Government Working In Opposition with Itself on Housing

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Fannie Mae and Freddie Mac – the mortgage backing giants controlled by the federal government – have repeatedly increased lending standards for financial institutions in an attempt to stem losses from defaulted and foreclosed-upon properties. The problem is that this has served to stymie federal attempts to kickstart a housing industry that has flagged since the recession ended, even as demand has reached record highs, according to a report from Bloomberg News.

“The government is working at cross-purposes,” Doug Bandow, a senior fellow at Washington-based libertarian policy-research center the Cato Institute, told the news agency. “There’s been a desperate attempt to reinflate housing by throwing money at the problem. The worst time to tighten lending is after doing that.”

New data suggests the amount issued by lenders for mortgages will drop to $432 billion from last year’s $473 billion, making it more difficult for previously creditworthy consumers to buy their own homes, the report said. Now, about one-third of consumers who would have qualified for home loans prior to the recession are no longer able to do so.

Banks tend to follow the Fannie and Freddie standards because, along with the Federal Housing Administration, the three agencies back about 90 percent of all mortgages in the U.S., the report said.

The problem may be particularly vexing for consumers because mortgage rates have been hovering well below 5 percent – the typical cutoff for attractive refinances – for months now, but many are still unable to qualify for the lower-cost loans.