



Washington Policy

How We Are Thinking About The FHFA Director Chatter

Highlights

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Isaac Boltansky

202.534.1396

iboltansky@compasspointllc.com

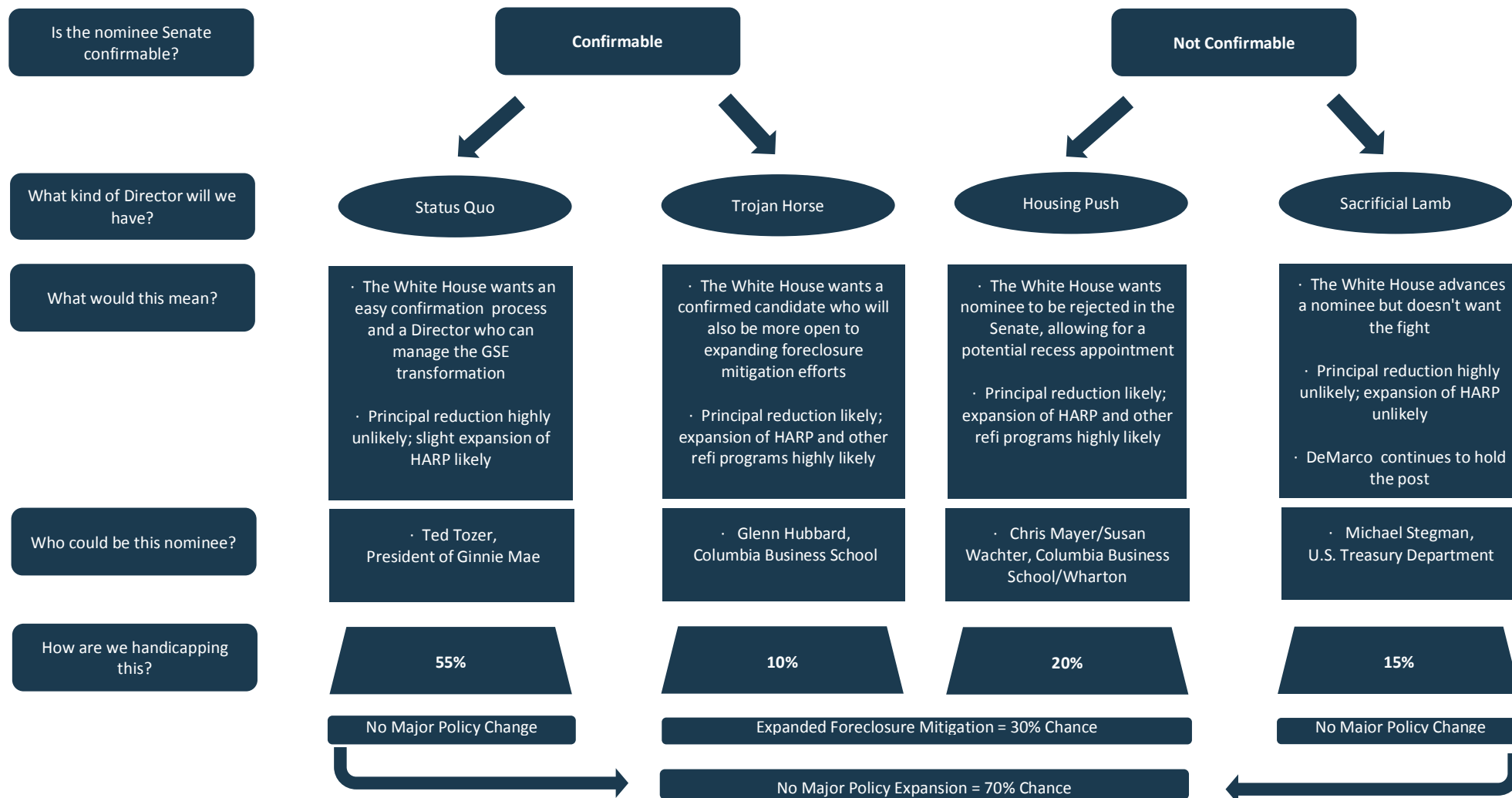
Overview. On December 10, the WSJ [reported](#) that the White House “has begun preparations to nominate a new director to lead” the Federal Housing Finance Agency (FHFA), the conservator and overseer of the GSEs. It should come as no surprise that the White House has begun vetting potential nominees to become the Director of the FHFA. Ed DeMarco, the Acting Director of the FHFA, has not made many friends in the White House and our expectation has been that the President would advance a FHFA Director nominee early in 2013 along with numerous other financial regulatory nominees. Our assessment of the political landscape, however, leads us to believe that the White House is unlikely to embrace a nominee who will result in a meaningful policy shift at the FHFA.

How We Are Thinking About This Nomination. We have included a detailed flowchart on the following page which outlines our thoughts regarding the President’s likely nomination for FHFA Director. Our focus in this exercise was to project what this nomination could mean for the FHFA’s foreclosure mitigation efforts (e.g. HAMP modifications and HARP refis). We separate the paths between individuals who could be confirmed by the Senate and others who would face more meaningful pushback from the Senate. We then distinguished between four distinct types of candidates: (1) Status quo; (2) Trojan Horse; (3) Housing Push; and (4) Sacrificial lamb. We then present potential nominees who fit these positions and assign probabilities to each potential nomination path.

So Who Gets the Job and Who Does it Impact? Our assessment leads us to believe that Ted Tozer, President of Ginnie Mae, is the likeliest pick for the post. We believe Tozer is easily Senate confirmable given his industry experience and time at Ginnie Mae. In terms of impact, we believe that Tozer is unlikely to represent a marked change to the FHFA’s existing foreclosure mitigation policy. Under a Tozer Directorship, we do see an expansion to the HARP – likely an extension of the current deadline beyond December 2013 – but we do not believe Tozer would embrace principal reduction through the HAMP. While there will be a considerable amount of conjecture regarding the potential change in leadership at the FHFA, we do not believe that the White House will be willing to expend the political capital necessary to put a Director in place who would embrace a new foreclosure mitigation push.

Senate Banking Landscape Tough, but Different. A nominee to head the FHFA will almost certainly face a tough confirmation hearing before the Senate Banking Committee, just as the President’s last nominee for the post did. The President’s last nominee – Joseph Smith – was described by Senator Richard Shelby (R-AL) as an Obama Administration “lapdog” and his nomination was blocked. Despite Democrats now effectively holding 55 seats in the Senate (counting the Independents), the fact remains that they likely can’t block a filibuster of a nominee. Shelby, who led the attack against the President’s last nominee, will no longer be a part of the Senate Banking Committee in 2013. While other Senators could of course block the President’s nominee in a similar manner, we believe that Shelby’s departure represents a tonal shift on the Committee and the path to confirmation is distinctly easier than it was in 2010 and 2011.

Compass Point's FHFA Director Nominee Thought Process



Source: Compass Point

Important Disclosures

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