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Pilot project to give home loans to 'emerging market'

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A Chicago-area affordable-housing organization is participating in a \$100 million pilot project to provide prime-rate mortgages to creditworthy homebuyers overlooked by traditional credit reporting services, according to the president of Neighborhood Housing Services of America Inc.

Neighborhood Housing Services of Chicago Inc. was identified in an NHTSA press conference as one of 43 regional organizations that will make mortgage loans through Just Price, a subsidiary of NHTSA developed with support from First American Corp. and State Farm Mutual Automobile Insurance Co.

NHTSA President and Chief Executive Mary Lee Widener announced Just Price at a press conference Tuesday during the Mortgage Bankers Association annual convention in Chicago.

In prepared remarks, she said the program aimed to create more traditional mortgages as an alternative to the sub-prime loans that place undue strain on many homebuyers.

"Our borrowers are suffering mightily across the country because of mortgages that are not right for them," she said. "[Just Price] is a way to bring the conventional market into serving this type of borrower, and prevent the inappropriate lending we see."

An NHS Chicago spokesman was unavailable for comment.

Just Price relies on newly developed software to automate alternative credit history searches using First American's "Anthem" alternative credit reports. Anthem tracks factors like rent, utility payments and rent-to-own contracts that traditional credit reports ignore but that may indicate financial responsibility on a borrower's part.

In turn, State Farm has invested \$100 million to fund prime-rate mortgages through NHSA for borrowers who pass Just Price's Anthem screening.

Regional NHSA affiliates will make the loans to homebuyers, with NHSA creating a secondary market for the loans using State Farm's investment.

Just Price President Brian Cosgrove said the process will help identify good credit risks from among "thin-file borrowers" -- people who pay their bills reliably but who may lack the paper trail needed for a good credit score.

Otherwise, he said, those borrowers may have to turn to more expensive sub-prime loans, or may be unable to buy a home at all. The automation speeds the process of alternative credit history checks, which formerly had to be done manually, Cosgrove said.

Lenders issue sub-prime loans, sometimes called exotic loans, to borrowers considered too risky for traditional prime-rate mortgages. Sub-prime loans have higher interest rates than traditional mortgages and may come with steeper penalties for missed payments.

But the speakers at Tuesday's conference argued that sub-prime loans may not be appropriate for so-called "emerging market" customers n first-time homebuyers often from minority or immigrant backgrounds who may be better credit risks than they appear.

Widener stated that NHSA had lent more than \$1 billion in 20 years to emerging-market borrowers using the old manual method, and had lost only \$5 million on those loans.

Landon Taylor, vice president for market development at First American, said many of the "emerging market" customers the program hopes to serve often have cultural reasons for the lack of a substantial credit record.

"In the Latino community for example, many people see debt as bad, and they have fears of putting money in a bank," he said. "Many of those minorities and immigrants have applied (for mortgages) and gotten sub-prime loans or been rejected entirely."

Mark Catone, First American senior vice president for strategic business development, said the Anthem loan products used by Just Price include pre- and post-loan counseling for borrowers, and active support through the participating local nonprofit groups. All of it, he said, was part of a strategy to introduce more flexibility to mortgage industry practice.

"There are so many industry hard wires," he said. "The credit system has not adapted to changes in the market."

Asked what would constitute success, Taylor said First American was hoping for a 12-month trial and 5,000 homebuyers served.

"If we were to see 5,000 people use these loan products, and we watch their performance and see they performed as well as traditional loans, that I'd say would be a success," he stated.

Cosgrove added that another indicator will be whether traditional lenders and secondary-market loan buyers see Just Price as a workable, profitable model.

"Success will be measured when capital comes to these loans," he said.

"We're a giant petri dish."