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## Life without Fannie, Freddie worries some

Written by

**PAMELA MACKENZIE**  
STAFF WRITER

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On Feb. 11, the Treasury Department and the Department of Housing and Urban Development issued to Congress a 31-page white paper that could have a major impact on the Central Jersey real estate market by requiring larger down payments and raising mortgage rates.

The report, "Reforming America's Housing Finance Market," proposes that the two departments work with Congress so that over the next several years, the federal government's support for mortgages is reduced and private banks again become the primary source of mortgage financing.

Dr. James Hughes, dean of the Bloustein School of Public Policy at Rutgers, said any changes must take place over several years. He added that Canada and Europe have homeownership rates as high or higher than the United States with no government support, so government does not need to be involved in a healthy housing market.

"This will be a sea change for the United States, where home ownership has been

considered sacred for so long," Hughes said.

He added that Realtors, banks and builders, as well as the general public, "have gotten used to the government support at a level that is probably not sustainable in today's world."

Jarrold Grasso, chief executive officer of the New Jersey Association of Realtors, said that Realtors are uncomfortable with the proposed changes.

Grasso also noted that the banks are hesitant about giving mortgages without the assurance that they can then sell the mortgages to Fannie Mae or Freddie Mac and get more money to make more loans.

"Doing away with the government-sponsored enterprises, Fannie Mae and Freddie Mac, will have a serious negative impact on the real estate market," Grasso said.

Jeffrey Otteau, president of Otteau

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Evaluation Group in East Brunswick, said more stringent loan-underwriting standards will be permanent under this report. He is also concerned that without the government support, the banks will want to reduce risk by making loans shorter term.

This might mean that 30-year fixed-rate mortgages, today's standard, will disappear, he said.

Ann Marie Burke, president of Amity Mortgage in North Brunswick and Seaside Park, said that many of the loans her company gives in affluent counties like Monmouth, Somerset and Bergen are more than \$417,000.

"On the jumbo side (meaning above \$417,000), a change of half a point makes a big difference in the monthly payment," Burke said. "Consumers could be affected big time if the conforming loan size changes. It will be more difficult to finance or refinance a home in expensive neighborhoods."

Kevin Thomas, CEO of Prudential Zack Shore Properties, with 10 offices in Ocean and Monmouth counties, said he isn't convinced the higher limit on conforming loans will go away on Oct. 1.

Thomas said he believes there are members of Congress and the Obama administration who would be receptive to extending the higher limits if the real estate market is weak in the spring.

But he agreed that the changes proposed

to Congress in the report will shrink the pool of people who qualify for a mortgage. He said the private banks, the ones that keep loans on their books rather than sell them to Fannie and Freddie, are willing to do the jumbo loans to people who meet very stringent criteria, including higher down payments.

Otteau questions the need to eliminate Fannie and Freddie to accomplish the ultimate goal of putting mortgage funding back into the banks' hands.

"If you read the report," Otteau said, "it says that Fannie and Freddie worked very well for decades. Instead of scrapping them, why not go back to what worked well for 75 years?"

**Pamela MacKenzie covers real estate;  
908-243-6616;  
[pmackenzie@njpressmedia.com](mailto:pmackenzie@njpressmedia.com)**

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