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BODY:

Under pressure from Congress, Fannie Mae and Fairbanks Capital Corp. have reached an agreement requiring the subprime loan servicer to change its practices and refund customers it had overcharged, Sen. Paul Sarbanes announced on Tuesday.

Fannie will not allow Fairbanks, the country's largest subprime servicer and the subject of a government investigation, to service new loans that Fannie owns until the Salt Lake City company implements "remedial actions," Franklin D. Raines, the government-sponsored enterprise's chairman and chief executive officer said in a letter sent Monday to Sen. Sarbanes, D-Md.

The ranking Democrat on the Senate Banking Committee had asked Fannie and Freddie Mac in April to investigate allegations that Fairbanks overcharged and harassed customers with practices such as "double charges, unnecessary insurance being forcibly added to mortgages at great costs to consumers, escrow problems, and even foreclosure."

In the letter, which Sen. Sarbanes released on Tuesday, Mr. Raines wrote that, after carrying out a "systemic review of Fairbanks' servicing practices ... we identified a number of business practices that were not in compliance with the contractual servicing agreement in place" between the GSE and the servicer. "Problems included inadequate internal controls, inadequate customer responsiveness and dispute resolution practices, and the improper assessment of certain fees and charges."

Fannie also required Fairbanks, which is majority owned by PMI Group Inc., to "fairly compensate any borrowers charged inappropriate or improper fees," and the GSE will keep its staff at Fairbanks' offices to "closely evaluate Fairbanks' progress in meeting the terms of our agreement," Mr. Raines wrote.

A Fairbanks spokeswoman said Tuesday that it "has a comprehensive plan to review all loan servicing processes and has been and is making improvements."

Sen. Sarbanes on Tuesday called the agreement "almost unprecedented" and "a dramatic step toward preventing the abuses that have been so harmful to homeowners."

A spokesman for Freddie said it is planning to respond to Sen. Sarbanes "shortly."

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