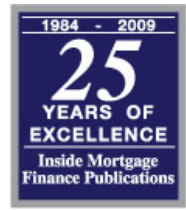




What the Mortgage Market Reads



INSIDE MORTGAGE FINANCE[®]

New Survey Data Suggest Fannie and Freddie Not Doing Much to Support the Home-Purchase Market

As the Obama administration and lawmakers increasingly turn their attention to reforming Fannie Mae and Freddie Mac, a big question surrounds the importance of the two government-sponsored enterprises in supporting the current, clearly fragile, housing market. Some say the GSEs are vital to any meaningful recovery of the housing market, while others argue that Fannie and Freddie no longer play a key role when it comes to home purchases.

One answer can be found in the latest *Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions*, which shows that Fannie and Freddie have been playing an increasingly minor role when it comes to supporting home-purchase activity. According to the just-released June survey of real estate agents, Fannie and Freddie financing was used in just 12.3 percent of the home-purchase transactions tracked last month.

Because the *Campbell/Inside Mortgage Finance* survey tracks transactions closed instead of dollar amount financed, and because FHA transactions tend to be for lower dollar amounts than GSE-financed transactions, this reported share is lower than some other publicly reported figures.

The GSE share of home purchases was not only the lowest level seen over the past year but a noticeable drop from the 18.4 percent GSE market share found as recently as January.

Fannie Mae's and Freddie Mac's reduced role in the home-purchase market can be partly explained by the emergence of a housing market increasingly dominated by distressed properties and first-time homebuyers. Neither segment is particularly well suited for the somewhat rigorous underwriting nor hefty downpayment requirements found with current GSE financing.

But even in terms of non-distressed property purchases, Fannie and Freddie have seen their importance decline. In July of 2009, the two GSEs accounted for nearly one quarter of the non-distressed home purchases tracked in the monthly survey. But by June 2010, that GSE share had tumbled to just 15.2 percent.

Perhaps the most startling numbers regarding Fannie Mae's and Freddie Mac's support of the current housing market are those related to first-time homebuyers. For much of the past year, first-time homebuyers have been the largest segment of the home-purchase market, surging ahead of current or repeat homebuyers thanks to the lure of low home prices and tax credits.

7910 Woodmont Avenue
Suite 1000
Bethesda, MD
20814-1709
Tel. (301) 951-1240
Fax (301) 656-1709
www.imfpubs.com

Publisher
Guy D. Cecala

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But the GSEs' support of first-time homebuyers is surprisingly low. According to the latest survey results, just 10.3 percent of the first-time homebuyer transactions tracked in June involved Fannie Mae or Freddie Mac financing. Meanwhile, FHA financing accounted for a hefty 57.6 percent of the first-time homebuyer purchase transactions tracked in the survey last month.

Fannie's and Freddie's bread-and-butter business in the home-purchase market continues to be current homeowners trading up, since this group is more likely to have the credit scores and equity needed to qualify for the GSEs' best pricing and terms. However, even in this category the two GSEs have seen a drop in business.

Back in July of 2009, Fannie/Freddie financing was reported in 27.4 percent of the transactions tracked in the survey. But by last month, the GSE share of current homeowner purchase activity had slipped to just 19.1 percent.

The *Campbell/Inside Mortgage Finance Monthly Survey of Real Estate Market Conditions* is based on a national survey of more than 3,000 real estate agents each month and provides up-to-date intelligence on home sales and mortgage usage patterns. For more information on the survey, contact John Campbell at Campbell Surveys at (202) 363-2069 or john@campbellsurveys.com. ♦