

\$200M program targets borrowers with thin credit history

Washington, D.C., pilot program uses new Anthem credit score

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Borrowers in the Washington, D.C., area with little or no credit history who might otherwise pay extra for a subprime loan may be eligible for more affordable, 30-year fixed-rate mortgages through a \$200 million pilot program.

The "R-Home" mortgage program, funded by State Farm (Insurance) and Fannie Mae, will employ an alternative credit scoring system that uses nontraditional payment history such as rent, utility bills and child care payments to evaluate the creditworthiness of borrowers who have thin or nonexistent credit files.

The scoring system, Anthem, was [developed](#) by First American Corp. and is used by Neighborhood Housing Services of America (NHS), a California-based nonprofit that buys mortgage loans from nonprofits around the nation.

State Farm has committed to buy \$100 million in mortgages from companies partnering in the R-Home program, while Fannie Mae plans to repurchase \$100 million in R-Home mortgages through a contract with NHS.

NHS has provided a secondary market for nonprofits to sell their loans for more than 30 years, beginning with home-improvement loans and expanding into purchase mortgages in 1982. The company issues securities backed by the loans it purchases, and also sells loans to Fannie Mae, Freddie Mac and the Federal Home Loan Banks.

Participants [say](#) the R-Home program creates an alliance of public, private and nonprofit sector players who, by using the Anthem credit scoring system, can leverage the latest technology to do what NHS has been doing for years on a larger scale.

"I think the hope is over time, this will be a new standard in the financial markets," said [NHS](#) spokeswoman Andrea Washburn. "The alliance is starting by focusing on the District (of Columbia), but we have been doing these (Anthem-scored) loans for more than a year."

Another R-Home partner, NHS subsidiary [Just Price Solutions](#), has integrated Anthem into a Web-based automated underwriting and product selection system the program will utilize.

Other partners in the R-Home program include CitiMortgage Inc., which will service the loans, and HomeFree-USA and Manna Mortgage, which will provide financial counseling services to borrowers in Washington, D.C.

First American Credco's [Anthem](#) suite can generate reports or scores that employ the same 300 to 850 range used by Fair Isaac's FICO score. According to a sample [report](#) posted on the company's Web site, information such as rental history is verified with copies of cancelled checks or bank records. Anthem scores consider the type and length of credit including current and rental histories, utility payments, insurance payments, and credit histories from

businesses that don't report to credit bureaus.

Fair Isaac Corp., the developer of the FICO scoring system employed by the major credit bureaus, also offers an alternative scoring system for borrowers with thin credit files. Fair Isaac said its FICO Expansion score, created in 2004, performed well in a recent [study](#), reliably predicting risk and calibrating closely to the company's traditional FICO score.

But government-sponsored mortgage repurchasers Fannie and Freddie have been "quiet about all of these alternative scoring strategies," said Fair Isaac spokesman Craig Watts.

"The mortgage industry is very interested in the FICO Expansion score, but lenders who are looking to securitize and sell loans on the secondary market are looking for the blessing of Fannie and Freddie," Watts said. "We would love to get more mortgage lenders to use the expansion score, but frankly the big ones have been reluctant because of that vacuum."

A spokesman for Freddie Mac, which participated in last year's study of the FICO Expansion score, declined to comment on that scoring method or the R-Home program's reliance on Anthem. But Freddie Mac does accept alternative credit references, such as phone, utility and day care payments that have been documented for at least 12 months, to qualify borrowers for prime loans, said spokesman Brad German.

A Fannie Mae spokeswoman also had no comment on alternative credit scoring strategies, and would only confirm that Fannie Mae has agreed to purchase \$100 million in loans from R-Home partner NHSA.

"We've agreed to buy the loans based on our non-traditional credit guidelines through the contract with NHSA," said Fannie Mae spokeswoman Marilyn Kornfeld.

In the late 1990s, when NHSA began selling loans to Fannie Mae and Freddie Mac, only about 10 percent met the government-sponsored mortgage repurchasers' guidelines, Chief Executive Officer Mary Lee Widener [said](#) in March at an academic conference sponsored by the Federal Reserve.

Using its own manual underwriting criteria, NHSA was approving many loans of up to 95 percent loan-to-value ratios and FICO scores under 620, or 98 percent LTVs for borrowers with scores slightly above 620, Widener said.

After Fannie Mae began allowing many of NHSA's manual criteria in the automated underwriting system for its MyCommunity Mortgage, NHSA was able to resell up to 60 percent of its loans to Fannie and Freddie on an automated basis, Widener said.