

Introduction of Jim Lockhart

Peter J. Wallison

AEI

James B. Lockhart III is the director of the Office of Federal Housing Enterprise Oversight. He was nominated by President George W. Bush, and he was later confirmed by the U.S. Senate on June 15, 2006. Before his appointment, he also served as deputy commissioner of the Social Security Administration (SSA), a presidentially appointed and Senate-confirmed position which is the SSA's chief operating officer.

Before entering the government, Jim cofounded and served as managing director of NetRisk, a risk management software and consulting firm serving major financial institutions, banks, insurance companies, and investment management firms worldwide. He also has an extensive background in financial services including insurance, investment banking, and pensions detailed in the more complete bio in your materials.

The position as director of OFHEO is an extraordinarily difficult one, even as Washington jobs go. Being a regulator always involves difficult decisions, but regulating Fannie Mae and Freddie Mac is of a different order entirely.

If you are a bank regulator, you can be reasonably sure that there will be carping from some in Congress, but unless they are up against Wal-Mart the banks are not congressional favorites. Up against the interests of consumers or taxpayers, they're toast. It wouldn't take much to get Congress to impose fee caps on various bank services, or subject banks to more rigorous regulation as soon as some problem appears. We are seeing some of this now in the Congressional reaction to the subprime mess.

However, Fannie and Freddie have over the years wrapped their arms securely around the large numbers of Congress members and Senators. They've done this by hiring staffers and lobbyists who are closely tied to key lawmakers, by ribbon cuttings and other events in districts and states where the member or Senator is given credit for the event and solid media coverage, and of course by well placed financial support—both from their own employees and from the securities and mortgage industries which depend on Fannie and Freddie for profitable business.

To be sure, their power has dissipated somewhat in recent years, particularly after the financial scandals of 2003. But how else to explain the fact that these two companies—which could end up as public charges if the current home price decline turns into a rout—still remain subject to a weak regulatory structure that they largely devised themselves in the early 1990s?

Despite significant losses announced last month, and more losses to come, there is simply no activity in the Senate Banking Committee on improved regulation. Nevertheless, Jim and his team at OFHEO have persevered. Despite huge pressure from Congress, they have kept in place an additional capital requirement that has reduced the likelihood of serious financial weakness at these two government-backed companies.

It's not much—a 30 percent surcharge on top of a 2.5% statutory capital requirement—but it's something. It almost certainly was one of the reasons that the two enterprises have felt it necessary to raise additional equity capital. Amazingly, until Fannie and Freddie announced their losses last month, many in Congress were hoping that they could legislate that surcharge away and eliminate the caps on their portfolio growth so the two companies could buy more mortgages even as home prices were declining. Maybe Congress is still trying. Only OFHEO knows for sure.

We don't know what is in the future, but the most basic precautions seem at the moment to be beyond the ability of Congress to enact. Instead, Jim and his team have had to make imaginative use of limited statutory authorities to keep Fannie and Freddie under control.

For that reason, I for one am proud to have as our speaker today one of those rare public servants who is actually willing to take the heat in the interest of protecting the taxpayers.

Please join me in welcoming Jim Lockhart.