

## Freddie Mac bans unaffordable subprime home loans

by Bend\_Weekly\_News\_Sources

In recent years, lenders making higher-risk, higher-cost "subprime" home loans have flooded the market with dangerous hybrid mortgages, often approved without considering whether the borrower could afford the loan. Tuesday Freddie Mac took a major step for responsible lending by announcing it will no longer buy common types of subprime mortgages that have been pushing millions of homeowners into foreclosure. The Center for Responsible Lending joins AARP, Consumer Federation of America, Leadership Conference on Civil Rights, NAACP, National Fair Housing Alliance, and Rainbow/Push in commending Freddie Mac for taking this significant action to discourage unsustainable home loans.

As one key part of its initiative, Freddie Mac will only accept subprime adjustable rate mortgages that qualify borrowers at the "fully-indexed and fully-amortizing rate," which will discourage lenders from approving loans at start rates that can rise sharply when scheduled rate increases become effective within two or three years.

"I commend Mr. Syron's (chairman and CEO of Freddie Mac) announcement today as leading the way toward better underwriting practices in the subprime market," said Martin Eakes, CEO of the Center for Responsible Lending. "Freddie Mac's announcement provides a major step toward insuring that homeowners receive loans that they will be able to repay. And with home foreclosures rising in every region of the country, Freddie Mac's action today could not be more timely. As a major investor in subprime home loan securities, Freddie Mac's leadership in establishing risk and ethical standards is extremely important and much appreciated by homeowners and civic leaders all across the nation."

In other significant actions, Freddie Mac will now limit the use of low-documentation underwriting on high-risk subprime loans, and the agency also affirmed the importance of considering all loan costs when qualifying families for home loans. Today many lenders in the subprime market are approving loans based only on the cost of principal and interest, even though homeowners must pay property taxes and hazard insurance as well. Freddie Mac has issued a strong warning against this deceptive method of qualifying borrowers and encouraged lenders to escrow for these significant costs.

Subprime home loans "designed for borrowers with weaker credit" have been an attractive investment in recent years, but they have become increasingly risky for homeowners. As foreclosures and losses mount in the subprime market, the risks of these loans have become apparent.

Freddie Mac is the first major investor to ban subprime loans that present a huge threat to homeowners. Many leaders and organizations are expressing strong support for Freddie Mac's initiative, including these statements:

David P. Sloane, senior managing director, Government Relations and Advocacy, AARP: "AARP

applauds Freddie Mac's decision. Older homeowners on fixed incomes are often marketed predatory loan products that they simply cannot repay. When low teaser rates expire and skyrocketing mortgage payments kick in, the older homeowner faces catastrophe. Freddie Mac's action is a critical step towards protecting vulnerable homeowners.

Allen Fishbein, director of Housing and Credit Policy, Consumer Federation of America: "Questionable underwriting of subprime home loans is having a corrosive effect on the entire mortgage market and put millions of consumers at risk of losing their homes. The Consumer Federation of America is very pleased that Freddie Mac is taking this action to help rein in abusive practices in this market. We also commend Chairmen Dodd and Frank who have brought so much attention to the issue and have been urging the regulators to take this important step."

Wade Henderson, president and CEO of Leadership Conference on Civil Rights: "Predatory mortgage lending is one of the biggest threats to increasing minority homeownership and building wealth in disadvantaged communities, and we are delighted that Freddie Mac is continuing in its efforts to eliminate it. We strongly encourage Fannie Mae and other players in the mortgage market to adopt similar policies, all of which are aimed at producing more responsible, repayable home loans."

Hilary Shelton, director of the Washington office of the NAACP: "Our communities have the most to gain from homeownership, but we also lose the most when lenders aggressively steer families into unaffordable loans. We commend Freddie Mac for eliminating incentives to make loans that push families back instead of moving them forward. We urge other lenders and leaders in the mortgage market to show an equal commitment to prudent and sustainable home loans."

Shanna L. Smith, president and CEO, the National Fair Housing Alliance: "The National Fair Housing Alliance applauds Freddie Mac's leadership with these new policies. The immediate impact for the homebuyer will be extremely beneficial – real estate agents will market homes to buyers in their true price range rather than collaborating with brokers using teaser rates to push families into more expensive homes, thereby getting higher commissions for the agents and the brokers. These new policies will make the sales and lending industries sell homes and make loans that are financially suitable for the buyer."

Rev. Jesse Jackson, founder and president of the Rainbow/PUSH Coalition: "For years, homeownership has been the best bet most families have for improving their economic position. The disgraceful business practices that are common in the subprime market today have turned a good bet into an unacceptable gamble. Rainbow/Push appreciates Freddie Mac's leadership in promoting more responsible lending, and also the current scrutiny of unfair lending practices in Congress."