

Fed takeover may not change home prices much

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(09-08) 18:23 PDT SAN FRANCISCO -- The government's seizure of mortgage giants Fannie Mae and Freddie Mac on Sunday might ease home loan rates, but most industry observers believe it will only marginally aid the slumping real estate markets.

Moderately lower interest rates on new mortgages could make refinancing and purchasing more affordable for solid credit borrowers who can qualify for the type of loans that Fannie and Freddie buy and back. The takeover, however, generally won't mean money is more readily available for distressed homeowners on the brink of foreclosure, nor will it provide any real assurance for those holding off on purchases for fear values will continue to fall, said Ken Rosen, chairman of the Fisher Center for Real Estate and Urban Economics at UC Berkeley.

"It's a confidence booster in the financial market, not really directly aimed at the housing problem," Rosen said. "It's a positive, but it's a small positive."

The more significant consequence might be not be what happens because of the takeover but rather what would likely have happened without it: the collapse of two entities that own or guarantee more than \$5 trillion in U.S. mortgages, nearly half of all outstanding loans.

"If not for this, the impact would have been catastrophic," said Susan Wachter, professor of real estate at the Wharton School of the University of Pennsylvania. "What was called into question was the safety and security of Fannie and Freddie debt."

Under the takeover plan announced by Treasury Secretary Henry Paulson, the government would put up as much as \$100 billion in each of the companies to keep them solvent in exchange for senior preferred stock. The Treasury Department will immediately acquire \$2 billion worth of such shares. The government hopes the move will assure spooked investors that they can continue to purchase Fannie and Freddie debt.

Helping liquidity

The congressionally chartered companies were created to increase home ownership and affordability in the United States. They inject liquidity into the mortgage market by buying loans, packaging them into securities and selling them to investors.

Until now, the securities have not been backed by the government, but the strong sense has been that Uncle Sam would step in before letting them go bad. That has allowed the two government-sponsored enterprises to borrow at attractive rates and created a stable, secondary market that helps ensure other private parties issue affordable loans.

As foreclosures soared in the past year, so did uncertainty over the companies' financial stability and the government's potential response. The spread between securities backed by government-sponsored enterprises and Treasury bonds, a key factor in determining mortgage rates, has been far wider than the historical norm for months, reflecting a greater sense of risk.

Under the takeover, the Treasury Department plans to buy Fannie and Freddie securities. That promises to reduce the spread, translating into lower interest rates on mortgages and more affordable loans, Rosen and others said.

Rates have already eased since last week, according to local mortgage brokers.

Average rates on 30-year fixed conforming loans - the type Fannie and Freddie purchase - fell an eighth of a point from Friday to Monday, settling at 5.875 percent, said Dennis Duffy, principal with A Very Nice Mortgage Co. in Oakland.

Rates decrease

Marc Savoy, broker with SF Pacific Mortgage Consultants in San Francisco, put it at closer to a half point below last week. The change is happy news for those with good credit who have been waiting on an improved interest rate to buy or refinance, he said.

"For people in ugly mortgages, now's the time to jump into a 30-year fixed," he said.

But he and others said the Fannie and Freddie takeover won't single-handedly turn around the real estate market.

"Anyone who thinks this is an interest rate issue is fooling themselves," said Christopher Thornberg, principal with Los Angeles consulting firm Beacon Economics. "This is a prices being too high and people buying homes they couldn't afford issue."

California price declines will only stop once home values are properly aligned with income levels, or about 50 percent below the peak, he said. As of July, the median value of homes across the state was down 33.5 percent from a year earlier, according to San Diego County research firm MDA DataQuick.

Bay area is different

The impact of the seizure on the Bay Area could be further limited because so many homes here exceed the value at which Fannie and Freddie can buy mortgages. The far-reaching federal housing package signed into law in July raised the cap on loans the companies can buy in high-cost areas to \$625,000 as of Jan. 1. That's up from \$417,000 early this year, but below the temporary limit set by Congress in March of \$729,750.

The \$625,000 level is below the median price in three of the Bay Area's nine counties - San Francisco, San Mateo and Marin - according to MDA DataQuick.

Democratic presidential nominee Barack Obama said in a statement that some form of government intervention was necessary, adding: "I will be reviewing the details of the Treasury plan and monitoring its impact to determine whether it achieves the key benchmarks I believe are necessary to address this crisis."

Republican presidential nominee John McCain also voiced support while his running mate, Sarah Palin, said that Fannie and Freddie "have gotten too big and too expensive to the taxpayers. The McCain-Palin administration will make them smaller and smarter and more effective for homeowners who need help."

Now others, like automakers and pension funds, may look for bailouts. **C1**

Kathleen Pender says the deal will help the companies' debt holders far more than equity holders. **C1**

Mortgage giants

Fannie Mae and Freddie Mac don't offer mortgages themselves. But they play a central, perhaps irreplaceable, role in the American system of home finance. Together, the two companies own or guarantee more than \$5 trillion in mortgages, almost half the total outstanding in the United States.

They buy mortgages from banks and others lenders that make the loans, either keeping them as investments or packaging them for resale to investors. This ready market for mortgages multiplies the capacity of front-line lenders such as Wells Fargo and Washington Mutual to make loans and allows them to offer lower interest rates.

Fannie Mae and Freddie Mac accept only high-quality mortgages made to borrowers who meet strict financial standards. They buy only what are called conforming loans, mortgages made to prime borrowers up to a limit that varies by locality. In San Francisco, the conforming loan limit was recently raised to \$729,750, but it will drop to \$625,000 Jan. 1.

The Associated Press contributed to this report. E-mail James Temple at jtemple@sfgate.com.

<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/09/09/MNCS12Q74O.DTL>

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