HUFF POST BUSINESS

What Is Mel Watt Waiting For?

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Mel Watt, the head of the powerful Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, is expected to break his silence on Tuesday in a speech to the Washington, D.C. press corps, real estate lobbyists, and housing policy wonks. Watt, a former Congressman from North Carolina, will at speak the Brookings Institution about "The Future of Fannie Mae and Freddie Mac." It is being billed as a major policy address -- his first since assuming the job in January.

But if Watt really wants to know what he can do to address the nation's housing crisis, he should talk to the millions of Americans who are drowning in housing debt, including the Coronel family, whom Fannie Mae is trying to evict from their modest home in Azusa, California, a blue-collar suburb of Los Angeles.

(Left) The Coronel family with supporters from ACCE, a community organizing group. (Right) Mel Watt with President Obama

There are many things Watt can do to change the direction of these two mortgage giants which were put into government trusteeship after the mortgage meltdown. The eyes of most observers are on a variety of plans to restructure or privatize them. But one of the most pressing issues right now is the nation's epidemic of "underwater" mortgages. Many housing activists and homeowners are hoping that Watt will announce his support for "principal reduction" -- allowing Fannie and Freddie to re-set mortgages for underwater homeowners so that their payments reflect the current market value of their homes. This approach is already part of other mortgage modification programs. Experience reveals that it leads to more sustainable mortgages and reduces the likelihood of foreclosures.

Moreover, Watt can do this without Congressional approval.

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. They will not be rescued by the rising tide of home prices, which has bypassed many parts of the country.

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 in some areas 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?

Certainly not Jaime and Juana Coronel, whom Fannie Mae is trying to oust from their 1,200 square foot home where they've lived for 25 years. The Coronels worked their entire lives, in landscaping and factory work, to afford the home where they raised their four kids. In 2010, after Jaime's hours were cut at work, Fannie Mae foreclosed on them even though they had the income to qualify for a loan modification.

Since the foreclosure, Jaime (who recently suffered a stroke) and Juana have paid the equivalent of a modified mortgage payment in rent to Fannie Mae in order to continue living in their home. But last November, without giving a reason, Fannie Mae began eviction proceedings against the family. Jaime and Juana offered to repurchase their home at its current market value, about $200,000, which is what Fannie Mae would get for the house in the open market. Fannie Mae responded by demanding that they pay $400,000 -- about twice the home's market value -- including a $45,000 cash deposit. A real estate agent from Century 21 verified that the Coronels qualify for a loan at the home's current market value.

Joining forces with the community organizing group the Alliance of Californians for Community Empowerment (ACCE), the Coronels, along with friends and neighbors, have told Fannie Mae that they won't move without a fight. They've demanded to know why Fannie Mae would put them out in order to sell it to someone else, most likely an investor, at a lower price.

The prolonged negotiations came to a head last week in a phone call between the Coronels and several Fannie Mae officials, including vice president Elonda Crockett. According to informed sources, a Fannie Mae attorney told the Coronels that Fannie Mae is not allowed to sell them back the property at market value while they are still in the house. They even defended Fannie Mae's current policy of opposing principal reduction, warning that it would lead to an epidemic of families refusing to pay their mortgages -- despite a lack of evidence that anything of the sort happened when banks reduced principal on many loans as part of mortgage settlements.

The Coronels are hardly alone. As I wrote in a *New York Times* op-ed on Friday, "What Housing Recovery?" the total value of America's owner-occupied housing remains $3.2 trillion below 2006 levels. According to Zillow, a real estate database, 9.8 million households still owe more on their mortgages than the market value of their homes. That's one-fifth of all mortgaged homes. Without government intervention, many of them are at risk of joining the almost five million households that have already suffered through foreclosure since the housing bubble burst in 2007.

With my coauthors Alex Schwartz of the New School, Gregory Squires of George Washington University, Saqib Bhatti of the Nathan Cummings Foundation, and Rob Call of MIT, I conducted a study, *Underwater America: How the So-Called Housing Recovery is Bypassing Many American Communities*, which was released last week by the Haas Institute at UC-Berkeley. Our study identified the 15 metropolitan areas, 100 cities, and 395 ZIP codes with the highest proportion of underwater mortgages.

How bad is it? More than 10 million Americans, spread across 23 states, live in ZIP codes where between 43 percent and 76 percent of homeowners are under water. The biggest concentrations are in Georgia, Florida, Illinois, Michigan and Ohio. The metro areas in the worst shape are Las Vegas, Atlanta, Jacksonville, Orlando and Chicago. Places with so many underwater homes are toxic; they depress the value of surrounding homes and undermine local governments' fiscal health.

The blame for this tragedy lies mostly with banks' risky, reckless and sometimes illegal lending practices. The story is a familiar one. In the late 1990s and early 2000s, millions of Americans bought or refinanced homes in an overheated market. Mortgage brokers lied or misled borrowers about the terms of these mortgages, often pushing borrowers into high-interest subprime loans, even when they were eligible for conventional mortgages.

They particularly targeted minority areas. In 2006, when subprime lending was at its peak, 54 percent of blacks, 47 percent of Latinos and 18 percent of whites received high-priced loans, according to the Federal Reserve Board.

Not surprisingly, the nation's worst underwater areas are disproportionately in black and Latino neighborhoods. In almost two-thirds of the hardest-hit ZIP codes, African-Americans and Latinos account for at least half of the residents.

The banks' risky loans eventually came crashing down, devastating communities and causing financial havoc. The federal government rescued the banks, but nobody came to the rescue of the homeowners and communities the banks left behind.

The banks own some of these underwater mortgages but when homeowners ask them to reset mortgages, they often get a cold shoulder or a bureaucratic run-around. In 2012, some of the biggest banks signed a settlement agreement with 49 state attorneys general to modify mortgages. This has resulted in some mortgage modifications, but many of these banks continue to heap abuse on their customers, and sufficient relief has not reached trapped homeowners.

Many banks and private mortgage companies pooled large numbers of subprime loans into private securities and sold them to investors. The banks that service these securities have used principal reduction on some loans but, in general, they've been reluctant to do so, which will eventually push many homeowners over the cliff into foreclosure.

But Fannie Mae and Freddie Mac own and/or guarantee the biggest bulk of these troubled loans. Watt's predecessor as FHFA head -- Ed DeMarco, a holdover Bush appointee -- opposed government efforts to help homeowners hurt by the Wall Street mortgage meltdown and the dramatic plunge in housing values.

DeMarco opposed efforts by cities, such as Richmond, CA, to address the problem of underwater mortgages by using their eminent domain authority to purchase these troubled loans from lenders and re-sell them to homeowners at current market values. DeMarco even issued a statement warning cities that FHFA would retaliate against homeowners within any jurisdiction that dared to use its legal authority this way.

Housing and consumer advocacy groups mobilized a "dump DeMarco" campaign to push President Obama to replace him. Activists protested in front of DeMarco's home and disrupted his testimony before Congress to draw attention to his misguided policies. Eight state Attorneys General, 45 members of the House of Representatives, and *New York Times*columnist Paul Krugman also called for DeMarco's ouster.

Obama nominated Watt for the job but Republicans in Congress refused for seven months to confirm his appointment. Finally, last January, a deal was struck and Watt took over control of the powerful FHFA.

Housing justice advocates now hope that Watt -- a Democrat who served in Congress from 1993 to the end of last year -- 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.

At the top of the advocates' 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. 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.

Housing justice advocates have also urged 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 (now substantial) profits to the National Housing Trust Fund to help build, rehabilitate and preserve affordable housing
- 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.

Although consumer, 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 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 letter to federal bank regulators earlier this year.

Watt can't fix all these problems by himself. But he has more power than any other single person to stem the ongoing damage of the mortgage crisis by enacting a long-awaited program of principal reduction -- -a win/win deal with American homeowners and communities.

What is Watt waiting for?

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