

Is there life after Freddie Mac and Fannie Mae?

The answer might surprise you because despite the scale of their problems, subsequent rescue package and consequences for the housing market, it isn't all bad news.

To understand where the future of investment in the housing market may lie we first need to understand the particular role the two giants have had in shaping the US investment market in recent years. It's a relationship that began with the creation of Fannie Mae (short for Federal National Mortgage Association) back in 1938 in response to a serious shortage of mortgage funds (Freddie Mac's appearance in 1970 provided competition to Fannie Mae). As shareholder-owned companies they were mandated by Congress to provide funding to the housing market by purchasing loans from approved lenders and then selling them on investors.

And they did it successfully, so successfully that by March 2008 they guaranteed or owned an estimated 50% of the \$12 trillion US mortgage market. Meaning that almost all US mortgage lenders, from huge financial institutions to small, local banks relied on them to meet the demand for home mortgages.

But then with the economic slow down and credit crisis, came an ever growing number of defaults and repossessions that placed a tremendous financial burden on the companies - over \$3bn was lost between April and June alone.

Housing market, what housing market?

So confidence crumbled, share values dropped and attempts to raise funds to cover the losses failed. A lethal combination that would have toppled the goliaths had the US government not stepped in with an unprecedented multi billion-dollar rescue package.

The consequences for an already beleaguered housing market are huge. While homeowners struggling to pay their mortgages face the threat (and reality) of growing unemployment and repossession, those hoping to buy a home face a rapidly shrinking market and increasing interest rates.

So where is the good news we touched on at the beginning of this article?

Lease to own options break the circle of fear

Originally designed to kick start demand in poorer US cities lease to own options contain many of the elements necessary to meet the needs of today's mainstream market. They operate on a simple premise; provide those wanting to sell with a bigger market and an income and offer those wanting to buy with the chance to lease a property until they are in a position to buy (usually between 2-5 years).

For investors these refreshingly dynamic options open the door to a potentially huge market that removes the necessity of dealing with lenders such as Freddie Mac and Fannie Mae. Instead, by applying established techniques such as the sandwich lease, investors can lease (with the option to buy) and then sublet at a higher rent directly to would be homeowners. The benefits include greater leverage, lower risk, increased profits, greater cash flow, fewer voids and last but certainly not least, no bank involvement.

The subprime lending facilitated by Fannie Mae (FNM: 1.20*, -0.11, -8.39%) and Freddie Mac (FRE: 1.31*, -0.14, -9.65%) has undoubtedly shaken the housing market to its very core, but trends such as the lease to own option suggest that some good will come from it. They offer homeowners, buyers and investors real hope at a time of international depression. And they do it without adding more pressure to an already overburdened system.

More information about what lease to own options have to offer agents, buyers, sellers and investors is available at sites such as lease-a-house.com.