

He calls the law tightening oversight of [Wall Street](#) among the most “harmful our capital markets have seen.” She has compared bankers to gangsters.

The will of the new Congress to begin rebuilding the U.S. mortgage finance system rests largely in the hands of Representatives Jeb Hensarling, a Texas Republican, and Maxine Waters, a California Democrat, known as partisan fighters from opposite ends of the ideological spectrum

Hensarling, 55, is the new chairman of the House Financial Services Committee while Waters, 74, is the highest-ranking Democrat. In addition to grappling with proposals to tweak and amend the Dodd-Frank regulatory law, they will be seeking common ground on what may be the panel’s biggest issue this year -- the future of [Fannie Mae \(FNMA\)](#) and [Freddie Mac](#) .

For Hensarling, the solution is to abolish the government- owned mortgage companies and completely privatize the mortgage market. Waters argues that some government involvement is needed to preserve the 30-year fixed home loan.

“While we clearly have profound philosophical differences -- some might call us Capitol Hill’s newest odd couple -- we are exploring areas of common concern where we hopefully can work together,” Hensarling said in an e-mail.

Because Hensarling is among few in Congress who would end all U.S. backstops to the mortgage industry, he may have to compromise even to win over his own party. That makes it likely the two lawmakers eventually will support a plan that would shrink the role of [Fannie Mae](#) and Freddie Mac without threatening to choke off the flow of money into home loans.

## **‘A Believer’**

Since he was first elected to Congress in 2002 from the Dallas area, Hensarling has risen steadily in the Republican leadership. He led opposition in the House to the \$700 billion banking bailout in 2008, suggesting it would put the U.S. on a “slippery slope to socialism,” and voted against the Dodd- Frank Act regulatory overhaul two years later.

“Jeb is a believer -- sort of tea party before there was a Tea Party -- so certainly there are some things he won't sign on to,” said Mark Calabria, a former top Republican aide for the Senate Banking Committee and who now directs financial regulation studies at the Cato Institute. “But there are some areas Maxine won't sign on.”

Waters was a teacher and volunteer coordinator with the Head Start early childhood education program before running for Congress in 1990 from [Los Angeles](#) .

Her relationship with the financial industry often has been tense. In 2011, at a Congressional Black Caucus event in Los Angeles, she called bankers “gangsters” and said if they “don't come up with loan modifications and keep people in their homes that they've worked so hard for, we're going to tax them out of business.”

## **New Relationships**

As she moves into a more prominent role on the committee, Waters has sought to repair those ties, meeting with lobbyists and hosting roundtable discussions on issues including derivatives rules.

Waters also has begun holding campaign fundraisers that include lobbyists for the biggest banks. That's a first, according to the lobbyists, though Waters' chief of staff, Mikael Moore, said he couldn't confirm that.

“There are some folks in the industry meeting her for the first time and they don't have a relationship,” said James Ballentine, executive vice president of congressional relations and political affairs at the American Bankers Association. “Relationships are established over time.”

## **Dodd-Frank Changes**

Pressing ahead with housing would be a new path for the Financial Services Committee, which for five years has focused on other areas of bank regulation under the chairmanships of Barney Frank, a Massachusetts Democrat, and [Spencer Bachus](#) , a Texas Republican. The Dodd-Frank Act, passed while the chamber was under Democratic control in 2010, imposed

new rules on much of the industry but didn't address Fannie Mae and Freddie Mac.

Hensarling and Waters will have to deal with fixes to Dodd- Frank, some considered technical and others more substantive.

Among proposals with bipartisan support are alterations to the law's derivatives provisions. Other changes, including a Republican proposal to replace the director of that bureau with a five-member commission, have lawmakers split along party lines and may lead to prolonged debates, even if the Democratic- controlled Senate is unlikely to take them up.

## **Unfinished Business**

Still, with the departure of Bachus, who is prevented by term limits from continuing as chairman, and the retirement of Frank, Hensarling and Waters both said they consider mortgage finance the most important piece of unfinished business.

Fannie Mae and Freddie Mac have drawn almost \$190 billion in taxpayer aid since 2008, when they were seized by regulators as they veered toward bankruptcy in the credit crisis. The Treasury Department in February 2011 unveiled three options for winding down the companies. Treasury Secretary [Timothy F. Geithner](#) said the administration would settle on a plan by the middle of 2012. A blueprint hasn't yet been released.

"We've ended up in limbo here," Waters said in an interview. "No real proposal coming either from the White House or from Congress about exactly what we want to do."

The debate over the companies' future has been complicated by their prominence in the housing market. As private investors have pulled back in the recession, Fannie Mae and Freddie Mac have come to own or guarantee more than 60 percent of outstanding U.S. residential mortgages. The real estate industry is among those lobbying to retain a government hand in the market to avoid another sudden collapse in prices.

## **Campbell Bill**

**“You can’t pull the rug out from that in a year or two or even five,”** said Representative [John Campbell](#)

, a Republican from California, who has offered a bill to replace the companies with privately capitalized entities that would purchase government backing for the mortgage bonds they issued.

Another measure, from Gary Miller, a California Republican, and Carolyn McCarthy, a [New York](#) Democrat, would replace Fannie Mae and Freddie Mac with a government-run secondary market facility.

While **Campbell** said there is bipartisan agreement to replace the companies, **“there is no agreement either between the parties or within either party”** about how to go about it.

“There’s a significant Republican minority that wants to be reasonable,” said Frank, who said Hensarling may have to compromise. “The Republicans will have to decide, do they stick with him or go with John Campbell, [Gary Miller](#) ?”

## 30-year Loan

Fannie Mae Chief Executive Officer Timothy Mayopoulos said privatizing the system isn’t realistic. A government backstop is needed because U.S. banks don’t have the capacity to fund the entire mortgage system on their own, he said.

“Preserving the 30-year fixed-rate mortgage isn’t something people should take lightly because it’s not a naturally occurring phenomenon,” Mayopoulos said at a Bloomberg Government breakfast on Jan. 8.

Another factor adding urgency to the discussion is the possible shortfall faced by the insurance fund of the Federal Housing Administration, which backs about \$1.1 trillion in mortgages. The FHA’s troubles should encourage all parties to “come to the table and try to address this housing problem,” said Representative [Scott Garrett](#), a New Jersey Republican.

As chairman of Financial Services, Hensarling will have to tame a 60-plus member panel known for partisan division. In his nine years as a member of the committee, he displayed “extreme” views, according to Frank.

## Family Farm

Hensarling brings to the job a resume tailor-made for a prominent Texas Republican. He grew up on his family’s farm near College Station, graduated from [Texas A&M University](#) and earned his law degree at the [University of Texas](#) in Austin. He also was an Eagle Scout.

When he was chairman of the House Republican Conference, the fourth-ranking job in the party’s leadership, Hensarling also served as co-chairman of the 2011 congressional panel that failed to reach an agreement on deficit reduction. In a July opinion column published by the Wall Street Journal, he criticized the Dodd-Frank law, saying that its “voluminous rules are proving to be some of the most consuming, complex and harmful our capital markets have seen.”

His political mentor, former Republican Senator [Phil Gramm](#) of Texas, said that while Hensarling holds strong views he also knows that negotiation is necessary to move legislation forward.

“He understands to get anything done you have to compromise and that doesn’t change the fact that you have strong views,” Gramm said in an interview.

## Achieving Consensus

Dee Buchanan, a former chief of staff and top adviser to Hensarling who is now a partner at Ogilvy Government Relations, said Washington underestimates Hensarling’s ability to achieve consensus, even on housing.

“I don’t think that he expects that it can get done overnight, but I do think in his heart of hearts if it can’t get done on his watch he can lay the foundation for an eventual solution,” Buchanan

said.

Building that foundation may be difficult without agreement from the Democratic panel members led by Waters, since any legislation approved by the Republican-controlled House would have to pass the Democratic Senate and get the signature of President Barack Obama.

"There's a lot of talk about privatization but I do believe we will come up with a comprehensive proposal," Waters said in the interview.

## 'Best-Prepared'

Waters' clout could be enhanced by her efforts to forge closer ties with the industry. On Dec. 5, for example, she met with representatives from [Bank of America Corp.](#), [JPMorgan Chase & Co. \(JPM\)](#), [Capital One Financial Corp. \(COF\)](#), [C](#)

, [Goldman Sachs Group Inc. \(GS\)](#)

, and

[Citigroup Inc. \(C\)](#)

at a townhouse near the Democratic National Committee offices in Washington.

"There needs to be understanding within our financial services industry that Mrs. Waters gets it and that she understands the awesome dynamic complexity of this system and she is absolutely the best-prepared to lead it at this time," said Representative [David Scott](#), a Democrat from Georgia and a fellow member of the committee who organized the meeting.

Waters, the fifth of 13 children raised by a single mother, graduated from California State University at Los Angeles. She has won respect for her advocacy for AIDS research, low-income housing and foreclosure relief, while also hitting some bumps during her tenure.

## Shoving Match

In September 2012, Waters was unanimously cleared by the House Ethics Committee after its investigation into whether she had helped OneUnited Bank of Boston obtain \$12 million from the Troubled Asset Relief Program because her husband owned stock in the firm. In 2009,

Waters engaged in a shoving match on the House floor with David Obey, who was then a Democratic representative from Wisconsin, over funding for an employment center that bears her name.

Representative [Patrick McHenry](#), a North Carolina Republican on the committee, calls Waters "very liberal." Still, Moore, Waters' chief of staff and also her grandson, said Republicans shouldn't take her positions for granted and should realize that things can change in her new role.

"When you are a rank-and-file member, it's like you are single -- you can do what you want, say what you want, and stay out as late as you want," Moore said. "Once you get to be ranking member your level of responsibility is different."