

Fannie, Freddie pressured to rent more foreclosures

Friday, August 5th, 2011, 10:20 am

Sen. Jack Reed (D-R.I.) sent a letter to the chief regulator of **Fannie Mae** and **Freddie Mac**, urging the two companies to convert their repossessed properties into rental units and pool them for sales to investors.

Fannie Mae repossessed 53,697 properties through foreclosure in the second quarter, roughly flat from the previous quarter. While that is down from more than 68,800 repossessions one year ago, Fannie said the total was artificially depressed due to extended delays in the foreclosure process.

These delays will continue to push expenses up and delinquency rates elevated for a company that has already pulled more than \$104 billion in bailouts from the **Treasury Department** and [reported](#) another \$5 billion in losses for the quarter.

"Moreover, Fannie Mae believes these changes in the foreclosure environment will delay the recovery of the housing market because it will take longer to clear the housing market's supply of distressed homes, which typically sell at a discount to nondistressed homes and, therefore, negatively affect overall home prices," the company said in its financial report released Friday.

In his letter to **Federal Housing Finance Agency** Acting Director Edward DeMarco, Reed said the government-sponsored enterprises could install a major rental program that could milk at least some revenue out of properties otherwise sitting vacant.

In Rhode Island, alone, Reed wrote, the average monthly rent for a two-bedroom apartment increased 54% since 2000.

Fannie did sell more REO — repossessed properties — in the second quarter than it took in. The GSE moved 71,202 REO, up 13% from the previous quarter. And its inventory of these properties is finally on the decline, dropping to 135,719 from more than 153,000 at the end of March.

The REO Fannie sold in the second quarter netted an average 55% of the unpaid principal balance on the underlying mortgage, down from 57% in 2010 and 87% in 2005.

"Rather than selling these vacant foreclosed homes at fire sale prices, we should be seeking ways to increase value for Fannie Mae and Freddie Mac," Reed wrote.

The REO inventory remains higher than one year ago, when it totaled 129,310, which was double the 62,615 properties held in June 2009.

"We did have a slight increase in our REO acquisitions for the quarter," Fannie Mae's Chief Financial Officer Susan McFarland told HousingWire Friday. "We are very focused on working through REO in an expeditious and effective manner."

Reed's proposal would also entice the GSEs to rehab and even retrofit these properties with energy-efficient additions, which the senator said could spur job growth.

"The number of vacant foreclosed homes waiting to be sold at depressed prices is increasing at the same time that the demand for rental properties is increasing," Reed said. "We all need to be more proactive and creative in

finally healing the housing market. Until there is a greater focus on getting housing right, we won't be able to anchor a sustainable economic recovery that actually reaches and helps the middle class."

by JON PRIOR