

# Well-to-do get mortgage help from Uncle Sam

NEW HOME: Julie Wyss  
in her \$1.4 million house  
in Silicon Valley. REUTERS/  
NORBERT VON DER GROEBEN

The federal bailout of the housing market has aided affluent areas as much as middle-class ones, a Reuters analysis finds.

BY JASON LANGE  
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**S**ilicon Valley, the birthplace of the microprocessor, the personal computer and the iPhone, is a model of private enterprise at work. But not when it comes to getting a mortgage.

In Santa Clara County, the center of the global tech industry and one of the wealthiest places in the United States, most home buyers get help from the government, an analysis of government lending data

shows. The same is true in other wealthy enclaves such as Nassau County, outside New York, and Arlington County, outside Washington, the analysis of more than 50 million loans finds.

It is no secret that the U.S. government propped up the housing market after the financial crisis. What the analysis by Reuters makes clear is the extent to which government programs have helped some of the nation's most well-to-do communities.

Julie Wyss earns \$330,000 a year selling real estate in Silicon Valley. When the time came to look for a

new home for herself, Wyss settled on a four-bedroom, three-bathroom house in Los Gatos, California, an enclave of young technology entrepreneurs. It has about 2,400 square feet of floor space, four sets of French doors and a price tag of \$1.45 million. When she bought the house in June, her main financing was a \$625,500 mortgage from Wells Fargo guaranteed by government-backed Fannie Mae.

The benefit to Wyss was an interest rate, of 4.125 percent, that was lower than she could have gotten on a loan that was not guaranteed by the government. “It’s a totally sweet deal,” Wyss said.

Fannie Mae was set up as part of the New Deal to help blue-collar and middle-class workers buy their own homes. By buying up mortgages made by lenders and then repackaging them as securities for investors, Fannie Mae and its sister organization, Freddie Mac, funnel money into the housing market for more lending.

Before the financial crisis, the limit on loans guaranteed by Fannie Mae and Freddie Mac was \$417,000. But in 2008, when widespread mortgage defaults pushed Wall Street to the edge of collapse, Congress changed the rules so that the companies could back mortgages of up to \$729,750 in high-priced areas like Santa Clara.

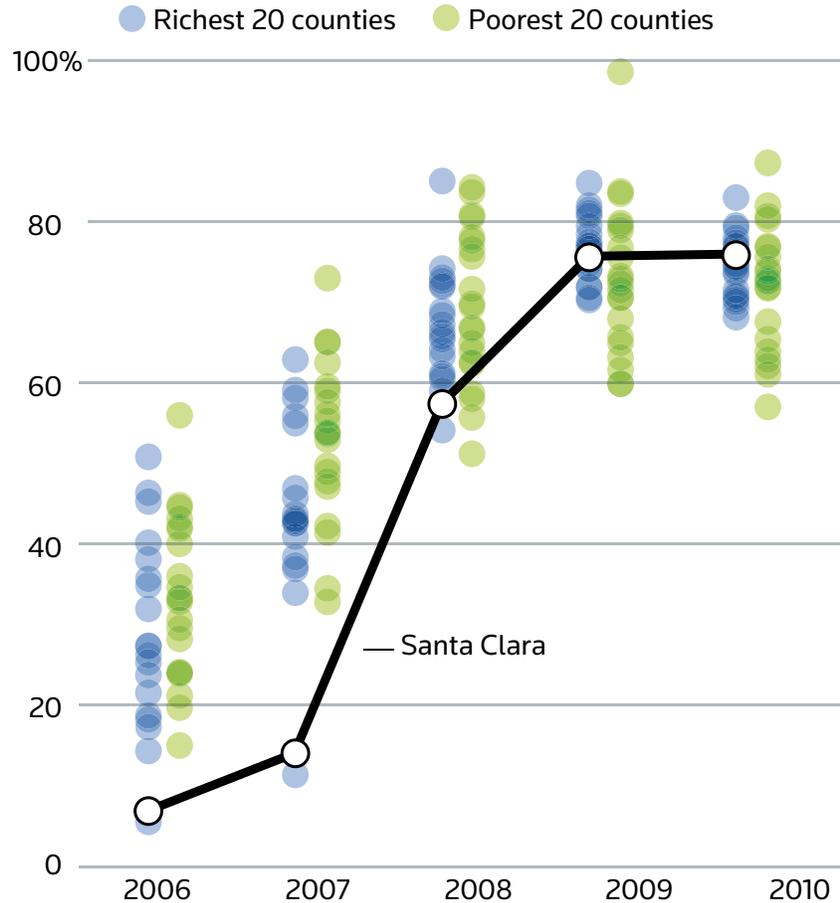
For the government to back mortgages for big, expensive houses may seem “kind of obnoxious,” said Richard Green, a housing economist at the University of Southern California, but it was crucial at the time. “In 2008, the world was coming apart,” he said.

**“ONE-STOP SHOPPING”**

What followed was a gush of support into nearly every corner of the United States, in the form of loan guarantees from Fannie Mae, Freddie Mac and another major sponsor of home lending, a government agency called the Federal Housing Administration. And when mortgage defaults threatened to push Fannie and Freddie into insolvency, the government seized the two

**Mortgage support**

Share of mortgages guaranteed by U.S. government through GSEs in counties with the highest and lowest median incomes in 2010



Source: Federal Financial Institutions Examination Council

firms in 2008 and pumped in \$190 billion as a way to prop up the housing market.

The result is that the government guaranteed 89 percent of U.S. mortgages taken out in the first half of 2012, up from 85 percent in 2011 and 30 percent in 2006, according to data compiled by Inside Mortgage Finance.

Big banks still offer mortgages without government backing, but interest rates are higher, standards are more stringent and most people don’t even consider them, said Dave Walsh, a realtor based in San Jose, California. “Now it’s one-stop shopping -

and that’s Fannie and Freddie,” Walsh said.

The analysis by Reuters shows that between 2006, the year the housing market started to sink, and 2010, the latest year for which detailed data is available, mortgage guarantees by Fannie Mae and Freddie Mac increased as much in affluent communities as they did in poor ones. The data was collected by regulators under the federal Home Mortgage Disclosure Act and includes more than 50 million loans made in the period.

In 2006, the two entities guaranteed only about one-third of new mortgages

in the 20 highest-income mortgage markets in the country. By 2010, that share had risen to about three in four, the data showed. In the 20 lowest-income markets, the shares also rose to about three in four in 2010 from about one-third in 2006, the analysis showed. The figures were from large markets, those in which 2,000 or more new mortgages were taken out in any year in the period.

The figures do not include loans by the Federal Housing Administration, so the total share of government-backed mortgages was even higher than the data suggests.

In Nassau County, a wealthy suburb of New York City, Fannie and Freddie supported about seven in 10 new mortgages in 2010. Upscale Arlington County in Virginia got help in about the same proportion, as did places where incomes were below the national average, such as Baltimore, Maryland.

In Santa Clara County, where companies like Apple Inc and Google Inc are headquartered and where the median family income is about two-thirds higher than the national average, government support increased even more. Fannie and Freddie guaranteed roughly three-quarters of Santa Clara County's mortgages in 2010, up from around one in 10 in 2006.

### EXIT STRATEGY

The U.S. housing market is now showing modest signs of recovery, and both Democrats and Republicans say they want to reduce the government's role. But the economy is still fragile and, with a presidential election coming in November, they are finding support is easier to give than to take away.

Washington has taken some baby steps to scale back its role in the market. Fannie, Freddie and the FHA have raised the fees they charge for their guarantees, reducing the advantage of a guaranteed loan and opening the door wider to private capital. Fannie and Freddie have also tightened

their underwriting standards, demanding higher credit scores and sometimes bigger down payments, which brings them closer in line with non-guaranteed mortgages.

Nevertheless, many academics and some lawmakers have said the government should lower the limits on the size of guaranteed mortgages gradually, a strategy that may avoid disrupting the housing market while at the same time testing the readiness of private capital to supply more of the market on its own.

It's an idea that appeals to affordable-housing activists such as John Taylor of the National Community Reinvestment Coalition, who says Fannie and Freddie should only back mortgages for lower- and middle-income families. "Nobody I know buys a house for \$600,000 or \$700,000 who isn't affluent," Taylor said.

“Now it's one-stop shopping – and that's Fannie or Freddie.

**Dave Walsh**

Realtor from San Jose, California

Conservatives would go further in scaling back government support. The American Enterprise Institute think tank published a white paper last year calling on the government to lower the loan limits for Fannie and Freddie by 20 percent a year until the two companies are effectively eliminated.

The Obama administration wants to phase out Fannie Mae and Freddie Mac and has promised to work with Congress to determine future upper limits on loans backed by the two companies. And it has speeded up a process of reducing the amount of loans in Fannie's and Freddie's portfolios. But it has not delivered a concrete proposal on how to reduce their roles as mortgage guarantors.

Even Republicans are reticent about pulling the government out of the housing business altogether.

"We've had government support for

housing finance for 75 years. You can't just pull the rug out from under that," said John Campbell, a Republican congressman who last year introduced legislation to get rid of Fannie and Freddie while maintaining government mortgage guarantees.

### INVESTORS WARY OF MORTGAGES

But any reduction in government support would mean higher mortgage rates, a minefield in an election year. So, even in a presidential campaign sharply split over how big government should be, the government's role in the housing market is almost taboo.

Fannie and Freddie are guaranteeing mortgages in affluent parts of the country controlled by both Republicans and Democrats, suggesting why it is complicated even to roll back guarantees for the wealthy. Campbell's district, for example, makes up part of California's Orange County, a high-priced area where the data showed roughly eight in 10 new mortgages were backed by Fannie or Freddie in 2010. In well-to-do Plymouth County, Massachusetts, which leans Democratic, Fannie and Freddie backed about two-thirds of new mortgages in 2010.

And even if lawmakers and the administration agree on a plan to gradually reduce government support for mortgages, the private sector may not be ready to operate on its own.

Investors who in the past have bought mortgage-backed securities are still wary of the housing market, in part because, three years after the recession ended, the U.S. economy is not out of the woods.

A drop back into recession could send home prices lower and cause more mortgages to fail, a troubling prospect for creditors who lost money in the crisis.

"It's a case of having been burned during the last decade," said Jay Brinkmann, chief economist at the Mortgage Bankers Association. "Investors are saying: If it's guaranteed, I invest in it in this environment. And if it's not guaranteed, I'm not going to invest."

## MORTGAGES WELL-TO-DO GET MORTGAGE HELP FROM UNCLE SAM

Last year, Fannie's and Freddie's loan limit for high-priced areas fell to \$625,500. But the FHA, which is administered separately, has continued to back bigger loans in the same areas, one reason why the number of new mortgages with government backing is still increasing.

A test will come at the end of 2013, when the FHA's loan limit of \$729,750 will expire. After that, FHA will have limits capped at \$625,500, in line with Fannie and Freddie.

Andrew Leventis, the principal economist at the Federal Housing Finance Agency, the regulator for Fannie Mae and Freddie Mac, said his agency has not done an extensive analysis on what would hap-

pen to the market if the loan ceiling were reduced. While the interest rates charged for fully private loans are not much higher than those backed by Fannie and Freddie, it is harder to qualify for them because of tighter underwriting standards, he noted.

Last month, quality-assurance engineer Ann Rahn and her husband bought an \$820,000 three-bedroom home in an upscale corner of San Jose, also in Santa Clara County.

"Our broker said it was going to be either a Fannie or Freddie loan," said Rahn. And, indeed, the bulk of their financing came in the form of a government-backed loan for \$625,000.

Rahn said getting help from the govern-

ment was not ideal, but she was glad Washington was able to lend a hand. "Otherwise, we would still be renting," she said.

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FEDERAL DRIVE: Homes valued at over \$1 million on Bersano Lane in Los Gatos, California. REUTERS/NORBERT VON DER GROEBEN