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Financial Firms Invest in Housing Market Both as Landlord and Lender

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Source: Thinkstock

In February, *Reuters* [reported](#) that **Wells Fargo** (NYSE:WFC) is slowly reentering the subprime home lending industry, lowering its qualifying FICO score for a federally backed mortgage from 640 to 600. Rebranding the loans as “[alternative mortgage programs](#),” Wells Fargo, America’s largest mortgage provider, hopes this return will boost revenue enough to compensate for a nationwide decline in home lending volume.

So far, no other large institution has followed in easing mortgage requirements as sharply, presumably due to industry reforms introduced in the [Dodd-Frank Act](#), which outlines minimum qualification standards set for home loans insured by the Federal Housing Administration (FHA). The restrictions, combined with market pressure to pass the Fed’s [annual stress tests](#), has resulted in the large banks shying away from extending mortgages to applicants with a FICO score under 640.

Smaller firms, though, have been eager to loosen eligibility requirements for borrowers seeking to obtain FHA loans. Some have dropped their acceptable credit score threshold [as low as 500](#) in order to qualify otherwise ineligible borrowers in a market that has seen a 37 percent decline in lending volume in the past year. However, despite the recent uptick in subprime lending, tougher federal regulation has diminished some investor risk and reduces the likelihood of another housing bubble that contributed to 2008’s crisis.

Wall Street’s overall reluctance to reduce lending standards did not mean it withdrew from the housing market, instead focusing its attention to investing in and securitizing rental properties. Following the surge in foreclosure cases, banks and other lending institutions examined opportunities in cities from [Seattle](#) to [Palm Beach](#), especially as rising unemployment rates further limited the pool of acceptable mortgage borrowers.

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