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Credit Where Credit Is Due



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The banking system is stacked against mortgage applicants who have scanty formal credit history--"thin files," in banker lingo. They might have done fine if they got a normal loan. But because they're often shunted into subprime loans with superhigh interest rates, their monthly payments are so high that many end up defaulting.

A coalition of forces in home lending is trying to fix that problem by helping worthy "thin file" families get prime mortgage loans. Step one is to help lenders take into account evidence of borrowers' trustworthiness that they currently ignore, such as a history of paying the rent, utilities, insurance, and child care on time. Step two, after the loan is made, is to counsel borrowers to make sure they stay current.

The non-profit Neighborhood Housing Services of America (NHSA) has done something like this for about 25 years, but the process wasn't automated so costs were high. Recently, First American Corp. examined NHSA's loan-servicing history and distilled its rules of thumb into a fast, automated credit-scoring system called Anthem that takes into account neglected factors like bill-paying behavior. And on Oct. 24, State Farm announced that it would buy up to \$100 million worth of mortgages issued by NHSA using the new system.

That's just a start: The partners are hoping that once they prove that thin-file loans can be good business, more mainstream lenders and mortgage buyers like Fannie Mae Corp. and Freddie Mac Corp. will dive in. The goal? More loans, more homeownership, fewer defaults.