Fannie Mae Continues to Cost Taxpayers Big and Still Engaged in Dangerous Lending Practices

April 14, 2011 - If you are looking to purchase a new home, you might want to look at properties owned by Fannie Mae. It is almost just like the bad old days, when you could get a home for nothing down, have mediocre credit, and the less qualified you were as a buyer, the more options you actually had. Of course, since Fannie Mae is now owned and operated by the federal government, Fannie Mae's fire sale tactics may not be such a good deal for taxpayers.

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Fannie Mae and its sister company, Freddie Mac, have turned into black holes for taxpayer dollars. So far, taxpayer haves dumped around $150 Billion dollars into these two monstrosities just to keep them afloat. Put another way, that amounts to around $500 per person in this country. I don't know about you, but I'd rather have a new stereo.

Given this, you might think that Fannie Mae would be trying to maximize their profits so that the government could stop supporting them. Unfortunately, that is not the case. Instead, the organization is apparently more concerned with advancing a social agenda that includes selling homes to those that can't qualify through more traditional lending sources.

Fannie Mae runs a program called Home Path and, if you are looking for a new house, have they got a deal for you. You can purchase one of their homes with as little as 3% down. Better yet, that money doesn't have to come from you. You can borrow it from another source, it can be a gift from family, or come from a government grant. They allow this even though there is substantial evidence that people who don't have equity in their homes are substantially more likely to simply walk away from their loan obligations than people who do have an equity stake. Better yet, they specifically state in their marketing brochure that you don't need perfect credit to qualify. But why worry about such trivial things when it is only taxpayer money at stake?

Starting this week, Fannie Mae is offering an additional incentive to purchase a Home Path property. They will even cover your closing costs; up to 3.5% of the home's value. In other words, buyers don't even have to risk paying for their loans.

As if these things aren't bad enough, properties in the Home Path program may not sell for the maximum amount that Fannie Mae could actually sell them for. That's because once a property is placed in the program, investors can't place offers on the properties for the first two weeks they are listed. Only owner occupants can make offers. This does a couple of things that are very bad for both taxpayers and other homeowners in the same area.

First, it reduces the competition for these properties. This holds prices down. It also drives down property values in the area surrounding Home Path properties. One unintended consequence of this is that local property tax revenues may also be reduced due to lower purchase prices.

Second, it means that in cases where an investor is willing to pay more for a property than an owner occupant, any offer that investor makes won't even be reviewed during the first two weeks after listing. Instead, Fannie Mae only reviews owner occupant offers. If they accept one of these offers, the higher offer from the investor will never see the light of day.

Ironically, the a number of government agencies are now set to adopt lending rules that would prevent the very type of lending activities that Fannie Mae is currently engaged in. Of course, those rules will exempt Fannie Mae and Freddie Mac as long as the government continues to own them.

As it is currently structured, Fannie Mae's Home Path program is a bad deal for taxpayers and for any homeowners in neighborhoods where these properties are located. We understand that Fannie Mae owns a lot of foreclosed homes and that they need to sell them. But any program that the company promotes needs to take into account local market conditions and, more importantly, maximizing the benefit of the program to taxpayers. Home Path does not do either.

We urge Congress to take a long hard look at the Home Path program and to eliminate it. The only purpose that it appears to serve right now is to sell homes to those can't afford them. And that is how this entire mess started in the first place.

byJim Malmberg
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