgage market — they stand behind more than half of residential mortgages — has stymied would-be reformers. And industry insiders predicted that the sluggish state of the housing market would deter Calabria from pursuing the kinds of dramatic actions he has proposed in the past once he's responsible for Fannie Mae and Freddie Mac's \$5.4 trillion portfolio.

"He's going to get confirmed, he's not going to be Attila the Hun, and he's going to do what needs to be done, without a big ricochet," said Joe Ventrone, vice president of industry relations at the National Association of Realtors.

"The housing economy is not doing too well, so I don't think they can afford to do something too draconian like shrink [Fannie and Freddie's loan] limits drastically right after they were increased," Ventrone added.

There are a number of intermediate steps Calabria could take to lighten Fannie and Freddie's footprint without risking the market chaos of moving them into receivership. Lowering the limit for the maximum size of loans the companies can purchase would reduce their share of the market.

The agency could also tighten minimum credit requirements, raise the fees Fannie and Freddie charge lenders and require the companies to limit purchases of certain loans, like cash-out refinancings. Enhancing the companies' risk-sharing initiatives would also protect taxpayers.

Others looked for a silver lining in Calabria's record of lambasting Fannie and Freddie.

"He's not a secret in terms of where he's coming from, and we welcome somebody who at least has deep experience in the debates that are going to be central to the role that a new FHFA director is going to play," one housing lobbyist said.

