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## **New Help for 'Subprime' Borrowers**

By **BOB TEDESCHI**

When it comes to looking for mortgages, do low-income borrowers get the credit they deserve? According to a recently released study by the Center for African American Policy at the University of Denver, the answer is no.

Industry analysts and executives say that the report's conclusions are generally sound but that advances in mortgage underwriting could change the situation in the near future.

The study, released last month, examined the lending practices at banks in 14 cities and found that because many people who live in low-income, minority areas have no credit history, they pay more interest on mortgages, if they can even qualify.

The reason, the study said, is that in low-income neighborhoods, banks are less aggressive in offering credit cards and other financial services to their customers, chiefly because it is less profitable to do so. Credit cards are a key component of a borrower's FICO credit score, and banks, in turn, use that score to determine a mortgage applicant's risk of foreclosure and the interest rate to charge.

With less information to go on, and with little financial incentive to take the time to check the applicant's financial references, lenders and brokers often assign a higher interest rate to those with thin credit files. That is the case even if the applicant's payment history suggests a low risk

of delinquency, advocates for low-income borrowers say.

Rickie C. Keys, the author of the study, said the federal government needs to loosen some restrictions that compel banks to be timid about lending in lower-income areas. (Among other things, he said, federal regulations require banks to hold higher capital reserves when lending to those with low credit scores.)

“The objective is to give those consumers access to credit, so they can improve their credit scores and get out of this Catch-22 cycle,” Dr. Keys said.

Dr. Keys and Mary H. Coleman, a Mississippi state representative and the immediate past president of the National Black Caucus of State Legislators, have begun working with banking executives to write legislation that would increase the flow of credit in low-income areas.

In the meantime, Craig Focardi, an analyst with the Tower Group, a financial services consultancy in Needham, Mass., said the industry was approaching the problem from a different direction. “There are a fair amount of incentives available to correct the problems the study points out,” he said.

For “subprime” borrowers whose credit is insufficient to qualify for the lowest mortgage rates, most lenders offer a Timely Payment Rewards feature that reduces the interest rate after 24 consecutive months of on-time payments.

Banks have also begun using two new services, from the Fair Isaac Corporation and the First American Corporation, to more easily evaluate “thin file” applicants. Both services have automated the labor-intensive process of evaluating credit based on utility and rental payments, etc.

Neighborhood Housing Services of America, a nonprofit affordable-housing organization, last year began using First American's credit scoring service, called the Anthem Report, to qualify low-income borrowers for loans they might not have received in the past.

The organization's subsidiary, Just Price Solutions, received a commitment late last year from the State Farm Group to buy \$100 million worth of loans underwritten with Anthem scores. Of the 138 loans approved so far, most borrowers have received 30-year mortgages with fixed rates around 6.7 percent.

Brian Cosgrove, the president of Just Price Solutions, said that six of the organization's loans so far have been approved for New York-area borrowers. He added that if the borrowers had applied through conventional lenders, they would probably have been offered adjustable-rate mortgages with introductory rates of 7.5 to 8 percent for two years. "We think this is a sustainable solution to get people in houses," he said.

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