

Freddie, Fannie bailout a home run

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If you own a home or hope to buy or sell one, embrace the federal bailout of Fannie Mae and Freddie Mac.

You need them to keep that dream alive.

These financial giants, resuscitated from their death throes by Treasury Secretary Henry Paulson, are more important to the homebuying and selling churn than the mortgage companies that issue loans.

"Almost all of their mortgage lending is predicated on being able to sell that loan to Fannie or Freddie," said Joel Singer, a former economist and executive vice president of the California Association of Realtors.

"It's not the bank using its deposits to make the loan, it's Fannie and Freddie doing that."

Those loans that Fannie and Freddie buy are packaged into securities and sold to investors around the globe. And that greases an important economic wheel.

"If Fannie and Freddie were not in the marketplace, we would see a disastrous loss in housing activity," Singer said.

Considering what's already happened, that could plunge the housing market into an abyss.

And that would not be good since home sales

across much of California have been steadily increasing for months, evidence that the slide that began in the 2005 fourth quarter is over, and a sign that this will be an OK year. That will spill over to other kinds of economic activity.

Fannie and Freddie are also important because they have been able to provide mortgages when private lenders couldn't, Singer noted.

Of course, Paulson didn't have any choice but to order the takeover.

"Fannie and Freddie are dead," said economist Christopher Thornberg, a principal at Beacon Economics and a member of California State Controller John Chiang's Council of Economic Advisors. "Let's first and foremost acknowledge that these are organizations that are not going to survive."

Both have suffered huge losses but currently account for up to 80 percent of mortgage originations, he said. They were simply too big, and too important, to be allowed to fail.

But Paulson's actions aren't a panacea for the housing woes.

"The situation is not going to get any worse, but it's not going to make it any better," Thornberg said.

What's not clear now is what kind of entities will emerge from this chaos.

Andrew Jakabovics, associate director for the Economic Mobility Program at the Center for American Progress, wrote in an e-mail to the Daily News that placing the companies in federal conservatorship staves off a liquidity crisis by keeping money flowing for home mortgages.

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And it creates an opportunity for the Treasury Department to stabilize local housing markets through wholesale restructuring of loans it now holds or controls.

This could ease, but not stop, the flood of foreclosures. Of course, the bailout increased the national debt, and that's a tab taxpayers eventually pay.

I don't know how much it will be, but it's probably better than letting Fannie and Freddie collapse.

"Maximizing the returns on the outstanding loans is in our collective best interest," Jakobovics said. "To that end, American taxpayers do better when treasury refinances or restructures the outstanding troubled mortgages to provide lower interest rates or loan balances."

So now maybe a house on your block will remain what it was intended to be - a home.

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