June 12, 2014

HUFF POST POLITICS

Watt Now? (Or, Can Mel Watt Fix the Housing Crisis?)

Posted: 12/13/2013 2:16 pm

News coverage of the Senate's confirmation of Congressman Mel Watt on Tuesday to head the Federal Housing Finance Agency (FHFA) was all about politics, not the housing or banking issues he now has to address. Nominated by President Barack Obama in May, Republicans blocked his approval for seven months. They claimed that Watt was not qualified for the position, despite his Yale law degree and his two decades of service on the House Financial Services Committee. In fact, their opposition had nothing to do with Watt's qualifications. He was simply a victim of Washington's partisan gridlock. On October 31, the Senate voted 56-42 on his behalf, but it was four votes shy of the 60 needed on the cloture motion to move forward. That made Watt the first sitting member of Congress since 1843 to be rejected by his peers for a cabinet-level position.

For Democrats, the Republicans' rejection of Watt, as well as their rejection of Patricia Millett for a seat on the U.S. Court of Appeals for the District of Columbia, was the straw the broke the camel's back. It galvanized them to change the rules to allow the President to make executive-level and court appointments by garnering a simple majority. Under the new rules, Watt finally got the support he needed, securing a 57 to 41 vote to lead the powerful agency that regulates mortgage giants Fannie Mae and Freddie Mac, which own or guarantee about half of the nation's mortgages.

Although news reports paid little attention to Watt's new responsibilities as FHFA director, housing and bank reform advocates view his confirmation as a major victory.

Some pundits and politicians claim that America's housing market is now recovering from plummeting home prices and a years-long lull in new construction. But the so-called recovery is very uneven. Many communities remain devastated by widespread foreclosures and vacant homes. Many foreclosed houses in the hardest-hit areas are being purchased by Wall Street hedge funds and private equity firms, not homeowners who intend to live there. One of them, the Blackstone Group, is now the nation's largest owner of single-family rental homes. These practices have artificially boosted home prices but made local housing markets even more volatile. The investors are making a killing renting the properties, but continuing to drain wealth from these communities. It begs the question: recovery for whom?

Although banks are making record profits, they have tightened credit standards, making it difficult for many working families to get a mortgage. Banks haven't stopped foreclosing on hard-luck consumers (many of them victims of predatory lending). About 10 million homeowners are still "underwater" -- their mortgages are higher than the value of their homes; many are on the brink of foreclosure. Another 11 million families who rent their homes now pay over half of their income for housing, seeing rents rise as their incomes stagnate, according to a new Harvard University report.

Housing activists now hope that Watt -- a North Carolina Democrat who has served in Congress since 1993 -- will put FHFA on the job of helping working families and communities damaged by the housing crisis. Although not well-known to the general public, FHFA controls over $5 trillion in housing assets and has enormous influence over the nation's mortgage market, including the lending practices of banks. Watt takes control of FHFA in the midst of a debate over the future of Fannie Mae and Freddie Mac as quasi-governmental institutions whose own reckless practices contributed to the housing crash, but which have also helped million of working families become homeowners.

Watt replaces Ed DeMarco, a holdover Bush appointee who has opposed government efforts to help homeowners hurt by the Wall Street mortgage meltdown and the dramatic plunge in housing values. Eight state Attorneys General, 45 members of the House of Representatives, *New York Times* columnist Paul Krugman, and dozens of housing advocacy groups have sought DeMarco's ouster. Earlier this year, as part of their "dump DeMarco" campaign, activists protested in front of DeMarco's home and disrupted his testimony before Congress to draw attention to his misguided policies, particularly his obsessive opposition to encouraging banks to rewrite mortgages for "underwater" homeowners, a strategy (often employed by lenders) called "principal reduction."

DeMarco was so extreme that he even opposed allowing lenders to sell foreclosed homes back to the previous owners, even if they had been victims of predatory loans and even if they made the best offer to purchase the house. Realizing that Watt would soon be sitting in his seat, DeMarco -- on the eve of the vote to confirm his replacement -- put into place mortgage fees that punish homeowners in states that have enacted strong protections against foreclosure abuses.

New Bottom Line, a coalition of housing activist groups around the country, applauded Watt's confirmation, calling it "a giant step forward towards a true housing recovery for all, not just Wall Street speculators."

Under Watt's leadership, "the FHFA can be a help rather than a hindrance in efforts to deal with the foreclosure crisis, assist homeowners, and ensure broad access to sustainable and affordable credit," said Americans for Financial Reform (AFR), a nonprofit advocacy group, in a statement.

New Bottom Line and AFR are among the many housing, civil rights, and consumer groups -- including the Right to the City Alliance, National People's Action, Home Defenders League, Occupy Our Homes, the Leadership Conference on Civil and Human Rights, the National Low Income Housing Coalition, and the Center for Responsible Lending -- that worked hard for Watt's confirmation.

At the top of their wish list is putting FHFA firmly in support of "principal reduction." They want Watt to allow, encourage, and even require banks to modify mortgages for "underwater" homeowners (with loans controlled by Fannie and Freddie) so they can stay in their homes and pay their mortgages based on the current value of their home. Many economists, including Joseph Stiglitz and Mark Zandi, who penned a *New York Times* op-ed on the subject last year, believe that principal reduction is the best solution. If underwater mortgages were reset to fair-market values of homes, it would help homeowners and communities alike, and pump billions of dollars into the economy each year. It would also save taxpayers huge sums, especially local governments that have lost property tax revenues but still have to pay for the maintenance and security of vacant properties.

Under DeMarco, FHFA actually threatened to punish cities that push banks to modify loans. Last August, Richmond, California -- a blue-collar city of 103,000 in the Bay Area where home prices have plummeted by almost two thirds since 2007, in large part due to predatory loans to black and Latino residents -- proposed a plan to utilize its eminent domain authority to purchase mortgages at current values and then help homeowners refinance into smaller, more affordable home loans, so they don't lose their homes.

Echoing the views of bank and real estate lobby groups -- who viewed the Richmond plan as a violation of property rights -- DeMarco immediately issued a statement warning that FHFA might bar Fannie Mae and Freddie Mac from backing new home loans in Richmond and other cities that follow its example. Since then, several other cities have moved forward on this front. In December, the ACLU and other groups sued FHFA, accusing it of redlining communities that challenge Wall Street's influence and being unduly influenced by the banking industry.

Advocates will also be urging Watt to address other issues, including the following:

- Allow renters to remain, and continue to pay rent, in foreclosed homes with leases, fair rents, just cause/no fault eviction and quality conditions.
- Comply with federal law that requires Fannie Mae and Freddie Mac to contribute a percentage of their profits to the National Housing Trust Fund to help build, rehabilitate and preserve affordable housing. Both agencies were put in government conservatorship in 2008 but have been profitable for several years and close to repaying their federal bail-out. Now that they are in the black, the federal law requires the two agencies to put .042% of their new business into the trust fund. Last year, Fannie and Freddie did1.4 trillion in new business, but it failed to transfer the required382 million into the trust fund. Fannie Mae reported it had a pre-tax income of8.1 billion in the first quarter of 2013, the largest quarterly result in the company's history.
- Make it a priority to sell foreclosed Fannie and Freddie homes to residents and nonprofits rather than absentee investors.
- Restore Fannie and Freddie's role in investing in rental housing, which DeMarco scaled back over the past two years without any explanation, even though their rental investments remained profitable throughout the crisis.
- Use the funds collected from lawsuits and settlements with banks for predatory and reckless lending practices -- like the Justice Department's recent13 billion settlement with JP Morgan -- to help homeowners and communities hard-hit by plummeting housing values and an epidemic of foreclosures and vacant properties.
- After congratulating Watt, the Home Defenders League immediately launched a petition asking him to stop foreclosures and evictions by Fannie Mae and Freddie Mac.

Although the housing and financial reform activists cheered Watt's confirmation, he is hardly a radical on banking issues. He has close ties to the banking industry, having represented Charlotte -- a major financial center -- in Congress. As a member of the House Financial Services Committee as well as the Congressional Progressive Caucus, he walked a tightrope, balancing consumer and banking industry concerns. Even so, he was a strong advocate of creating the Consumer Financial Protection Bureau as part of the 2010 Dodd-Frank overhaul law and a long-time advocate of measures to reign in abuse mortgage lending. He was a leader (with fellow North Carolina Democrat Brad Miller) in getting anti-predatory lending provisions into the law.

Watt -- who was in South Africa for Nelson Mandela's memorial service when the Senate voted to confirm him -- fills the FHFA job at a time when the public opinion is increasingly concerned with widening inequality, a declining standard of living, and the growing political influence of big business and Wall Street.

Indeed, the country has still not come to terms with the consequences of Wall Street's reckless behavior. A number of major banks have agreed to multi-billion dollar settlements with state Attorneys General and the U.S. Department of Justice for engaging in predatory lending and other irresponsible practices (such as selling toxic mortgages to unwitting investors, including union pension funds) that crashed the economy and stripped wealth from many families and communities. Although the settlement figures look large, they are pocket change to the huge banks whose current record profits are due in large part to taxpayer bail-outs.

Despite their culpability for the economy's hard times and widespread suffering, no major bank CEO has paid the price with jail time, as Senator Elizabeth Warren pointedly observed in a recent letter to federal bank regulators.

To the contrary, these mega-banks gave outrageous raises and bonuses to their top executives. Last year Goldman Sachs CEO Lloyd Blankfein made $21 million -- a 75 percent raise from the previous year. Bank of America CEO Brian Moynihan raked in $8.3 million. Wells Fargo CEO John Stumpf stuffed $22.8 million into his pockets. US Bankcorp handed over $18.2 million to CEO Richard Davis. Citigroup paid CEO Michael Corbat a cushy $12.3 million last year. JPMorganChase CEO Jamie Dimon also took home a cool $18.7 million. Capital One Financial paid its CEO Richard Fairbank $22.6 million.

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