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Mortgage takeover promises no quick housing fix

Sun Sep 7, 2008 4:48pm EDT



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By **Burton Frierson** - Analysis

NEW YORK (Reuters) - Washington's latest attempt to resuscitate the moribund U.S. mortgage business moves the housing market out of the emergency room and into intensive care but by no means cures the patient.

The U.S. government announced on Sunday it was seizing control of troubled mortgage finance giants Fannie Mae and Freddie Mac, which are vital to the U.S. housing industry and have posed risks to international investors.

The action should lend stability after a year of turmoil in financial markets, and is sure to be watched closely by other victims of deflated housing bubbles, such as the UK. But there is still a long way to go to right the U.S. economy.

"This is a slow process. This is a baby step in the right direction," William Larkin, fixed income portfolio manager at Cabot Money Management in Salem, Massachusetts, said about the plan's effect on housing and the economy.

Larkin added that "it is going to be a positive for our financial system."

Anything that puts U.S. growth on a firmer footing is likely to raise hopes for the struggling global economy, though it could raise risks of already elevated U.S. inflation if investors grow to view this as the government printing money to bail out the economy.

VITAL SUPPORT

U.S. financial officials have made clear that a recovery in the housing market, currently in its worst slump since the Great Depression, was vital to getting the economy back on its feet. That's because so much of consumers' total wealth is tied to the value of their homes that staunching declining property prices is a must before any rebound in consumer spending can be expected to take hold. **Continued...**

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