

Politics

Fannie's Watchdog Says Focus Is on Exit Strategy, Not Lawsuits

By [Elizabeth Dexheimer](#)

October 31, 2019, 2:11 PM EDT

-
- ▶ Investor challenge to profit sweep has reached Supreme Court
 - ▶ Calabria says sweep can end without addressing the litigation
-



Mark Calabria testifies during a House Financial Services Committee hearing on Capitol Hill in Oct. 22, 2019. *Photographer: Zach Gibson/Bloomberg*

Fannie Mae and Freddie Mac's regulator said he is focused on helping the mortgage

giants build sufficient capital to exit federal control as quickly as possible and isn't particularly concerned with resolving investor litigation that has reached the U.S. Supreme Court.

Federal Housing Finance Agency Director Mark Calabria, speaking at a briefing with reporters on Thursday, said he intends to spur the companies' ability to boost reserves by eventually ending the so-called net-worth sweep that sends their profits to the U.S. Treasury. Calabria said work toward that goal is proceeding without regard for whether it will address all of the concerns raised in the shareholder lawsuits.



A map of the Mississippi River basin, showing the river's course from Minneapolis-St. Paul in the north to New Orleans in the south. The map highlights the river's path through Minnesota, Iowa, Missouri, Illinois, Kentucky, Tennessee, Arkansas, Louisiana, and Mississippi. Key cities along the river are marked, including Red Wing, La Crosse, Dubuque, Davenport, Hannibal, St. Louis, Chester, Cape Girardeau, New Madrid, Memphis, Greenville, Vicksburg, Natchez, St. Francisville, Baton Rouge, Houmas House, Oak Alley, and New Orleans. The map is overlaid with the American Cruise Lines logo, which features an American flag and the text "AMERICAN CRUISE LINES". Below the logo, the text reads "EXPLORE THE MISSISSIPPI" and "Small Ship Cruising Done Perfectly®".

AMERICAN CRUISE LINES

EXPLORE
THE MISSISSIPPI

Small Ship Cruising Done Perfectly®

FREE CRUISE GUIDE

“Obviously there are a variety of shareholder concerns,” he said, acknowledging that ending the sweep wouldn't necessarily deal with all of them. “I don't have any money

to pay anyone damages, so that will be decided by somebody else.”

Investors, who have been fighting for years to overturn the Obama-era policy, won a major victory last month when a federal appeals court ruled they should be able to pursue their claims that the sweep is illegal. They asked the Supreme Court to intervene, arguing that the FHFA’s structure is unconstitutional. The Trump administration separately asked the justices to find that the lower court was wrong when it ruled in September that the investors’ lawsuit should go forward.

[Read more: U.S. Seeks Supreme Court Review of Fannie-Freddie Profit Sweep](#)

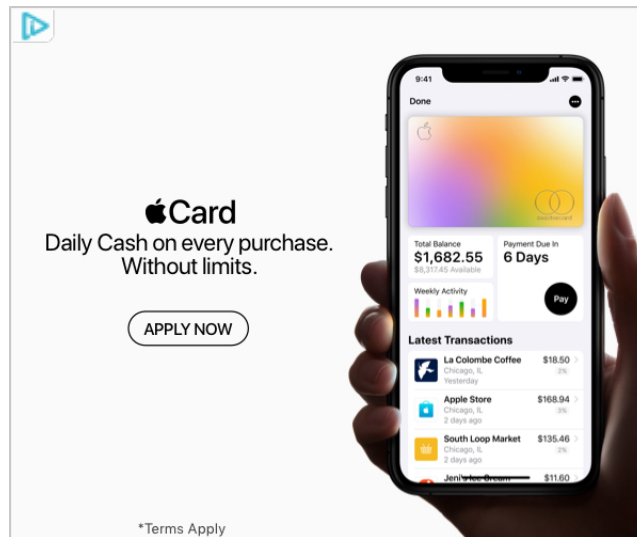
ADVERTISING



Calabria said that he doesn’t see the legal battle having any negative impact on Fannie and Freddie’s profits at this point. He said that it’s not clear yet whether litigation will affect the companies’ ability to attract new investors as they seek to build outside capital in the future.

“We will cross that bridge when we get to it,” he said.

Calabria said that while progress is being made, a lot of work is still needed before Fannie and Freddie can be freed after more than a decade under government control. He said the FHFA hopes to select a financial adviser soon to provide advice on an exit path, and that he also expects the companies to seek their own advisers.



Finalizing a rule outlining Fannie and Freddie's capital standards is also a key step toward ending their conservatorships. Calabria said he hasn't determined whether to issue a new rule or revise the one his predecessor began last year.

Calabria will have to negotiate with the Treasury Department to end the net worth sweep. He said he is in the process of identifying what changes he would like to seek, which will likely include tweaks to the way Fannie and Freddie do business that can't be accomplished via rulemaking. One example of such a change is rules about how Fannie and Freddie set prices.

He said FHFA is working through a list of confidential directives for Fannie and Freddie to meet before they can be freed.



“There really is a lot of behind-the-scenes, back-door work that has been and has to be done,” he said.

Calabria says he is also keeping in mind that to raise enough capital to exit conservatorship, Fannie and Freddie need to be attractive to new investors. He said he is working with the companies to ensure new rules don't hurt their return on equity and is also looking at cutting costs to help make them more profitable.

SHARE THIS ARTICLE



Trending Now

Business

A Secretive Family Landing a \$4 Billion Haul Has Everyone Guessing

October 30, 2019, 8:23 AM EDT

Technology

SoftBank's Son Speaks to an Almost Empty Room at Saudi Summit

October 30, 2019, 9:57 AM EDT

Technology

Apple Just Killed Google's Killer Phone Feature: Pixel 4 Review

October 29, 2019, 9:46 PM EDT
