



Loan giants' bailout met with optimism

By George Avalos
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Bay Area real estate professionals warmly embraced the government rescue of mortgage behemoths Fannie Mae and Freddie Mac, and several predicted Monday that the bailout can extricate the housing market from its array of perils.

Yet numerous hazards continue to jeopardize the housing market. Plunging home sales, eroding property values, and reluctant lenders could hound residential real estate, even after the bailout.

The overall local reaction was positive, nonetheless. The government hopes that its takeover will cause mortgage rates to fall and ensure that a market exists to provide home loans to consumers. The government will become the majority owner of Freddie and Fannie and will invest up to \$100 billion in each entity.

"We're talking about the worst housing downturn since at least the Great Depression," said Joseph Perkins, president of the San Ramon-based Home Builders Association of Northern California. "This is a calamity that is pulling down the entire U.S. economy. The government had to intervene to reverse the weakening of the housing market."

The mortgage market responded with a sharp decline in rates for home loans Monday.

"We are seeing a powerful downward move," said John Holmgren, principal owner of Oakland-based

mortgage firm Holmgren & Associates.

Home loan rates fell by 0.25 percent to 0.5 percent, according to local industry insiders.

"In the short term, it will certainly create lower rates and in fact it has," said Cory Reid, president of Moraga-based Fountainhead Mortgage.

Reid, however, maintained that the intervention may do little to stem the flood of foreclosures that has deluged housing markets throughout the country. Residential loan defaults have been especially pronounced in the East Bay. For that reason, the intervention is "a mixed bag for consumers," Reid said.

Investors had been unsure about the survival of Freddie Mac and Fannie Mae, which back about half of the nation's mortgage market. The uncertainty drove up the funding costs for the two mortgage entities. That caused home loan rates to rise.


On Monday, activity swelled at mortgage offices in the Bay Area.

"It's a very busy day," said Christopher George, president of San Ramon-based mortgage company CMG Financial. "The government actions are already helping. The bailout brought a huge surge of confidence into the marketplace that has been sorely missing lately."


Other industry executives agreed that shoring up confidence in the housing market on the part of both consumers and investors is crucial.

"It will dramatically improve the public's perception about housing," said Sue Bianco, an agent with the Burlingame office of the Alain Pinel realty firm. "This will go a long way toward easing the discomfort about real estate that some people have."

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The bailout could make potential home buyers more confident that the houses they might purchase won't suffer a persistent collapse in values.

"People will feel that a floor has been put under the real estate market," Holmgren said.

Others were more skeptical. Tammy Cryer, senior loan officer with the Home Loan Group in Lafayette, said interest rates could be higher six to 12 months from now.

"Right now it appears to be working, but this thing isn't even 12 hours old," Cryer said.

Loan underwriters could help ease a credit crunch that has squeezed borrowers out of the market the past year or two. But that doesn't mean easy money beckons to all.

"The guidelines will not be completely easy or lenient," said Jason Brown, senior vice president with Stonecastle Land & Home Financial. "But there is a sigh of relief."

The bailout also might not halt the steady decline in residential property values, one of the root causes of the housing market's woes. Christopher Thornberg, an economist and partner with Beacon Economics, predicted more erosion looms.

"I still have the same forecast for California home prices. Prices in the state have to decline by 50 percent," Thornberg said. "And we are about half way there. My guess is the East Bay is about half way there."

The current market conditions, coupled with the government's actions, mean that the bottom of the housing sector's collapse is in plain sight, CMG's George said.

"There are all kinds of beginnings," George said. "Hopefully, this is the beginning of the end of the credit crisis in America."

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