



PARTNERSHIP FOR HOMEOWNERSHIP

ZIP CODE 'REDLINING': A SWEEPING VIEW OF RISK

SPECIAL POINTS OF INTEREST:

- IHDA's interest rates for the Rural Guarantee Housing Initiative are 5.875% with \$1500 in closing cost assistance; 5.75% with \$1000 in closing cost assistance or 5.50% with no closing cost assistance. (This applies to NEW reservations only.)

Illinois Housing Development Authority

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Critics call it the new redlining: Many of the country's largest mortgage lenders are imposing loan restrictions in entire counties or Zip codes that they rank as risky or "declining."

On Jan. 25, 2008, Countrywide Bank sent mortgage brokers a list that categorized hundreds of counties as "soft markets" with rankings from 1 to 5, in ascending order of perceived risk. In areas rated 4 and 5 -- roughly 100 counties in metropolitan areas nationwide -- Countrywide said it will now require down payments that are 5 percentage points higher than from most applicants. If a loan program had previously allowed a minimum 5 percent down payment, applicants in these areas will now be required to come up with 10 percent.

An additional 970-plus counties are rated more moderate risks, in categories 1 to 3, with down payment increases of 5 percentage points if an appraisal report indicates there is an "oversupply" of houses for sale or a marketing time of more than six months.

Other national lenders have distributed their own proprietary "declining markets" lists. GMAC-ResCap, based in Minneapolis, even has a Web site where loan officers can type in a Zip code to learn how risky the company ranks the area. The general public is not supposed to see the site, but a mortgage company executive provided access.

In late January, a Zip code for McLean, VA -- a high-income, high-cost residential community and home of mortgage investment giant Freddie Mac -- was rated D, or high-risk, on the Web site. The upscale residential neighbor-

hood in Northwest Washington where Fannie Mae, another mortgage investor, has its headquarters was rated at an elevated risk of C.

Restrictions imposed by Fannie Mae late last year have prompted lenders to compile area-by-area risk ratings and impose down payment standards. In a notice to lenders Dec. 5, 2007, Fannie Mae said all loans delivered after Jan. 15 of this year on properties in "declining" areas would be subject to down payment requirements that are 5 percentage points higher. The company's own electronic underwriting system had begun flagging selected markets as high-risk last summer. Fannie Mae also strongly encouraged lenders to use "supplemental" data sources to come up with their own risk-ratings by market area.

Critics charge that imposing higher down payment standards or other penalties for applicants in an entire county, metropolitan area or Zip code is unfair to homeowners and buyers whose properties are located in submarkets or neighborhoods within those jurisdictions that may not be declining in value, or not by enough to justify punitive underwriting requirements.

Labeling entire counties as "declining" totally fails to distinguish between areas where prices are rising or relatively stable, and other neighborhoods or communities where they are not."

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## MAKE SURE A REFINANCE ADDS UP

Recent dips in interest rates have many homeowners wondering whether it's time to refinance their mortgages. Refinancing can make sense for many people, but the decision should take into account more than swings in market interest rates.

Until recently, people refinanced for three main reasons: to get a lower rate, to get rid of private mortgage insurance premiums, or to pull out cash to consolidate bills or pay for big-ticket expenses. Now owners are frequently motivated by a fourth reason: changing the type of loan they have.

Perhaps their adjustable-rate mortgages are scheduled to reset soon, and they are worried that their interest rates and payments are going to rise. In other cases, they are worried about ARM resets that are years away, thinking that a decline in their houses' value could keep them from being able to refinance then.

People are in risk-management mode, instead of just simple math mode. That math is indeed pretty simple, but the calculation must be made specifically for your mortgage. The math starts with the interest rate on your current loan. Is the rate on your current loan higher than what you would qualify for today?

Many people who bought or refinanced three to four years ago already have "very good rates," but that those who bought in the past year or two might benefit from refinancing.

Keep in mind that individual factors, such as income, credit scores and equity, will also influence the rates for which a person qualifies. That could benefit homeowners whose circumstances have significantly improved since they took out their current loans, but it could be an obstacle to refinancing for those who are struggling.

A prospective refiner will also find that rates vary depending on how much they borrow and over what term, whether there are any upfront closing costs, such as origination fees and points. Those can vary significantly among loans; many lenders offer no-cost refinancing, in which fees are rolled into the interest rate. Borrowers should be cautious about adding closing costs to a loan balance.



Next, look closely at the paperwork for your current loan and see if you will owe a prepayment penalty if you pay that loan off early. Once you know how much the refinancing would cost you out of pocket and how much you would save monthly with the new interest rate, use those two numbers to determine the break-even point -- the date that the monthly savings equal the costs associated with refinancing.

What's a reasonable length of wait for that break-even point. Two years is the general guideline for breaking even. And if a person can recoup the costs instantly by doing a no-cost refi, then that's obviously attractive. Homeowners with ARMs shouldn't automatically assume that they would benefit from a fixed-rate loan. If they are planning to sell in a few years, for example, another ARM may make more sense than a fixed-rate loan. There's little advantage to taking a fixed-rate loan, at a higher rate, if the borrower is going to sell before the ARM adjusts. But for those whose loans make them anxious, the recent drop in rates can be a great opportunity to refinance out of an unstable ARM.

Edited from an article by  
Mary Ellen Slayter, Washington Post  
Washington Post Staff Writer

## MI TAX DEDUCTION EXTENDED THRU 2010

In important news for homebuyers, the tax deduction for private mortgage insurance is now good through the **2010 tax year**. The extension of the tax deduction makes mortgage insurance a more attractive choice for buyers interested in entering the housing market. The original deduction approved in 2006 applied only to homes purchased and premiums paid in 2007. The extension passed by Congress extends the deduction to include homes purchased before the end of 2010.

Mortgage insurance premiums are 100 percent tax deductible for families and individuals earning \$100,000 or less when they purchase a home between January 1, 2007 and December 31, 2010. Families earning up to \$109,000 can take advantage of a partial deduction. Insured loans are much more attractive in today's market because credit is more difficult to access since the sub-prime market failure.

In order to make homeownership sustainable, it is important that people have access to safe, affordable, long-term mortgage financing. The major benefit of mortgage insurance is that it allows borrowers to acquire a home with a fixed-rate mortgage with a down payment of as little as 3 to 5 percent.

## CANCEL CREDIT CARDS GRADUALLY

"How should consumers go about closing "open accounts," especially if one now has multiple accounts due to banks buying out other banks or creditors. Recently, I read that closing accounts can lower your credit score. How should one handle these unused accounts? Is there a magic number as to how many to close per month or year without gravely affecting one's good credit score?"

A balancing act is involved when deciding whether to hold on to an account you don't use (just to keep your credit score high) or to close those unused accounts. Keeping the accounts open helps maintain a low ratio between outstanding balances and available credit lines -- that's called the credit utilization ratio. Not bumping up against your credit limits shows you're not running out of available credit. Lenders like borrowers who aren't desperate.

The length of time the account has been open also influences your credit score. Having a clean payment history on an account with a 10-year history is more valuable to your credit score than a clean payment history on an account that you've only had for a year or two. On the other hand, every open credit line is a commitment by a lender to loan you money. A lender considering a credit application is going to look at those open lines as potential loans that can demand a part of your income. That's money that won't be available for their loan payment.

In the **short-term**, it's a bad idea to close accounts in an attempt to improve your credit score. **Longer term**, managing your credit accounts is a part of managing credit. Not holding on to cards with annual fees or cards with high interest rates can make sense.

There's no magic number of credit cards you can have before it starts to hurt your credit score. By pruning away some of the unused accounts, you can free up space for a new card. Review your credit reports and get a handle on the number, age and credit limits of your open accounts. You may order a free credit report from [www.annualcreditreport.com](http://www.annualcreditreport.com).

If your credit is in good shape (a score in the mid- to upper 700s or higher) and you don't have any immediate plans to apply for credit, feel free to cancel a credit card or two. Choose cards recently issued or those with lousy credit terms. Wait a year before repeating this process.

Edited from an article by Don Taylor, Bankrate



## 'REDLINING' CONTINUED ....

David Berenbaum, executive vice president of the National Community Reinvestment Coalition, a consumer advocacy group active in litigation against subprime mortgage companies, said that "sound underwriting has nothing to do with geography. It is based on the income and qualifications of the applicant, and the valuation of the property by a professional appraiser." "Anything else," Berenbaum said, "runs afoul" of federal fair lending and Civil Rights statutes. "It is redlining."

Paul Skeens, head broker for Carteret Mortgage in Waldorf, said he had observed that lenders' county and Zip code designations "have their heaviest impacts on areas with high proportions of minority groups and people with moderate incomes who bought houses" with low and no-down payment programs during the first half of the decade. Labeling these areas as "declining" and then imposing higher down payment requirements "becomes a self-fulfilling prophecy," Skeens said. "People can't buy there because they need more cash upfront, the houses don't sell and prices go down."

In an interview, Brian Robinett, chief credit and operations officer for wholesale lending at Countrywide, vigorously rejected the criticism. Countrywide's risk-ranking list distributed Jan. 25, he said, is based on comprehensive data on prices, sales and other indicators spanning 12 to 18 months. Robinett said it would be hard to make the case of redlining against the company's ratings. After all, according to Robinett, a variety of property types, income levels and ethnic groups are "equally affected" by every risk ranking.

The takeaway for now: If a major lender has tagged your Zip code, county or entire metropolitan area with a scarlet letter -- and they exist in nearly every state, including many in places generally assumed to have relatively healthy market conditions -- you're going to need more cash upfront. That will be the case even if the risk designation has no real applicability to the house you hope to buy or finance.

Edited from an article by Kenneth R. Harney  
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**Providing Resources to Reach the  
America 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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