

THE TREND!

California	
Median Price-SFH	Date
\$291,760	05/11
\$293,800	04/11
\$327,460	05/10
Sales change Prior Month -5.8%	
Sales change Prior Year -14.4%	
Sacramento	
Median Price - SFH	Date
\$168,200	05/11
\$170,270	04/11
\$191,430	05/10
Sales change Prior Month 8.3%	
Sales change Prior Year -3.7%	
Source C.A.R Research Dept.	

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Next Issue:

The Foreclosure Problem...Anyway Out?

Fannie & Freddie, will demise affect you?

A gathering dust and fall-out of the housing market collapse is the fate of Fannie and Freddie, the quasi government organizations or government sponsored enterprises (GSE) backed by the US government.

Their original mission was to encourage homeownership, however, during the 1990s to recently, they helped create the securitized market for mortgage loans, by buying, repackaging and reselling loans they purchased from lenders to investors. This allowed the lenders to initiate new mortgages. These companies insured the loans against default, implying that the US government backed these loans. In the past these loans were held as great investments, until the run-up in home prices in the 2000s, with its associated less than quality backed loans. The turmoil of the economy that started in late 2007, and recent high unemployment, has driven many people to default on their loan obligations, leaving the two companies at peril of more than \$150 billion currently and projected to be \$250 billion.

Most politicians and pundits now agree that the demise of the two companies will be the best outcome for the country, in order to avert future catastrophe. But the

dangers lurk in the inevitable damage that may be done since currently the federal government backs or is somehow involved with more than 90% of current home mortgages initiated. This is of course the greatest involvement of government in the real estate market thus far. It is a fact that most minorities and minority neighborhoods were hit hard by the current economic travails, as predatory lenders found it easier with these populations. These groups will also be at disservice if these firms disappear, since they disproportionately use government subsidized mortgage lending sources. It is true that FHA will remain a lending source to a subset of this demography.

The Fix and Concerns

Several fixes has been proposed, but I have always believed that having huge monopolies to any solution is a bad idea, as it was with the telephone, utilities, oil, tobacco, railroad, software, etc. So, the recent legislative proposals to replace Fannie and Freddie with some private companies that offer federally backed mortgage bonds looks promising.

The GSEs facilitated the subprime market and deserve a comprehensive evaluation,

especially when according to a report by The Center for Responsible Lending (CRL) states that during the housing crisis "17 percent of Latino and 11 percent of African-American homeowners have lost their home or are at imminent risk of losing their home, compared with 7 percent of white homeowners."

Use some of the bailout money to create education campaign for all consumers, and especially in minority neighborhoods on homeownership and the responsibilities associated with it.

The Consumer Financial Protection Bureau can also help provide oversight and safeguard the free-for-all atmosphere that prevailed during the incredible savagery of lending practices in the mortgage industry.

The possibility of implementation of Qualified Residential Mortgage (QRM) rule, which could increase down payment to 20%, will also increase interest rates on mortgages that do not conform to this new standard by as much as four points, affecting minority buyers disproportionately.

First-time homebuyers will be considerably impacted if QRM is implemented. CRL calculates that it would take an average U.S. household more than ten years to save for a 10% down payment.
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