White House Seeks FHFA Action

The idea of scaling back **Fannie Mae** and **Freddie Mac** without legislative approval is gaining traction.

The **Trump Administration** floated the concept a few months ago as an option should Democrats take control of Congress in the November elections, suggesting that the **Federal Housing Finance Agency** could pursue such action on its own. Now comes word that White House officials are favoring that approach no matter what happens at the polls.

The changes could take shape quickly and aggressively. Indeed, with the term of current FHFA head **Mel Watt** expiring on Jan. 6, President Trump appears to be leaning toward the appointment of an interim replacement who immediately would institute new policies — perhaps even privatizing Fannie and Freddie.

The candidates include a number of individuals who already hold high-profile posts in Washington, each of which would appoint an official to handle the day-to-day duties of the assignment. Among them:

- **U.S. Treasury Secretary Steve Mnuchin.**
- **Comptroller of the Currency Joseph Otting.**
- **Federal Housing Administration** commissioner **Brian Montgomery.**
- **Office of Management and Budget** director **Mick Mulvaney.**

"We are hearing that the most probable path of movement is on the administrative front, with an interim head for the FHFA who can go ahead and pursue a reform agenda without Congress needing to sign off. And they are going to act right away," one source said.

A permanent replacement would come later, subject to Senate confirmation. The favored candidates for that post appear to be **Mark Calabria,** chief economist to **Vice President Mike Pence;** former **FHFA** head **Ed DeMarco; Adolfo Marzol,** senior advisor to **HUD Secretary Ben Carson;** and **Craig Phillips,** counselor to Mnuchin.

Mulvaney also has been mentioned as a possibility, perhaps due to his work as interim director of the **Bureau of Consumer Financial Protection.** He was appointed to that role in November, and since has scaled back the agency's role as a consumer watchdog while **Kathy Kraninger** awaits confirmation as the permanent appointee.

A move to reduce the activities of Fannie and Freddie without input from Congress would follow a similar blueprint. Such a step would reflect frustration over a lack of progress among long-developing Republican plans to diminish the agencies' roles in the mortgage market, and a growing feeling among administration officials that those proposals are unlikely to advance regardless of which party controls Congress.

The Trump Administration believes the FHFA director has the power to transform Fannie and Freddie under the 2008 Housing and Economic Reform Act, which created the regulator while giving it oversight of the agencies. Steps an interim director might pursue could include reductions to loan limits, increases to guarantee fees, cuts to funding for multi-family properties and a halt to cash-out refinancing through agency loans.

At the same time, the administration remains eager to remove Fannie and Freddie from government conservatorship and privatize them, and sees the FHFA as having the authority to initiate that process. But such a move would require the unwinding of preferred shares the Treasury holds in Fannie and Freddie. Mnuchin has said he supported such an undertaking.

Private-label mortgage professionals broadly support the notion of scaling back Fannie and Freddie, figuring that such a move would allow them to reach more borrowers. However, some are concerned that the administration could act too aggressively.

The **Structured Finance Industry Group** has added panels on the matter to is "Residential Mortgage Finance Symposium 2019," which takes place Oct. 29-30 at the Conrad hotel in New York. "We hope [the administration's plans] are measured and take into consideration potential disruptions to the market," SFIG mortgage-policy head **Dan Goodwin** said. "But we should be prepared to see some change." ❖

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stages, another lawyer said. He described the possible transactions as highly customized, perhaps pooling together cashflows tied to several projects into single multi-tranche offerings.

The Trump Administration is pushing airport privatization as part of a broader plan that calls for $1.5 trillion of new infrastructure spending over 10 years. With the proposed outlays meeting resistance from other Republicans, meanwhile, White House officials apparently are increasingly looking to private-sector partners for the needed capital.

To that end, there also is talk of offerings tied to bridges, tunnels and highways.

Another possibility would be for a government entity, say the **Port Authority of New York and New Jersey,** to set up a special-purpose company that would securitize tolls from bridges and tunnels, and use the proceeds to improve the three airports it controls. Such an approach would resemble the one taken by **Hong Kong Link,** a limited-liability company formed in 2004 by the Hong Kong government that issued $770 million of bonds backed by bridge and tunnel tolls. Likewise, an entity called **Lima Metro Line 2** raised $1.2 billion in 2015 to fund the construction of a subway line, with the bonds underpinned by payments from the government of **Peru** to the contractor building the project.

While numerous project-finance securitizations have taken place outside the U.S. — complemented by a large volume of loans with securitization-like structures — the deals have been rare in the States. The only rated asset-backed bond offerings to take place in the U.S. lately were two issues totaling $800 million in 2017, both from natural-gas company **Freeport LNG.** ❖