



PARTNERSHIP FOR HOMEOWNERSHIP

WHY WE BORROW UNTIL IT HURTS?

SPECIAL POINTS OF INTEREST:

- IHDA's interest rates for the Rural Development Program are 6.60% with 1% in closing cost assistance or 6.25% with no closing cost assistance. ( This applies to NEW reservations only.)

Illinois Housing Development Authority

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If the subprime mortgage mess has taught us anything, it is that we are leverage addicts. Nearly all of us are, where we bought houses with no money down, to Wall Street where traders borrowed cash to make bigger bets on the housing market.

Seeing *Zero Percent Interest Until Next Year!* on envelopes causes us to tear them open, find the Web address, enter some information and send new credit cards hurtling toward our mailboxes. Financing cars for three years is so passe; we finance them for six or seven. And now we buy -- or used to buy -- houses with pick-your-payment mortgages. We are leveraged from here to China. U.S. consumers spend more than 14 percent of their after-tax income just to stay current on household debt. The question worth asking now is: Why do we love leverage so much that it hurts?

The simple answer, according to personal finance experts, is that we want more -- more money, more house, more car, just more, more, more. We often think we deserve more. Leverage gets us more. With historically low interest rates, leverage is the easiest and quickest tool to get more stuff. The problem is that too much leverage has a downside that is easy to overlook. When everyone else is using leverage so successfully to get more, do we wonder what will happen if interest rates go up? Not so much. This is where the simple answer breaks down. So we turn to the more complicated answer: Blame our brains.

That's what Jason Zweig thinks. He's an investing guru and journalist who has studied several experiments examining people's brains when they make personal finance decisions.

The results, he said, are surprising. "You would expect logically that the borrowing and spending of money would be emotionally painful to people because having money is intrinsically a good thing, and having less money would have to be worse," he said. "Going from more money to less would be painful." If only that were true.

When people borrow and spend money, it's really the reward centers of the brain that become activated. When you borrow money, you are thinking not about the long-term consequences but the short-term result: You have more cash in your pocket. The pain you are going to experience down the road of having to pay -- that's in the future, it's remote, it's abstract.

Now think about the housing boom, particularly about people borrowing way more than they could afford. The entire subprime industry acted as the credit card industry has acted: focusing people's attention on what money can do for you right now and taking your mind off having to pay a lot of money down the road. It's all so easy and cheap. Inflation levels have declined sharply since the 1970s and '80s, pushing interest rates much lower. Like any other product, if its price falls, households will consume more of it. Rates fall, so households take on more debt.

In the current downturn, the leverage problems of the consumer have been closely tied to the leverage problems on Wall Street. Homeowners took out mortgages to buy houses they couldn't afford.

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## CREDIT CARD DEBT THAT IS BOUGHT AND SOLD?

**Q: Can credit card debt that is sold to collection agencies still accrue 24 percent interest? Can I get this rate lowered? What are my options?**

A. Bad news, worse news and a little silver lining. The bad news is, yes, collection agencies will almost assuredly be charging you the maximum rate allowed in your state. The worse news is that your interest rate is the least of your worries -- you need to be thinking about how to settle with the collections agency. The silver lining, however, is that once you understand the collections business, you'll be able to make the best decision possible.

Here's how the business works: Most people face financial difficulties because of divorce, loss of employment or illness. So let's assume you've gone through one of these unfortunate life events and you could not pay your credit card bills. After a while, the credit card company will sell your debt as part of a "bad-debt portfolio" (aka "charged accounts," a bundle of many debtors' accounts) to a collections agency or a third-party broker. The agency that eventually tries to collect your debt will have acquired it for about 4 to 7 cents on the dollar. From there, your debt can be sold or resold like any commodity, sometimes even after the statute of limitations has run. Often, people are not aware that a statute of limitations even exists, so they never question the debt's current validity.

Usually, if a collections agency can collect 20 percent of the money you owe, it comes out on top. Frequently they collect much more. So they're going to harass you (within legal lim-

its) and offer you settlement deals. For example, they might say, "You owe \$5,000 on your credit card, but with accrued interest, it's \$7,000 -- and we'll settle with you for half, or \$3,500." Of course, if they bought the debt for \$200, even after you factor in their costs, they're making decent profits. However, they still want to settle and usually will settle for even less than 50 percent of the current balance.

The absolute worst thing you can do is begin a payment plan and then not finish paying -- sometimes the collection agency will not give you credit for paying a penny! The problem is that if you fail to pay and the statute of limitations on the debt has not run then the debt will likely be resold to another agency at an even deeper discount. It's like going back to square one. This new agency will collect on the remaining balance, which will have grown even more because you failed to settle the debt in full with the previous collections agency.

Therefore, the most important thing is to have a monthly payment you can afford. First, figure out this number -- be honest with yourself and determine what you can really pay each month. Then you can either retain a negotiator or call the collections agency and negotiate yourself. You can find good books on the subject at your local library.

Your best-case scenario is to be able to negotiate and pay the collections agency a lump sum. Next best is to have a reasonable monthly payment that you can afford and that will let you pay off your debt.

Edited from an article by Justin Harelik, Bankrate.com

## SCAVENGER DEBT COLLECTORS – ZOMBIE DEBT

Are you being hounded by a debt collector for an old debt you thought was written off years ago? If so, it is likely you are being contacted by a scavenger debt collector, which is a company that purchases older, mostly uncollectible debt for a tiny fraction of its value. Scavenger debt collectors are notorious for using illegal and unethical methods to collect "time-barred" debt.

Every state has laws governing the time in which a person or entity can file suit to collect a debt. Generally, a creditor or debt collector gives up his right to file suit to collect a debt after a period of years from the time the debt was written off (or the date of last activity on your credit report), various states allow anywhere from 2 to 15 years to collect delinquent debt.

The purpose of these statutes of limitation is to bring some measure of fairness to the debtor so that he / she (1) will not have to worry about being sued for the rest of their lives; and (2) so that the debtor can properly defend himself with fresh evidence and witnesses, if any.

This doesn't mean that a creditor cannot file suit against you after the statute of limitations has expired; however, if a creditor or debt collector does file suit, you can ask the judge to **dismiss the suit on the grounds that the statute of limitations has expired**. In fact, if the statute of limitations is about to run on debt you owe, don't be surprised if you suddenly hear from a collection agency threatening to sue if you don't pay immediately.

If a debt collector contacts you regarding an old debt, do not admit that you owe the debt and do not agree to make any payments. Simply tell them that the "statute of limitations has run on this debt and do not contact me again". If they continue contacting you, send them a certified letter, return receipt requested, telling them not to contact you about the debt again.

Re-written from an article by the National Consumer Law Center

## HOW LONG DOES A CREDITOR HAVE TO COLLECT A DEBT FROM YOU??

Given the current economic downturn, it probably won't surprise anyone that one industry experiencing a lot of growth is debt collection. Unfortunately, with that growth has come an increase in complaints from consumers on how they are being treated by the companies or attorneys trying to get them to pay up.

The table below lists the number of years a creditor or debt collector has to collect debt in the state of Illinois. The statute of limitation usually begins running on an unpaid debt from the date of last activity (last payment made) or the delinquent account was written off as a bad debt by the original creditor. If you do not know what this date was, order a credit report and check it out. The original creditor should list the date the account was written off or the date of last activity on your credit report.

### Debt that has been written off:

Just because the creditor "wrote" off the debt as a profit and loss, does not mean you do not owe it. The business may have decided you weren't going to pay, but that does not relieve you of the liability for payment. When a creditor "writes off" a debt, they are making an accounting adjustment, not a legal one.

Debt collectors often attempt to collect old and delinquent debt from consumers past the Statute of Limitations (SOL). These defaulted debts are often sold to debt collectors. Because these debts are based on contracts between the consumer and the original creditor, debt collectors may only succeed in lawsuits if the suits are brought within each state's Statute of Limitations. You may still have a moral obligation to pay back an old, forgotten debt, but you can't be sued over it.

It is extremely important that you do not pay toward a debt that is past the SOL. If you pay any amount toward a debt, even if it

is past the Statute of Limitations, you may reaffirm the debt and the SOL may start over. New payments re-start the statute of limitations clock. When presented to courts as a defense, the Statute of Limitations prevents creditors from obtaining a judgment for old debt. If you need legal assistance with a delinquent debt, find an attorney with expertise in debt collection.

### Debts for which there is no Statute of Limitations (Bankrate.com)

1. Child support that is passed due (depends on state)
2. Many types of fines
3. Federal Student Loans
4. Most taxes

### Illinois Statute of Limitations for Old Debt

- Written contracts : 10 years
- Open accounts (including credit cards, revolving line of credit, most medical bills): 5 years
- Oral Agreements: 5 years
- Promissory Notes: 6 years
- Secured transactions (car loans) 4 years

A statute of limitation doesn't make it illegal for a creditor to sue you to collect on a debt. It just gives you a defense you can raise that will get the collection case against you dismissed in the legal system. If you do not raise the defense yourself, the creditor can go ahead and collect from you.

There's a separate statute of limitation – 7 years- on how long debts or charge-offs can show up on your credit report. That 7 years starts 180 days after the first debt becomes delinquent and is NOT extended by later payments.

Please visit [www.Illinoislegalaid.org](http://www.Illinoislegalaid.org) for more information.

*“Providing Resources to Reach the American Dream”*



## WHY WE BORROW UNTIL IT HURTS?? CONTINUED....

Wall Street then borrowed money to essentially buy up those mortgages, betting leverage would spur bigger returns. But when interest rates went up, the over-leveraging of homeowners could no longer be ignored. They couldn't keep up with their payments. Say hello to the foreclosure lawyers. Say goodbye to the value of those mortgages on Wall Street.

Of course, it's worth remembering -- despite all the downsides to leverage -- that *some* leverage in the economy is

good. It spurs spending, which moves products, which keeps corporate bottom lines chugging along, which creates jobs and gives people spending money to keep the circle of dollars in motion. Very few people could afford to buy a home were it not for the mortgage system -- used in the way it was set up, with buyers putting 20 percent down and only qualifying for a loan amount they could actually afford.

Edited from an article by Michael S. Rosenwald, Washington Post Staff Writer

WE ARE ON THE WEB!  
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**Providing Resources to Reach the  
American Dream!**

The Partnership for HomeOwnership, Inc. is a nonprofit organization established by the Illinois Association of REALTORS in 1996 to help low-income first-time buyers achieve homeownership in Illinois. The foundation received a 2005 National HOPE (Home Ownership Participation for Everyone) Award for its innovative Quincy, Illinois Initiative, which now serves as a model for employer-assisted housing programs administered by IHDA.

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