

# MORTGAGE FINANCE

Volume 23, Number 3

Apply Online at: [www.StephenFox.com](http://www.StephenFox.com)  
[SFox@FirstSavings.com](mailto:SFox@FirstSavings.com)

27 August 2008

Mobile: 703-407-7424

## **Fannie and Freddie Need to Loosen Up!**

**Their Current Tighter Guidelines are Leading to Their Failure.  
They Should Adopt Strategies Used by the Federal Reserve!**

A lot has been written recently about the potential demise of Fannie Mae and Freddie Mac (F&F). As a mortgage professional for over 23 years, I find it hard to believe that such giants can be on the verge of insolvency – but in today's marketplace, I guess anything can happen.

My personal belief is that home prices, especially in the Washington, DC region, have dropped about as much as they are going to, and that NOW really is a great time to invest and buy a home. Investors should consider buying properties as well. Rents on available properties have recently risen significantly, as potential buyers have found it more difficult to buy homes. An investment in real estate, when you buy at a "low," can outperform the stock market, and is often suggested as a great platform for a diversified investment portfolio.

Sales have increased in our region, but many buyers have found it difficult or more expensive to obtain conventional financing due to F&F's recently revised standards. Thank goodness FHA loans exist! Borrowers who could not qualify due to F&F's recently enacted tougher standards can obtain the slightly more expensive FHA loans with ease. FHA must love it! They are able to capture well qualified buyers with down payments of 10% and greater, who normally would have gravitated toward F&F conventional loans. F&F is "missing out" on income they could have received from these loans – income they need to receive to survive.

If F&F made home loans more affordable and obtainable, more buyers would be in the marketplace for homes – which would drive prices higher – and lower the amount of losses that F&F are experiencing on foreclosed homes. Buyers would be competing to buy the homes F&F had on the market. More buyers, more multiple contract situations and, as a result, higher prices. If investors in the marketplace were convinced that home prices had stabilized or started to rise, billions of new investment dollars would flood into the secondary markets. This would lower mortgage rates – especially in the "jumbo" loan arena, which is currently crippled. Getting more buyers to the marketplace and making mortgage money more affordable will catapult us out of the housing slump – thus saving F&F.

The housing bubble that burst a few years ago was not directly caused by F&F's loans – "sub-prime" loans caused most of the initial problems. Unfortunately, homes with "sub-prime" loans flooded the market and, like an anchor – lowered home values and pulled the F&F loans with them. As the F&F

loans encounter problems – the “knee jerk” reaction for F&F is to tighten their standards. I believe they have tightened too much they have tightened at the wrong time!

#### F&F Need to Adopt Strategy Used by the Federal Reserve:

A lot of our current problems are a result of F&F loosening guidelines a few years ago while property values were soaring. If F&F were proactive, while the housing market was roaring out of control, F&F would have tightened their guidelines to slow down the market – much like the Federal Reserve, who raises rates when the economy starts to heat up. F&F essentially “threw gas on the fire” by making qualifying standards easier at the peak of the market. Now is the time, when our housing market is weak, for F&F to bring back some old qualifying programs, loosen their current standards and immediately change guidance they are giving to homeowners who are facing foreclosure.

#### Guidelines that Fannie & Freddie Should Bring Back:

- Stated Income Loans with Down Payments of 25% and Greater – With the current lower home prices, when a buyer makes a 25% down payment, it is unlikely that this borrower will experience problems. We need to bring this equity buyer back – with 25% down.

#### Guidelines that Fannie & Freddie Should Loosen:

- Qualifying Rates on Interest Only and Adjustable Rate Loans > 5 Years Fixed - Qualifying payments for borrowers on “Interest Only” loans, and Adjustable Rate Mortgages (ARM’s) fixed for at least 5 years should be at the initial payment rate. Additionally, F&F should lower the fees buyers pay to get IO loans. With no payment changes for 5-10 years, borrowers should be able to qualify at the initial rate.
- Maximum of 4 Financed Properties – Currently F&F limit the amount of financed properties that borrowers are allowed to own. As a result, many qualified buyers are not eligible for financing.
- Maximum Seller Concessions – F&F are limiting the amount of credit that sellers are allowed to give buyers, which assist buyers in affording a home. These credits are especially needed as F&F have raised their upfront fees charged to borrowers who are “less than perfect.”

#### Guidance F&F Needs to Give Homeowners who are Facing Foreclosure:

- Borrowers Facing Foreclosures or Short Sales – F&F currently will allow a borrower to get a new mortgage loan 5 years after a short sale or foreclosure. This is CRAZY! Many homeowners, who are “upside down” on their home equity position, are thinking – “Why not give our home back to the bank? We will rent for 5 years, and then buy a new home.” F&F should come out with a much tougher stance, saying, “We have not decided on the length of time you have to wait after a foreclosure to buy a new home, and will not, until this problem period is behind us. If you are thinking of ‘letting your home go’ with the idea that you can wait 5 years and buy a new home – FORGET IT!” You are best advised to work out your current situation and avoid foreclosure if at all possible. F&F can deal with the timing issue later!

#### Conclusion:

Fannie Mae was created 70 years ago as a part of Franklin Roosevelt’s New Deal. The real estate industry, our housing market, and financial institutions around the world depend on Fannie Mae and Freddie Mac. We need Fannie Mae and Freddie Mac to survive. Let’s hope the situation can correct itself before these great institutions we have relied on for so long have to be absorbed by the U.S. Treasury.