

The Street

Fannie, Freddie Turmoil Opens Market to Tough Mortgage Medicine

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NEW YORK () --The leadership shake-up at **Fannie Mae** and **Freddie Mac** leaves the door open for a new management that might be willing to take a more active role in reviving the housing market, even if it comes at the expense of near-term losses. **Fannie Mae** CEO Michael Williams announced on Tuesday that he would step down from his position once a successor is found, only three months after **Freddie Mac** CEO Charles Haldeman Jr. announced that he planned to leave his position in 2012. The departures at the top leaves the government scrambling to find replacements to head the mortgage finance companies, at a time when some policy makers and **Federal Reserve** officials are arguing for more action to stimulate housing and the economy.

The two agencies have cost taxpayers more than \$150 billion since their takeover by the government in 2008. While they continue to play an outsized role in the housing market- underwriting more than 90% of all conforming mortgages in the country along with the FHA- the companies actively seek to minimize taxpayer losses, which is sometimes at odds with efforts to boost housing. For instance, the Federal Housing Finance Agency, the regulator of the mortgage giants, last year sued 19 banks alleging violations of securities laws over the sale of mortgage-backed securities worth \$200 billion during the crisis, a move that critics said only served to exacerbate the housing crisis as mounting lawsuits crippled banks' ability to extend home loans.

In a [white paper](#) on housing last week, the Fed argued that **Fannie Mae** and **Freddie Mac** should take a more active role in boosting the housing market. While the companies are mandated to minimize losses to the taxpayer, the Fed argued that "some actions that cause greater losses to be sustained by the GSEs in the near term might be in the interest of taxpayers to pursue if those actions result in a quicker and more vigorous economic recovery."

Meanwhile, speculation that the Obama administration is looking to [replace Federal Housing Finance Agency director Edward DeMarco](#) with a "housing advocate" through a recess appointment has been gaining ground, amid expectations that the

government will announce a massive refinancing program or some other housing stimulus package. Skeptics argue that the White House is unlikely to do so because it calls for extreme political maneuvering.

According to Mark Calabria, Director of Financial Regulation Studies at the **Cato Institute** and a former Senate Banking Committee staffer, it is not DeMarco alone who has been pushing back against proposals to refinance loans and modify mortgages. **Fannie Mae** and **Freddie Mac** have also been against taking more losses.

"These companies are trying to dig themselves out of the hole," he said. That could change if the Treasury ends up appointing someone with a more progressive bent to head the mortgage giants. "The Treasury is the driver on who the replacement is going to be," said Calabria. "If we quickly see a name out of the administration who is going to be friendly towards mortgage modifications- who is maybe more democrat-leaning or a former Clinton administration official, that could mean they are serious about pushing Fannie and Freddie to do more," he said.

An example would be Nicolas Restinas, who was a senior HUD official during the Clinton Administration and is currently on the board of **Freddie Mac**. Such an appointment, according to Calabria, could indicate that the government is looking for more action from the agencies. Former Fannie and Freddie CEOs have been from Wall Street. Herb Allison, Williams' predecessor, began his career at Merrill Lynch.

Such CEOs tend to be more focused on turning around the business and have a "single-minded" focus according to Calabria. Someone like Neel Kashkari could be a good candidate, according to Calabria. " That would be a smart choice for the administration because he is generally sympathetic to their cause and is "Republican", he said.

Kashkari, was special assistant to former Treasury Secretary Hank Paulson and was instrumental in implementing the \$700-billion TARP program. He now heads the global equities business at PIMCO. Still, it is arguable that a new management will be able to push a government housing agenda forward.

The FHFA has a narrow objective to nurse the companies back to health and is not required to support the housing market. Others argue that a plan that requires taxpayers to bear more losses will not do anything to revive the housing market as it only means that taxpayers will have to pay more taxes and save longer before they can afford to buy a home.

But those anticipating a housing program out of the administration will likely keep a close watch on who will be appointed next to run **Fannie Mae** and **Freddie Mac**.

--Written by Shanthi Bharatwaj in New York