Will 30 Year Fixed Mortgage Rates Disappear Along With Fannie Mae

By **Alex Warne** on March 20, 2011, 6:33 am

As Congress begins debating the future of Fannie Mae and Freddie Mac, proponents of keeping the taxpayer on the hook for the mortgage market argue that without such support the 30-year fixed-rate mortgage would disappear. The advantages of the 30-year mortgage have, however, been grossly exaggerated. Subsidizing it should not serve as an excuse for continuing to put the taxpayer at significant risk, says Mark Calabria, director of financial regulation studies at the Cato Institute.

Where Is The Good News

Homebuilders remain pessimistic about the outlook. High unemployment, a record number of foreclosures and tough credit standards have kept many people from buying homes. And most economists don't expect home values to bottom until midyear, another factor keeping potential homebuyers on the sidelines.

Bundling

Lenders typically bundle mortgage notes and resell them to investors in competition with 10-year Treasury bonds. When times are stable, investors are more willing to invest in riskier instruments including stocks, the Treasury has to offer a higher interest rate payback in order to make its T-bills attractive, and mortgage investments must follow suit to be competitive, driving mortgage rates up. In uncertain times when safer investments are more attractive, the process reverses.

ARMs For Higher Loans

Among those borrowers choosing adjustable-rate mortgages are buyers of property costing more than the $729,750 limit at which Fannie Mae and Freddie Mac will buy back loans from lenders, said Mary Boudreau, the owner of Penfield Financial, a mortgage broker in Fairfield, Conn. (Without the government buyback, fewer lenders are willing to make these "jumbo" loans, which carry interest rates one or two points above those of conventional loans. The Fannie and Freddie limit is set to drop to $625,500 in October.)

Rates Will Vary

Homeowners need to understand that mortgage rates will vary based on the length of time on the loan and whether the rate is fixed or adjustable. These kinds of rates tend to be higher than the conforming loan rates because of the additional underwriting requirements and the possibility of nonpayment. These costs are often passed to the consumer so it's common for lenders to charge nearly 0.5 percent premium for these kinds of loans. With higher interest rates, borrowers often pay extra dollars over the loan's life just so they can have the large loan balance.