

September 30, 1999

Fannie Mae Eases Credit To Aid Mortgage Lending

By STEVEN A. HOLMES

In a move that could help increase home ownership rates among minorities and low-income consumers, the Fannie Mae Corporation is easing the credit requirements on loans that it will purchase from banks and other lenders.

The action, which will begin as a pilot program involving 24 banks in 15 markets -- including the New York metropolitan region -- will encourage those banks to extend home mortgages to individuals whose credit is generally not good enough to qualify for conventional loans. Fannie Mae officials say they hope to make it a nationwide program by next spring.

Fannie Mae, the nation's biggest underwriter of home mortgages, has been under increasing pressure from the Clinton Administration to expand mortgage loans among low and moderate income people and felt pressure from stock holders to maintain its phenomenal growth in profits.

In addition, banks, thrift institutions and mortgage companies have been pressing Fannie Mae to help them make more loans to so-called subprime borrowers. These borrowers whose incomes, credit ratings and savings are not good enough to qualify for conventional loans, can only get loans from finance companies that charge much higher interest rates -- anywhere from three to four percentage points higher than conventional loans.

"Fannie Mae has expanded home ownership for millions of families in the 1990's by reducing down payment requirements," said Franklin D. Raines, Fannie Mae's chairman and chief executive officer. "Yet there remain too many borrowers whose credit is just a notch below what our underwriting has required who have been relegated to paying significantly higher mortgage rates in the so-called subprime market."

Demographic information on these borrowers is sketchy. But at least one study indicates that 18 percent of the loans in the subprime market went to black borrowers, compared to 5 per cent of loans in the conventional loan market.

In moving, even tentatively, into this new area of lending, Fannie Mae is taking on significantly more risk, which may not pose any difficulties during flush economic times. But the government-subsidized corporation may run into trouble in an economic downturn, prompting a government rescue similar to that of the savings and loan industry in the 1980's.

"From the perspective of many people, including me, this is another thrift industry growing up around us," said Peter Wallison a resident fellow at the American Enterprise Institute. "If they fail, the government will have to step up and bail them out the way it stepped up and bailed out the thrift industry."