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Takeover could mean more credit for you - but not right now

By JONATHAN BILYK - jbilyk@kcchronicle.com

Comments (No comments posted.)

For months, Steven McCormick has turned more people away than he would like.

But thanks to recent federal action to shore up the mortgage market, McCormick, president of First Centennial Mortgage Corporation in Aurora, believes the door may again be opening for those seeking home loans.

"A couple years ago, it was pretty rare that we couldn't get someone approved for a home loan," McCormick said. "But for a while now, if you don't have strong credit, a strong job and 20 percent down, it's been more difficult.

"We'll see if that will change now."

Sunday, the Federal Housing Finance Agency announced that it had placed Fannie Mae and Freddie Mac, the country's two largest guarantors for home mortgages, under federal conservatorship, replacing the boards of directors and management structure with federal appointees.

The move was intended to preserve the two corporations against the wave of foreclosures and back payments that have swept the housing market.

For almost four decades, Fannie Mae and Freddie Mac, private corporations chartered by Congress, have upheld and expanded the secondary mortgage markets in the U.S.

In essence, the companies buy mortgages from other lenders, issuing securities to back the loans. The process minimizes risk to banks and other lenders, allowing them to offer more loans to more people.

As of 2008, Fannie and Freddie owned about half of the country's home mortgages.

However, in recent years, the ability of Fannie and Freddie to back the mortgages has fallen into doubt as the incidences of delinquency have increased.

And fears of the companies' collapse led federal regulators to step in and assume control.

David Eisinger, associate professor of business at Aurora University, said the move amounts to both a takeover and a bailout, as the federal government fronts the money to keep the companies solvent.

And that, in turn, should keep the mortgage market open for business, Eisinger said.

"The private mortgage market has dried up," he said. "If Fannie Mae and Freddie Mac weren't out there providing liquidity, no one would."

With the companies now under federal control, Eisinger and Marc Simpson, chairman of the Finance Department at Northern Illinois University in DeKalb, said the market should begin to behave less erratically.

Simpson said the move will stabilize the mortgage market, allowing lenders to drop their guard somewhat.

"Certainty – even certainty about a bad thing – is better than uncertainty for the market," Simpson said.

For home buyers and those seeking to refinance, the news is "marginally positive," Simpson and Eisinger said.

In the short term, the move should lead to a decrease in interest rates. Rates have already tumbled almost a quarter point since Sunday, McCormick said.

But in the long term, the federal action could prompt lenders to relax some of the stringent lending guidelines enacted last year to guard against the rash of foreclosures and delinquencies.

"A few years back, the pendulum swung too far one way, with lenders offering zero-down and no-credit-check loans to just about anyone," McCormick said. "But then the market corrected itself, and now it's swung too far in the other direction."

Eisinger, Simpson and McCormick all declined to speculate as to when consumers might see lenders relax their regulations governing loans.

“A lot of this is psychological,” Simpson said. “This is not the best outcome in all possible worlds.

“But given the circumstances, it is a positive.”

Outbox: Fannie & Freddie – What the federal takeover means for you

In the short term, the move has brought stability to the mortgage market, allowing interest rates to decline.

In the long term, it could lead lenders to relax the tight lending guidelines that in recent months have locked many consumers out of the market for mortgages and refinancing.

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