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Fannie, Freddie and You: What It Means to the Public

By RON LIEBER Published: September 7, 2008

So what does the federal takeover of two mortgage finance giants mean to consumers?

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A bank-owned house in Moreno Valley, Calif. The decline in home prices is likely to continue.

Mortgage rates may fall a bit initially but probably not enough to halt the decline in home prices anytime soon. Some delinquent borrowers may have a better shot at modifying their loans and ending up with lower fixed payments. And the rules on new mortgages could slightly change.

Oh, and the federal government will help pay for it all, using your tax money.

These themes emerged over the weekend as mortgage specialists wrinkled their foreheads to determine what the federal bailout of the mortgage finance giants Fannie Mae and Freddie Mac will mean for consumers. They cautioned, however, that the unprecedented nature of the rescue makes it hard to know all of the ramifications immediately.

So first, what happened here, and why? In order to provide capital to banks that lend money to aspiring homeowners, Fannie and Freddie need to be able to sell the mortgages, packaged as securities, to investors around the world once the two companies have bought the loans from the banks.

All this worked fine until foreign investors got nervous about the housing market and the uncertainty over how a theoretical federal takeover might affect their holdings.

When concerns emerged about the viability of Fannie and Freddie, the government thought it had no choice but to step in and take over.

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Here's what could happen next:

MORTGAGE RATES If you already have a fixed-rate mortgage, nothing will change, except perhaps for a rising feeling of righteous indignation that you as a taxpayer are

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footing the bill for the mistakes of borrowers who got in over their heads and the lenders who let them.

If you are thinking of buying a home or refinancing a mortgage, the emerging consensus is that the government takeover will help stabilize rates. They might even fall a quarter of a percentage point or so, now that the government has stepped in to make its backing of Fannie and Freddie more explicit, said Kevin Iverson, who has been in the mortgage business for 30 years and is president of Reed Mortgage Corporation, a loan brokerage firm in Denver.

John A. Courson, chief operating officer of the Mortgage Bankers Association, a trade group, also pointed with relief to the statement by the Treasury secretary, [Henry M. Paulson Jr.](#), on Sunday morning that Fannie and Freddie would examine the fees they charge banks for loan securitization services, "with an eye toward mortgage affordability."

Any reduction in those fees, Mr. Courson said, could help bring mortgage rates down a bit if the banks pass on the lower costs to consumers.

**HOME PRICES** Rates certainly matter in persuading people on the sidelines to step in and start shopping for a home, so any stabilization there can only help.

The overall mood in the market is also a factor, but the front-page headlines noting the government's move may not resonate with home buyers. "I would love it if people thought that way, but they don't connect the dots like that," said Steve Heideman, president of United Mortgage Financial Group, a mortgage brokerage firm in Tempe, Ariz.

The biggest factor weighing on home prices, aside from the overall jobs picture and the state of the economy, may now be the sheer number of homes for sale, as people try to get out from under bad mortgages or their lenders put homes on the market, having already foreclosed on them.

**NEW DEALS ON OLD LOANS** "The government doesn't have a great deal of interest in foreclosing on a ton of homes," said Kurt Eggert, a law professor at Chapman University in Orange, Calif., and a former member of the Federal Reserve Board's Consumer Advisory Council. As an example, he pointed to IndyMac, which was seized in July. Soon after, the [Federal Deposit Insurance Corporation](#) began offering troubled borrowers the opportunity to move into cheaper fixed-rate loans.

Could a similar move happen here? Well, both Fannie and Freddie have already provided additional financial incentives to the companies that service the loans to modify some of the troubled ones. It remains to be seen how much further they can or will go to bail out homeowners, or what sort of political pressure may be put on them to do so.

**NEW RULES ON NEW LOANS** The interest rate you pay for a mortgage depends in part on the rules that Fannie and Freddie set for the kinds of loans they will buy. Now that they have new bosses in the federal government, the rules could change.

"How much authority will they have to make changes?" asked Mr. Iverson, the Denver mortgage broker. "Must they go to Congress? It's a huge unknown for consumers."

Mr. Courson, of the Mortgage Bankers Association, said that in theory at least, credit score requirements, loan-size-to-home-value ratios and down payment requirements could come up for review.

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We may not know if the loan rules will change for a few months, given the potential desire to push off some of the tough decisions until after the November elections.

**INVESTORS** While it is not yet clear whether stockholders in Fannie Mae and Freddie Mac will be wiped out entirely, Mr. Paulson did say on Sunday that the entities "will no longer be managed with a strategy to maximize common shareholder returns."

The drop in their share prices thus far offers another lesson in the importance of diversification. If you invest in mutual funds, those funds may have lost a bit of money on Fannie and Freddie. But that is the whole point; it was just a bit, because most funds hold many securities.

It is now clearer than ever that there is no such thing as a truly safe single investment — not a big savings account at IndyMac, not the auction-rate securities that have caused so many problems for scores of investors and not supposed blue-chip stocks like Fannie Mae or Freddie Mac that you might buy on your own, outside of a mutual fund.

Any big, focused bets are better left for hedge funds, not for you and me.

*Report your housing crisis to [rlieber@nytimes.com](mailto:rlieber@nytimes.com).*

A version of this article appeared in print on September 8, 2008, on page A1 of the New York edition.

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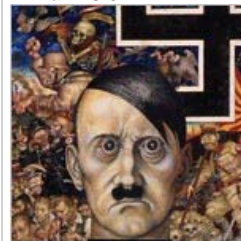
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