

## **Was the Freddie Mac and Fannie Mae bail out good news for lease to own investors?**

When the US Treasury took the decision to shore up the two failing giants and pledged trillions in financial guarantees in order to maintain some sense of market stability it wasn't to know that one of consequences could be a potential wind fall for lease to own investors around the world. Both Presidential nominees backed the bail out. Republican nominee John McCain commented that "there's got to be reorganization and there's got to be some confidence that we have stopped this downward spiral." Barack Obama, the Democratic Presidential nominee agreed, adding that doing nothing was no longer an option "because the housing market, which is already weakened, would be in even worse shape if we didn't take some steps".

The irony is that when President Franklin Roosevelt first proposed the creation of the Federal National Mortgage Association (Fannie Mae) after the great depression in 1938 it was to help avert precisely the sort of crisis it now finds itself the centre of. Sixty years on and Fannie and its younger sibling, Federal Home Loan Mortgage Corporation, (Freddie Mac), guarantee approximately \$5 trillion (£2.5 trillion) of mortgages, nearly half of all US home-mortgage debt. So a rescue package was never really open to discussion. As Piper Jaffray analyst Robert Napoli said, "Without them, our economy would collapse."

But even after the bail out the implications for the housing market remain enormous. Trust has been replaced with fear and confidence with inaction, creating a stagnant market and even greater pressure for homeowners struggling to pay their growing mortgages. Increased repossessions and an ever-tightening credit crunch have brought mortgage lending for first time buyers to an almost complete standstill. As this crisis continues to gather momentum the question of where displaced families will live becomes ever more urgent.

Which is where the lease to own investment market suddenly (and unexpectedly) may have the answer.

### **Lease to own means choice**

While not a new initiative (lease to own programmes have been available in poorer cities such as Detroit in the US) they are no longer the exclusive reserve of the working classes. More middle class families unable to secure a mortgage in the current climate because of high repayments or bad credit are now also expected to turn to the lease to own option.

The principle is simple enough. Once a property has been selected and the potential 'buyer' is accepted (assessments being made on income rather than credit rating) the purchase is made on their behalf by a third party. The would-be buyers can then rent the property but enjoy an option to purchase when their situation improves. While lease to own properties are usually a little higher than standard rentals extra incentives are often made available to the potential buyer. These can include a rebate of up to 50% of the rent to help with closing costs and a down payment.

Inevitably buyers and sellers may have to negotiate around key issues such as the option period but the programme is designed to allow for some healthy wrangling. Lease to own buyers will usually look for a long option period believing that it will give them more time to build equity and repair credit. But too long a period can actually be counterproductive since they lose the rent premium they have been paying as well as the option fee. Equally, too short a period for sellers can actually prevent the property from ever being sold.

The lease to own option is gathering momentum in the United States and beyond and industry observers are watching with interest to see whether it will merely be a stopgap programme or become a viable long-term alternative to established methods of buying and renting.