

The Washington Post, 12.5.08

Treasury may jolt mortgage industry

WASHINGTON -- The Treasury Department is strongly considering a plan to intervene directly into the mortgage industry to dramatically force down rates and stimulate the moribund housing market, according to sources familiar with the proposal.

Under the initiative, Treasury would offer to buy securities that finance newly issued loans for home purchases, according to the sources. But to sell these securities to the government, lenders would have to charge interest rates of no more than 4.5 percent.

These securities would be purchased primarily from Fannie Mae and Freddie Mac, the financing giants that buy most mortgages from U.S. lenders, according to sources who spoke on condition of anonymity because the plans have not been finalized.

The cost of the plan and source of funding remain unclear. One possibility is for Treasury to raise money by issuing bonds to the public at 3 percent interest. This could allow the U.S. to turn a profit because it would be buying securities that pay 4.5 percent.

At a meeting attended by the Treasury's Interim Assistant Secretary for Financial Stability Neel Kashkari and the National Association of Realtors in mid-November, senior Treasury officials said they were optimistic that subsidizing lower mortgage rates with taxpayer dollars would help revive the housing market, sources said.

Treasury officials told the Realtors that the plan could be a more effective way to help homeowners than focusing efforts solely on borrowers who are struggling to meet their monthly payments, the sources said. Democratic lawmakers have been advocating a proposal to modify the mortgages of distressed homeowners.

An industry source said Treasury officials suggested at the meeting that the Realtors start a grass-roots campaign to press the mortgage rate plan with lawmakers.

Treasury officials described the situation as fluid and said there were parts of the plan that were still being finalized, according to people who have been in contact with the department. The officials expressed concerns Wednesday that premature disclosure of the initiative could prompt ordinary Americans to put off buying homes and hold out for a better rate, sources added.

Treasury spokeswoman Brookly McLaughlin said she would not comment on the matter.

Treasury Secretary Henry Paulson has repeatedly said in speeches that a recovery in the housing market is key to solving the financial crisis because such a rebound would restore

confidence in the banking system and support the value of troubled assets backed by mortgages.

Though he has said a mortgage modification plan proposed by Federal Deposit Insurance Corp. Chairman Sheila Bair could help the housing market, Paulson has expressed concerns about whether it would reward borrowers who bought houses they couldn't afford. Bair's plan would use tens of billions in federal funds to modify adjustable-rate mortgages for several million financially troubled homeowners.

The initiative under review would be an alternative. Borrowers would have to meet standards set by Fannie Mae, Freddie Mac or the Federal Housing Administrations that include documenting income, sources said. Fannie and Freddie were put under government control in September.

Any efforts by the Treasury to lower rates on new mortgages would work in concert with a Federal Reserve plan announced last week to buy \$500 billion worth of existing mortgage-backed securities issued by Fannie Mae and Freddie Mac, and \$100 billion worth of those companies' debt.

Leaders at the Fed were pleasantly surprised that 30-year fixed mortgages fell by as much as three-quarters of a percentage point in anticipation of their new program. Homeowners nationwide rushed to refinance their loans. Cheaper monthly payments may bolster consumer spending, the most important component of U.S. economic activity.

Wednesday, the average rate on a 30-year fixed-rate mortgage increased slightly to 5.75 percent, up from 5.54 the previous day, said Keith Gumbinger, a vice president at research firm HSH Associates.