



PARTNERSHIP FOR HOME OWNERSHIP

YOUR CAR AND YOUR CREDIT

SPECIAL POINTS OF INTEREST:

- IHDA's interest rates for the Rural Guarantee Housing Initiative are 6.075% with \$1500 in closing cost assistance; 5.95% with \$1000 in closing cost assistance or 5.70% with no closing cost assistance. (This applies to NEW reservations only.)

Illinois Housing Development Authority

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Chicago, IL 60611

- Partnership for HomeOwnership's headquarters have moved! Please change our contact information to:

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Using credit scores in determining automobile insurance eligibility and premiums is a standard industry practice. For years, insurers have maintained that a person's scores, originally intended to measure creditworthiness, are also a predictor of whether -- and how often -- someone will file an auto insurance claim.

And for years, consumer groups have urged state legislatures and the federal government to see the flaws in that practice. Consumer advocates say using credit scores to set insurance rates unfairly hurts African Americans and Hispanics because those groups tend to have lower credit scores and thus end up paying more for their auto insurance. They also complain that errors in credit files can result in lower scores and therefore higher insurance premiums. The Fair and Accurate Credit Transactions Act of 2003 charged the Federal Trade Commission with investigating the use of credit scores in setting auto insurance rates. Among other things, the FTC was asked to determine the impact of credit-based insurance scoring on certain groups, such as low-income and minority consumers. Recently, the FTC released a study that largely sides with the industry. The commission,

using prior research, public comments and industry data, concluded that credit scores predict the number of claims consumers file and the total cost of those claims. Insurance companies began to use scoring in the mid-1990s. Today, all major automobile insurance companies use the credit-based scores in some capacity, according to the FTC report.

The insurance industry, however, was pleased with the FTC report. "We believe scores reduce subsidization of bad risks by good ones, meaning most consumers pay less for insurance," said David Snyder, vice president and assistant general counsel for the American Insurance Association. Still, pressure from consumer groups has led many states to limit how auto insurers use people's credit history.

Many of the state laws are based on the Model Act Regarding Use of Credit Information in Personal Insurance written by the National Conference of Insurance Legislators, an organization whose primary focus is insurance legislation and regulation. It created the model law to prevent insurers from using insurance credit scoring as the sole basis for denying, canceling or not renewing a policy or for increasing rates. As of June

2006, 48 states had taken some form of legislative or regulatory action either banning or restricting the use of insurance credit scores, the FTC said. For example, Georgia, Illinois and Utah prohibit using credit history information as the sole basis for underwriting or rating decisions.

Certainly consumers should practice good financial habits such as paying their bills on time and limiting their use of credit. But should someone pay more for auto insurance because he or she lost a job and couldn't pay his or her credit card bill? "Insurance premiums should be based on the risk of an accident, not a consumer's bill-paying record for other goods and services," said Norma Garcia, senior staff attorney for Consumers Union.

After assessing all the research and the data from the industry, and after hearing 200 comments from the public, the FTC still couldn't determine why there is correlation between low credit scores and an increased likelihood that someone will file an auto insurance claim. If you don't know why, then how do you know the practice is fair and unbiased?

Edited from an article by Michelle Singletary Washington Post

PAULSON OUTLINES MORTGAGE AID PLAN

Treasury Secretary Henry M. Paulson Jr. unveiled new details of the Bush administration's mortgage-relief plan yesterday, including a proposal that would grant new powers to local governments to refinance the mortgages of struggling homeowners.

Paulson spoke publicly for the first time on the strategy that would temporarily freeze interest rates for many troubled homeowners or help them refinance, a plan that is gaining momentum among federal regulators, leaders of the mortgage and housing industries, and lawmakers of both parties as the mortgage crisis worsens.

The impact of the mortgage crisis is widening. Paulson urged Congress to expand the role of local governments in helping homeowners. "Given the local nature of housing markets, state and local solutions can be particularly effective," he said.

Municipal housing authorities now offer mortgages at lower-than-average rates to credit-worthy, first-time buyers whose earnings are at or below the average household income levels, which vary by region. Cities and states can provide such advantageous loans because they sell tax-exempt bonds backing the mortgages to investors at lower rates, passing on the savings to homeowners.

The Treasury Department wants to expand the authorities' reach to include subprime, mortgage holders who want to refinance with a fixed-rate loan rather than an adjustable-rate loan. While Paulson outlined the mortgage-relief plan only in broad terms, sources close to the discussions said major components are likely to be released.

The lack of details has made it hard to know how many homeowners the plan would help. In the past two years, about 2 million credit challenged, or subprime borrowers bought houses with mortgages that typically had interest rates of 7 to 8 percent. The rates on those adjustable loans are set to jump to as high as 11 percent by the end of next year. While some owners have refinanced, others have fallen into foreclosure. Government agencies say that as many as 1.2 million homeowners still need help, though independent research groups say the number is lower.

Either way, more assistance will be needed to overcome the mortgage crisis than just the administration's plan, which focuses largely on subprime borrowers. And it is not just subprime mortgage holders who could lose their homes. People with home-equity loans and some holders of "prime" mortgages, those given to borrowers with good credit, have begun defaulting, Washington Mutual chief executive Kerry K. Killinger said.

Paulson's speech came at a national housing forum in Washington, where top economists joined government officials and industry leaders in painting a bleak picture of the real estate

market. Many said the country's housing downturn would continue for several years, perhaps into the next decade. The country is experiencing the worst housing decline since the Great Depression when measured by three key data points: home sales, prices and housing starts.

Many areas have seen at least a 7 percent decline in housing prices from the beginning of the summer; it is possible that a 20 percent decline overall is could affect the worst hit by early 2009.

Many homeowners with subprime loans could apply to freeze their rates or refinance their loans quickly under the deal being worked out by Treasury officials and the Hope Now Alliance, a coalition of consumer counseling groups, investors, nonprofits, and lenders such as Citigroup, Wells Fargo and Countrywide Financial.

The major sticking point is the investors who buy securities made up of subprime loans. For years, they provided the financial backing that allowed mortgage firms to expand their lending. No type of loan made more money for investors, or was as risky, as subprime mortgages, because they required homeowners with shaky credit to pay more interest. If lenders agree to freeze loans at lower rates, investors would lose out on the higher payments promised under the original loans, which could give them grounds to sue the lenders.

If investors can be compelled to go along without long legal delay, it has the potential to make a real dent in the problem. Paulson aims, in part, to give mortgage servicers -- the companies that homeowners send their checks to every month -- legal protection in case investors sue. The situation is doubly complicated because hundreds of mortgages are grouped into securities held by investors all over the world whose legal rights vary.

Paulson's plan also faces a daunting task of figuring out who is eligible for mortgage relief, because many loans have little documentation of a homeowner's income. Paulson said Congress needs to act quickly to fund a \$170 million mortgage-counseling initiative that would beef up a national hotline where financially troubled mortgage owners could talk to credit counselors.

Whatever plan Paulson presents, they are going to need the nonprofit Community. As a result, counseling service NeighborWorks America expects to double its staff of 65 counselors by 2008. Many counselors are already in training. The group is part of the Hope Now Alliance of nonprofits and lenders, which is scaling up a hotline for homeowners concerned about their mortgages. The hotline has seen a spike to 3,000 calls a month from 300 almost a year ago. Its number is 888-995-4673.

Edited from an article by David Cho and Neil Irwin
Washington Post

CREDIT REPAIR AND THE TOOLS OF IGNORANCE

Every day, consumers pay untold sums to companies that promise a quick credit fix. Most of the time that money is wasted. It's understandable why these offers might seem enticing. Good credit can get you much better rates for a car or home loan. A bad credit history can leave you stuck with loans carrying high interest rates and other onerous terms. In some cases, bad credit can even cost you a job.

But make no mistake about it: While there are some legitimate credit-repair companies, many of the claims we hear advertised are usually false and a con to get your cash. A couple recently signed up with a company that said it could remove negative information from their credit files. The information was correct. It included, among other things, a bankruptcy filing by the couple about five years ago. In a move to clean those blemishes from their credit record, the couple hired the company, agreeing to pay a \$200 upfront fee. And agreed to allow \$100 to be withdrawn from their bank account each month for ongoing efforts to fix their credit.

When asked for details of the services they were getting, the so-called credit-repair company wasn't doing anything for them that they couldn't do for themselves. But they wanted - - maybe even needed --to believe the company's claims. The company guaranteed they could get the bankruptcy removed and promised to improve their scores.

There were several signs of trouble. The first was the upfront fee. Under the federal Credit Repair Organizations Act -- enacted to address deceptive and abusive credit repair business practices -- it is illegal for companies to charge consumers money before performing the promised credit-repair services. Credit-repair companies cannot seek payment from until they have completed the services they have promised. Next, the company said it could permanently delete accurate, negative information from the couple's credit files.

That's a lie. While you can dispute information in your files that you believe to be false, no credit-repair company or individual has the right to remove accurate, current information from a credit report. If the information in your file is correct, only the passage of time can reduce the impact of a

negative report. Negative information such as late payments can stay on your credit file for seven years. A personal bankruptcy filing can take 10 years. But don't despair. The impact of that information on your credit scores is less as the years go by.

If you're thinking about responding to a credit-repair offer, know your rights. The Federal Trade Commission says consumers should look for the following warning signs and avoid any firm using these terms:

- The company requires an upfront fee.
- The company says it will dispute all information in your file, including things you know are correct. On that last point, you should know better. If the company's strategy is to lie or dispute accurate information, it's not a reputable operation.
- Before you sign a contract, the company does not provide you with a copy of the FTC's "Consumer Credit File Rights Under State and Federal Law," which outlines what is permissible.
- You are told not to directly contact the credit-reporting agencies.
- You are told that the company can get you a new credit identity by applying for an employer identification number, or EIN, from the Internal Revenue Service. The pitch is that you can use this number instead of your Social Security number. If you don't own a business, this is not a legitimate way to repair your personal credit history. It is a federal crime to obtain an EIN under false pretenses.

If you've got some credit issues, the best thing to do is go to <http://www.ftc.gov> and get the agency's free publication, "Credit Repair: Self Help May Be Best." You can also call toll-free 877-FTC-HELP (877-382-4357).

Edited from Michelle Singletary
Washington Post

WEBSITES OF THE MONTH

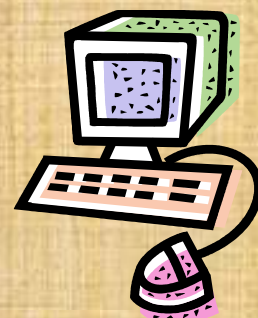
Learn about **Asset\$Illinois**, IDA Savings Program at, www.dhs.state.il.us

To compare Credit Card Ratings visit, www.cardratings.org

For money management tips visit, www.personalbudgeting.com or www.smartmoney.com

To compare telephone companies rates visit, www.comparecalls.com

For a FREE Credit Report visit, www.annualcreditreport.com. Run ONE from one repository every 3-4 months, that will allow you to check for free three times a year.



WE ARE ON THE WEB!
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HOME OWNERSHIP**

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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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