



Fannie Mae Introduces “Deed For Lease” Program

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In a bid to avoid an overload of foreclosed houses in its inventory, Fannie Mae has introduced a new program that would give homeowners facing foreclosure the option of leasing their houses for one year. The program could keep thousands of families in their homes, but critics worry that the Government-backed lender, which has received billions of dollars in bail-out funds, could end up losing even more money.

The “Deed For Lease” program would allow homeowners to transfer title to their homes back to Fannie Mae, in exchange for a one-year lease, with possible extensions after that lease term ends. The goal is to allow homeowners to remain in their homes, and for Fannie Mae to avoid the expensive and lengthy process of foreclosing on the homes.

The program helps “eliminate some of the uncertainty of foreclosure, keeps families and tenants in their homes during a transitional period, and helps to stabilize neighborhoods and communities,” Jay Ryan, a Fannie Mae vice president, said in a statement.

It also does less harm to the borrower’s credit record. “It shows that you put your best effort to work out a solution,” said Gabe Del Rio, director of homeownership at Community HousingWorks of San Diego.

However, Mike Himes, director of homeownership services at NeighborWorks Sacramento, said the industry should push harder to modify loans at lower monthly payments. “The preferred option is allowing people to retain ownership,” he said.

Fannie Mae executives said the rental program is designed to help delinquent homeowners who don't qualify for a loan modification, but still want to stay in their homes.

To qualify, homeowners have to live in the home as the primary residence and prove that they can afford the market rent, which will be established by the management company running the program. Rents are based on current market rates.

This program will be particularly attractive to homeowners who owe more on their house than it is worth. By paying the market rate of rent in their area, they may actually be paying less per month in rent than they were paying on their inflated mortgage.

During the first nine months of 2009, Fannie Mae foreclosed on over 90,000 homes, and accepted 2,000 "deeds in lieu of foreclosure," where the homeowners deeded the homes back to Fannie Mae and then walked away.

While Fannie Mae executives say the company's motives are community-minded, critics say the company is simply gambling that the properties will eventually sell for a higher price. "That's folly," says Peter Schiff, president of Euro Pacific Capital in Darien, Conn., and a longtime bearish investor.

"Taxpayers are now going to own all these houses that (Fannie Mae) should have unloaded," he said. "It's going to cost a fortune."

The announcement came as Fannie Mae asked for an additional \$15 billion in government aid after posting another big loss in the third quarter as the taxpayers' bill from the housing market bust keeps getting bigger. The mortgage finance company, seized by federal regulators in September 2008, posted a quarterly loss of \$19.8 billion, including \$883 million in dividends paid to the Treasury Department.

Pessimists like Schiff say the recent stability in the housing market is just temporary, and argue that there is a huge backlog of foreclosed homes that haven't gone on the market. Refusing to sell those homes, they say, only prolongs the problem.

But other experts say that Fannie Mae's new policy could make sense, even if prices don't rebound quickly. The company will get rental income while avoiding costly foreclosure expenses. It will also help to safeguard the homes, which are less likely to be vandalized when occupied.

"There are a whole lot of costs you avoid," said Thomas Lawler, a former Fannie Mae economist. "You don't necessarily have to believe that home prices a year from now will be higher than today."

Fannie Mae's sibling company, Freddie Mac, launched a similar effort in March. That policy, however, requires the foreclosure to be completed and only allows month-to-month leases. Freddie Mac declined to detail how many borrowers have participated.

The two companies purchase loans from banks and sell them to investors. Together, they own or guarantee almost 31 million home loans worth about \$5.5 trillion, about half of all U.S. mortgages. They have been badly hurt by the housing bust and have required \$96 billion in federal aid since being seized by government regulators 14 months ago.

To find out whether your home loan is owned by Fannie Mae or Freddie Mac, try these Web sites:

Fannie Mae <http://loanlookup.fanniemae.com/loanlookup/>

Freddie Mac: <http://www.freddiemac.com/mymortgage>