

Mortgage rates to hold steady

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Full text: Housing Market ; Higher costs for government borrowing likely to limit Treasury's options, writes Saskia Scholtes

The US Treasury's conservatorship of Fannie Mae and Freddie Mac and its drive to reduce mortgage rates will come as welcome news for prospective US homebuyers in need of mortgage financing.

A government takeover of the two giant mortgage financiers is intended to ensure that mortgages remain available even as private sources of capital have dried up in the credit crunch. In the short-term, however, analysts say it may be difficult for the Treasury to bring mortgage rates down.

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Fannie and Freddie are the twin pillars of the US mortgage market, financing three-quarters of new mortgages in recent months. But the companies' thin capital bases and losses from the housing slump reduced their ability to continue expanding and raised fears they might collapse.

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At 6.14 per cent for a traditional 30-year home loan, mortgage rates remain close to the levels of a year ago, despite a slew of interest rate cuts from the Federal Reserve.

In the long-term, analysts say, the US system of housing finance, which has been so heavily dependent on Fannie and Freddie, will have to be remodelled.

This could involve breaking the two mortgage financiers into smaller and more heavily capitalised institutions, outright nationalisation of the two mortgage financiers, or imposing a more stringent regulatory framework for them in their current form.

However, the longer-term future for the companies cannot be shaped in the midst of the mortgage crisis, necessitating a conservatorship until the storm in US housing blows over.

"A conservatorship allows the Treasury to defer any final decisions about the long-term structure of the GSEs [government-sponsored entities]," said analysts at Wrightson ICAP.

"For now the Treasury needs Fannie Mae and Freddie Mac to continue to perform their current functions without disruptions, and to do so as energetically as possible . . . A thorough overhaul of the operations of the GSEs will probably have to wait for calmer times."

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