

Fannie, Freddie Lose A Friend In Frank

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Rep. Barney Frank's Monday decision to retire will remove one of the staunchest defenders of Fannie Mae and Freddie Mac — and may replace the Massachusetts Democrat with an even stauncher defender, California Rep. Maxine Waters.

That further dims hopes for any serious housing reform in Congress, despite Fannie and Freddie being in costly federal receivership since 2008. On the campaign trail, candidates rarely mention housing.

The most Congress has been able to agree on is lifting loan limits at the Federal Housing Administration while keeping Fannie and Freddie limits in place. Actual reform is not on the agenda.

The liberal and fiery Waters, 73, is unlikely to be a catalyst for change. She is next in seniority behind Frank on the House Financial Services Committee, where he is ranking minority member.

Assuming she succeeds, Fannie and Freddie will continue to have strong Democratic allies. Waters has long resisted efforts to reform the mortgage finance giants — and brought heartburn to those who have tried.

"She can make a lot of noise and in so doing bring a lot of attention to issues," said Bert Ely, an adjunct scholar at the free-market Cato Institute and expert on Fannie and Freddie.

That will be about the most she could do. The minority party has little power in the House. But should Democrats regain control, Waters would become chairwoman. Ely would expect a "much more radical agenda" in that case.

"Barney is certainly very liberal, but he is somebody who understands the financial services industry well and was somebody people felt they could work with," Ely said. "I think they'll be much less likely to feel that way about Maxine."

A former Waters staffer told IBD that she sees little reason to change Fannie or Freddie even in light of the housing crisis.

"She will say all of the right things about how ... you cannot have the existing model, which privatizes the benefits and socializes the risks," the ex-staffer said. "But as far as proposals to sunset Fannie and Freddie or try to cut the size of their portfolios, like many Democrats, she has concerns about maintaining the vibrancy of the housing market."

Waters' office did not respond to a request for comment.

In February, the Obama administration unveiled a housing reform plan that included winding down Fannie and Freddie. Waters opposed that.

"I am very concerned about the affordability of housing and access to lending for working low- and middle-income underserved populations," she said at the time.

Legislation to revoke their charters passed the committee, but without support in the Democrat-led Senate, it stalled.

Waters, who has represented South Los Angeles since 1990, has viewed Freddie and Fannie as key to serving low-income housing needs. In a 2003 hearing, she denied that anything at all was amiss with the mortgage giants.

"We do not have a crisis at Freddie Mac, and in particular at Fannie Mae, under the outstanding leadership of Mr. Frank Raines," she said. She applauded the expansion of its activities too.

In fact, the highly leveraged giants were swollen with subprime loans, which began defaulting when the housing bubble burst in 2007. By 2008, the federal government had to step in.

Technically private, the companies had long benefited from an implicit government guarantee. The housing crisis made that explicit. So far, taxpayers have had to bail out Freddie and Fannie to the tune of about \$154 billion.

Waters has been the subject of an ethics probe relating to a meeting she set up with top Treasury officials to help save a minority-owned bank. Her husband was a bank director and shareholder. She has denied any wrongdoing.

But that probe has stalled amid reports that data were improperly shared with GOP lawmakers.