

## Fannie, Freddie pull out of New York subprime market

By Emi Endo, Associated Press Writer

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[Mortgage finance giants Fannie Mae](#) and [Freddie Mac](#) have decided to pull out of the New York subprime market - a move criticized yesterday by area housing advocates.

The companies said their decisions stemmed from a recently passed state law that's aimed at helping troubled borrowers but also puts some legal liability on those who buy subprime loans considered to be predatory lending. Fannie and Freddie buy loans, freeing up dollars for lenders to make more loans.

Freddie Mac said it would not purchase mortgages defined as subprime home loans in the state as of Sept. 1 because of the "potential for heightened legal and business risk exposures." In its decision, Fannie Mae restated its policy by saying "it will not purchase or securitize certain mortgage loans that meet the definition of 'high-cost' or 'high-risk' home loans."

The government-sponsored companies - which hold or guarantee \$5 trillion, or half of the mortgage debt in the United States - made their decisions this month with little fanfare.

"New York and the nation got into this crisis in the first place because Fannie Mae and Freddie Mac turned a blind eye to the abuses of loan originators," said Bertha Lewis, executive director of New York Acorn, an advocacy group.

The law also sets in place requirements for lenders in foreclosure proceedings and makes it a crime to write mortgages for borrowers knowing they cannot repay them.

Sarah Ludwig, co-director of the Manhattan-based Neighborhood Economic Development Advocacy Project, said she was hopeful that the mortgage lenders would reverse course and remain in the state's market.

"They're overreacting," she said. "They're saying, 'We're not going to buy these loans,' when their exposure ... is very narrow."

Few subprime mortgage loans are being made as speculation swirls over whether federal regulators will step in to rescue Fannie Mae and Freddie Mac to keep them from

collapsing from losses in their mortgage holdings. Shares of both companies soared yesterday as Freddie completed a \$2-billion debt sale and a Wall Street analyst said a government bailout was not necessarily inevitable.

Morgan Hook, a spokesman for Gov. [David A. Paterson](#), said the law would have no teeth without the legal liability and anti-predatory lending provisions." "We think that the law that was passed is beneficial not only to the borrower, the one who holds the mortgage, but also to the lender, so in this case it would be Fannie or Freddie," Hook said.

But Jonathan Pinard, president of the Hauppauge-based Empire State Mortgage Bankers Association, said the law made "it onerous for anybody to buy subprime loans."

He said of Fannie and Freddie, "We don't blame them, based on the way the law was written. It's going to have a negative impact. I don't think it'll be a huge one until the market improves."

This story was supplemented with an Associated Press report.

Embattled financiers

**BRIEF RESPITE:** Shares of mortgage finance companies Fannie Mae and Freddie Mac rose yesterday after Freddie sold \$2 billion in short-term debt and a Wall Street analyst said a government takeover of the two companies can be avoided.

**RECENT STRUGGLES:** Fannie and Freddie have seen their share prices plunge in recent weeks as they struggle with billions of dollars in losses from bad mortgages.

**WHAT'S NEXT:** Continued debt sales are vital to Fannie and Freddie's future. As their borrowing costs grow, the government may need to step in to make sure the companies - the nation's largest sources of mortgage funding - can keep operating. Many investors view such intervention as inevitable.

- The Associated Press

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