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HOUSING: Bailout will have muted effect locally, analysts say

By ZACH FOX - Staff Writer

Analysts said last week that North County homeowners can expect little relief from President Obama's \$275 billion housing bailout, based on details the White House made public last week.

For openers, few local homeowners will qualify for a new refinancing program in the bailout because it targets homeowners with mortgages backed by Fannie Mae or Freddie Mac, two giant government-controlled institutions.

The White House has not provided enough detail to assess the local impact of the bailout's two other initiatives ---- incentives for banks to encourage more loan modifications and an expansion of Fannie Mae and Freddie Mac. Eligibility requirements for those programs are scheduled to be announced March 4.

As for the refinancing piece of Obama's package, homeowners must have a Fannie or Freddie mortgage and carry a "loan-to-value" of 105 percent or less, meaning the amount owed on the mortgage is no more than 5 percent greater than the value of the home.

That's a problem in San Diego County, where prices have tumbled 38 percent since 2005 and many mortgages carried small down payments, meaning thousands of homeowners owe far more than 5 percent over the home's market value.

"I can't see it helping most of my clients," said Donna Steward, a real estate agent in San Marcos who works on loan modifications. "My people are at 150 percent."

Zillow, a real estate research company based in Seattle, reported this week that 34 percent of all San Diego County mortgages have lost too much value to qualify for the program ---- more than double the national average.

Also, there are probably far fewer Fannie Mae and Freddie Mac homeowners in San Diego County than the national average. The government-sponsored agencies traditionally only backed mortgages for \$417,000 or less.

From 2004 through 2007, the median home price in North County was more than \$500,000.

Meanwhile, there was a surge of lenders who required little or no down payment. The combination makes it likely that relatively few homes ended up with loans held by Fannie Mae or Freddie Mac.

While there is no information available on how many mortgages were backed by the government agencies at the county level, Freddie Mac's share of loans on the national level was almost 26 percent greater than in California in 2007, according to data from Freddie Mac and the Census Bureau.

The portion of homeowners who may benefit from the second and third portions of Obama's bailout package remains unknown.

But whatever happens, several local analysts said the bailout will do little to fix the housing market.

"They want to look like they're doing something, but frankly there isn't much they can do," said Christopher Thornberg, an economist with Beacon Economics in Los Angeles who covers the Southern California housing market. "Too many people are too far under water."

Thornberg said he expects home prices to fall 25 to 30 percent from current levels.

And Steward, the San Marcos real estate agent, said she isn't hopeful about the loan modification process after completing several. She said the programs simply kick the foreclosure problem down the road a few years.

"They've set homeowners up so that five years from now, they're going to be in worse shape than they've ever been," she said.

Economics professor James Hamilton agreed with Thornberg that the housing problem is too big for Obama's solution. Further, the UC San Diego professor said if the bailouts go too far, it might make the problem worse by encouraging foreclosure.

"Does everyone presume once they have negative equity, it's time to ditch their obligation and once they're there, they're entitled to assistance from taxpayers?" Hamilton said. "If we get to the point where everyone is thinking that way, it's way too big a problem for the government to solve."

And for at least one local homeowner, the bailout has left a sour taste in her mouth. Cecilia Rocha, a Bonsall resident, said she wished the bailout had passed earlier so that she could have refinanced.

Instead, she fell behind on the payments and is now hoping a short sale will go through, meaning she will sell the property for less than its loan amount.

"When I was looking for help," Rocha said, "nobody gave me any solutions."

Contact staff writer Zach Fox at (760) 740-5412 or zfox@nctimes.com. Read his blog, "On the Realside," at bizblogs.nctimes.com.