



08/08/2008

Fannie Mae making cutbacks

On Friday, Fannie Mae reported a quarterly loss that was three times larger than Wall Street had expected. In response to such a loss, Fannie Mae is making bold cutbacks that will in turn have a vast effect on the mortgage industry.

In order to derail its financial decline, Fannie Mae lowered its dividend to 5 cents a share from 35 cents and said it will eliminate loans for borrowers who have solid credit scores but little proof of income or small or no down payments.

Fannie Mae and Freddie Mac, as a team, are the biggest buyers of U.S. home loans from banks and other lenders. Combined, the two own or guarantee nearly half of outstanding U.S. mortgage debt.

Under the new housing bill that President Bush signed last week, the government could increase lines of credit to the two industry giants or purchase their stock. A representative from Fannie Mae said the company has no intention of using the available lifeline saying "we're going to manage our way through it."