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THE TOP EXECUTIVES OF FREDDIE MAC and Fannie Mae made no bones about their interest in buying loans made to borrowers formerly considered the province of nonprime and other niche lenders. Speaking to a packed house at the Mortgage Bankers Association's (MBA's) Annual Convention in San Francisco this past October, Richard Syron, chairman and chief executive officer of Freddie Mac, said, "Our success in the future depends on our ability to serve emerging markets; they will become the 'surging markets.'"

That means the government-sponsored enterprise (GSE) will "extend the conventional market to low-income families . . . adjusting our approach to credit," said Syron. Through its new "Project Greenlight," Freddie Mac will encourage its lenders to forward loans with lower down payments and credit scores, Syron noted, adding that the company was redesigning its A-minus products "to lift more families out of the subprime market."

For added emphasis, he declared that a small group of leaders at Freddie Mac would "decide what amount of credit risk we're willing to take at any given time." That, he remarked, is "a change of philosophy" for Freddie Mac.

Meanwhile, Fannie Mae Chairman and Chief Executive Officer Franklin Raines told mortgage bankers in San Francisco that his company's lender-customers "need to learn the best from the subprime market and bring the best from the prime market into [that market]." He offered praise for nonprime lenders that, he said, "are some of the best marketers in financial services."

Raines boldly asserted that, in his view, "as many as half the people in subprime loans can qualify for lower-cost, conventional loans-if they were offered." That offering, according to Raines, "is most likely to happen through our lenders and products. We have to push products and opportunities to people who have lesser credit quality," he said.

A roundtable discussion of "emerging opportunities" at MBA's annual convention drew a large and impressive collection of participants, from members of Congress and city mayors to mortgage lenders and trade group representatives. The group agreed that the mortgage industry must address and meet the needs of a growing foreign-born population.

U.S. Rep. Xavier Becerra (D-California) noted that Hispanics (or Latinos) represent the largest, fastest-growing and youngest minority group in the nation. He put their share of the total population in the United States at 13 percent. By 2008, that number will swell to 53 million "who will be wielding $1 trillion in annual buying power," said Becerra.

The congressman said the Latino homeownership rate in the United States is only 48 percent (in the heart of Los Angeles it is just 25 percent). "Like many groups that have been disenfranchised, they're looking for someone they can trust," he told the gathered industry figures. "If you can market products that produce results, you'll get trust returned to you in the form of brand loyalty."

From a revenue standpoint, he calculated that immigrants on an annual basis send $30 billion to family members in their countries of origin. "That's money kept under a mattress or not invested longer term the way it could have been-like buying a home and building equity to send more money back home."

Mortgage Guaranty Insurance Corporation (MGIC), Milwaukee, a national private mortgage insurance firm, is going after the large group of undocumented residents in the United States. Geoffrey Cooper, director of emerging markets at MGIC, said these men and women "all have Social security numbers and individual tax identification numbers [ITINs] issued by the IRS [Internal Revenue Service]." Cooper said that although he is aware of a "number of loan programs that do allow for undocumented income, that is not part of our ITIN program. We jumped in a little over a year ago."

Cooper cited estimates from the Department of Homeland security that counts 10 million to 12 million undocumented residents in the country, with half a million more added each year. "It's not an insignificant number of people," he remarked. He described this cohort as comprised "most commonly [of] mom and dad, who have the ITINs, and their children were all born here-they're citizens." He noted that seven of 10 Hispanics in the United States have not been here very long, concluding, "It's a key demographic that needs to be considered."

Also placing a dollar value on Hispanic business, Gary Acosta, chairman and co-founder of the National Association of Hispanic Real Estate Professionals (NAHREP), San Diego, calculated that "removal of existing barriers would mean approximately 200,000 nondocumented immigrant families would be able to purchase homes almost immediately-which translates to about $44 billion worth of mortgage originations."

Acosta, whose 5-year-old association claims a membership of 12,000, mostly Latinos, said, "This is not a niche or emerging market, it's an 'emerged market.'" For added weight, he said sardonically, "I like to say that the Latino market may not be for everybody-just those of you that want to be in business in five years." The remark drew nervous laughter from the audience, composed largely of non-Hispanic mortgage industry professionals.

Meeting with federal lawmakers in Washington, D.C., this past September, Terry Theologides, executive vice president-corporate affairs, general counsel and secretary, New Century Financial Corporation, Irvine, California, came away optimistic that there was strong support for a national lending standard to supplant individual state measures aimed at abusive lending.

Theologides, who chairs the Government Affairs Committee for the National Home Equity Mortgage Association (NHEMA), Washington, D.C., told NHEMA members attending the association's Legislative Conference about his meeting with U.S. Rep. Barney Frank (D-Massachusetts), the ranking minority member of the House Financial Services Committee. The congressman, said Theologides, "is not immutably opposed to a bill that would offer federal pre-emption, but it had to have sufficiently tough standards so that it was at least as tough as 80 percent of the state [laws] out there. So it wouldn't be perceived as a weakening of protections that already existed in some states that had passed legislation."

Theologides said he was encouraged because Rep. Frank "understood the importance of uniformity and clarity, [and] that the existing trend is ultimately not an optimal way to have a vibrant financial and mortgage market. He knows you can't indefinitely have state and local legislation and this patchwork."

Theologides admitted "It's frustrating for me when one state has a poorly crafted law and we know that even though it's a perfectly good loan, we're not able to offer it there." Unfortunately, consumer activists, he said, "don't see the sky falling" from the many antipredatory lending laws, "so they don't think there is much merit to our case. But all of us know there is a severe limitation on the range of products and borrowers we can serve."

SIDEBAR

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