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Fannie Mae to allow borrowers in foreclosure to lease back homes

The mortgage giant's move is part of an attempt by lenders to keep a wave of foreclosed properties from slamming a housing market that has shown some signs of recovery.

By Alejandro Lazo

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Mortgage giant Fannie Mae said Thursday that it would throw a lifeline to some people losing their homes to foreclosure by allowing them to lease those properties back for up to a year at market rental rates.

The move is the latest in a series of steps by lenders trying to manage inventories of foreclosed homes on their books in an attempt to keep a wave of properties from slamming a housing market that has shown some signs of recovery.

The news came as Fannie Mae reported a net loss of \$18.9 billion in the third quarter ended Sept. 30, compared with a \$14.8-billion loss in the second quarter and a \$29.4-billion loss in the third quarter last year.

The latest loss pushed Fannie Mae's government regulator Thursday to request \$15 billion from the Treasury Department. It was the fourth time the Washington company had drawn on its federal financial lifeline since Fannie and its sister firm, Freddie Mac, were seized and placed under government stewardship.

By reducing the supply of cheap foreclosures on the market, Fannie Mae's Deed for Lease Program would add to other efforts by the federal government to aid the housing market, analysts said.

Jay Ryan, Fannie Mae's vice president of equity investments, said the program would help to stabilize neighborhoods. The firm said Thursday that the program would qualify only those borrowers who had exhausted other options, such as a loan modification.

"If you keep more people in their homes, it's better for the community, and hopefully fewer vacant homes on the market will help stabilize those communities," Ryan said. "If someone still wants to live in their home, be it for the kids wanting to stay in the school district or the family wanting to remain embedded in their community, this gives them another opportunity."

The program also would allow Fannie to produce some income from the properties -- many worth less than their mortgages, or "underwater" in industry terms -- as it waits for home prices to recover.

"This is a very wise business decision because these loans are underwater, and they are not going to get all of the money," said Richard Green, director of the USC Lusk Center for Real Estate. "Fannie has an incentive to keep the homes reasonably maintained because they are going to want to sell them one day."

Bruce Marks, a housing activist and critic of the lending industry, said the program was a distraction from efforts to push lenders to modify loans.

"Their mission is to provide homeownership and yet now they want to get into the landlord business. It is outrageous," said Marks, executive director of the housing nonprofit Neighborhood Assistance Corp. of America. "The issue has to be to force these banks to restructure mortgages, not let them off the hook."

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Fannie didn't say how many homeowners it expected would qualify for the program. To participate, a borrower must agree to convey all interest in a property to the lender. The company recorded 1,996 people agreeing to such a transaction in the first nine months of the year, according to a filing Thursday with the Securities and Exchange Commission. In California, Fannie held \$475 billion in loans at the end of the third quarter, of which 5% were "seriously" delinquent.

The home must be a borrower's primary place of residence. A borrower-turned-tenant would have to document that the new market rental rate is no more than 31% of his or her gross income and be released from any subordinate liens on the property.

The efforts mirror a program by Freddie Mac of McLean, Va., which offers month-to-month leases to people who have lost their homes to foreclosure. Tenants must agree to allow the home to be shown to potential buyers and allow the company to market it for sale.

Fannie's program isn't for everyone. Some borrowers would be better off pursuing loan modifications or other solutions.

Scott Hempel, 38, said he was underwater on a home he owns in Riverside but he has kept up his mortgage payments. Hempel, a production manager for Dow Jones & Co. in Dallas, said he was forced to relocate to his new job in October 2007. He tried to sell his Riverside home but the plunge in home values made it impossible. Hempel said he would like to conduct a short sale -- selling the home for less than the value of the mortgage -- but was told by Bank of America that Fannie guidelines required him to be in default.

"I could walk away and do what everybody else is doing, but I am trying to get out of the house without doing that," Hempel said.

To make matters worse, he said, he will lose his \$90,000-a-year job as the plant he works at winds down its operations.

A Bank of America spokeswoman confirmed that Hempel was denied a short sale based on Fannie Mae's guidelines.

Complaints that lenders won't negotiate with borrowers unless they go delinquent on their mortgages have been common during the unfolding housing bust and economic meltdown. The loan modification plan sponsored by the Obama administration this year was designed to encourage lenders to reach out to borrowers heading for trouble before they actually defaulted.

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