



PARTNERSHIP FOR HOMEOWNERSHIP

SPECIAL POINTS OF INTEREST:

- IHDA's interest rates for the Rural Guarantee Housing Initiative are 6.615% with \$1500 in closing cost assistance; 6.49% with \$1000 in closing cost assistance or 6.24% with no closing cost assistance. (This applies to NEW reservations only.)

Illinois Housing Development Authority

401 N. Michigan Ave., Suite 700

Chicago, IL 60611

- Partnership for HomeOwnership's headquarters has moved! We have relocated to:

522 South Fifth Street

Springfield, Illinois, 62701

INSIDE THIS ISSUE:

Putting A Stop To A Credit Ruse	2
States Combating Identity Theft	2
Minimum Wage Hike Approved!!	3
Inflation Target Shifting	3
Board of Directors	4

DISCLOSURE PROPOSAL OFFERS POSSIBLE RESCUE

What is a point? What is a margin? What does "due on sale" mean? Did you comparison shop and review the APR? What's APR, anyway?

When you obtain a mortgage loan, you will sign many documents, all of which contain terms that are a mystery to many home buyers. There's a good-faith estimate, a truth-in-lending statement, a financial information form, a promissory note, a deed of trust and a HUD-1, also called a settlement statement. You will also sign other documents, most of which are designed to protect the lender against future claims that you did not fully understand the terms and conditions of the loan.

And to make matters worse, you will be asked to sign a power of attorney authorizing the lender (or the title company) to make corrections should errors be found later. Did you understand what you signed? Did you comprehend the terms of that adjustable-rate mortgage? If you sell your house or win the lottery and want to pay off your loan, will you have to pay a prepayment penalty?

Foreclosures are rising rapidly. This is being blamed on subprime lenders that made high-interest, risky loans to consumers who could not afford them in the first place. But foreclosures are taking place with other kinds of loans as well. Clearer disclosure ensuring that borrowers actually understand their loans is one step that could help prevent problems.

Alex J. Pollock, a former chief executive of the Federal Home Loan Bank of Chicago who is now a fellow at the American Enterprise Institute in Washington, thinks he has a solu-

tion. It's a simple one-page disclosure document that he calls "the Pollock prototype."

His one-page disclosure, which is accompanied by two pages of definitions of terms, states in simple English what he says are the "essentials of the loan."

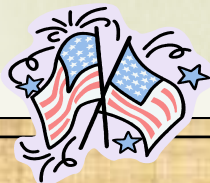
For example:

** If you are considering an adjustable-rate mortgage, the disclosure form would tell you what your beginning interest rate is, how long it will stay in effect, and (more important) what the maximum possible rate will be.

**For any loan, you would be told the loan-to-value ratio. This would show you the amount of your mortgage as a percentage of the property's appraised value. Why is this important? When property values are increasing, no one seems to care. But values are decreasing in many parts of the country. If you know your original loan-to-value ratio, you should have a better understanding of how falling values could affect you, especially if you decide to sell your house.

**The form would help you understand whether you can afford the loan. Pollock uses the term "fully indexed housing expense ratio," which he calls a "key measure of whether you can afford this loan." It shows what percentage of your monthly income would go to your mortgage, taxes and insurance, both at the start of the loan and when it adjusted to its highest possible monthly rate -- that is, the fully indexed rate. "The time-tested market standard for this ratio is 28 percent; the greater your ratio is, the riskier the loan is for you," according to the definitions that accompany Pollock's suggested form.

Benny Kass



VISIT US ONLINE AT WWW.PFHO.ORG!

PUTTING A STOP TO A CREDIT RUSE

Fair Isaac, the developer of the widely used FICO score, plans to introduce key changes designed to derail schemes that transplant high-quality credit card histories to the files of people with low FICO scores.

The credit-boost companies, easily found on the Web by searching for "credit trade line," claim that they violate no federal laws and are not seeking to defraud mortgage lenders. But mortgage industry groups, federal and state regulators, and credit industry leaders say the programs represent significant threats to the home lending system -- opening the door to fraudulent home loan applications.

Using a FICO-boost service, for example, a mortgage applicant with a history of late and missed payments and a FICO score in the 500s could puff up his or her score well above 700 and be eligible for the best interest rates and fees.

How could that happen? Check out the online pitch of one promoter: "Rent your credit and earn thousands," it proclaims. The company offers cardholders with sterling payment histories on cards with high balances "as much as \$10,000 a month or more" simply by accepting unseen borrowers with poor credit backgrounds as "authorized users" on their card accounts for 90 days.

Although the add-on users receive no access to the credit card and cannot rack up charges, Fair Isaac's FICO model allows the cardholders' excellent payment histories to flow directly into the credit files of all authorized users on the card. The addition of the high-quality credit quickly raises the scores of any authorized users -- even though the add-on users may still be poor credit risks.

One Web site promoter claims that some cardholder "investors" are "able to accommodate as many as 99" authorized users simultaneously and have "as many as 22 qualifying cards" for rental, creating "thousands of dollars per card" of extra income monthly.

Fair Isaac, worried that its credit scoring system is being gamed to facilitate fraud, is readying a crackdown. Starting in September, the updated version of the FICO software available to lenders -- the "FICO 08" model -- will no longer consider authorized-user accounts in computing credit scores, said Craig Watts, Fair Isaac's public affairs manager.

That, in effect, will block holders of good credit from renting their account histories to authorized users to artificially boost scores. Watts said that once fully implemented, Fair Isaac's change should eliminate much of the problem.

Kenneth R. Harney



STATES COMBATING IDENTITY THEFT

Thirty-three states including Illinois and the District of Columbia allow consumers to place a "security freeze" on their credit files, and more states are considering similar legislation.

For the millions of consumers who receive notice each year that their personal or financial data was lost or stolen, a preemptive security freeze can offer peace of mind. It blocks businesses and potential fraudsters from gaining access to a consumer's credit report and score and from granting new lines of credit in the consumer's name. In many states, consumers who want to remove the freeze can use a special identification number to unlock access to their credit file.

Most states require consumers to pay a fee of \$3 to \$10 per credit bureau to freeze their credit files. In some cases, there are additional fees if a consumer wants to remove or temporarily lift a freeze. In all states with credit-freeze laws, victims of identity theft can obtain a freeze without paying a fee, although many states require that the victim provide a copy of a police report detailing the incident.

Under current federal law, individuals can place a 90-day "fraud alert" on their credit files, and are entitled to a free copy of their credit report from each of the three major credit reporting bureaus annually. However, unlike the security freeze, a fraud alert merely notifies the consumer if an inquiry has been made against their credit file. It does not prevent identity thieves or other business from accessing a consumer's credit file or obtaining new lines of credit in their name.

Brian Krebs

MINIMUM WAGE HIKE APPROVED

With little fanfare, Congress approved the first increase in the federal minimum wage in nearly a decade, voting to boost wages for America's lowest-paid workers from \$5.15 to \$7.25 an hour over the next two years.

The bill, which a spokesman for President Bush said he would sign, would end the longest stretch without an increase in the federal minimum wage since it was established in 1938. It would also mark a victory for congressional Democrats, becoming the first item to be enacted from an eight-point agenda that House

leaders vowed to pursue during their first 100 hours in power.

The wage hike was largely ignored, however, during an acrimonious debate over an emergency spending bill for the Iraq war, to which it was attached. The tactic of attaching it to a must-pass bill deflected attention from an issue Democrats hammered at effectively during last year's election. But it ensured that the wage increase and \$4.8 billion in corresponding business tax breaks would take effect despite objections from the White House and other Republicans who wanted a larger package of business incentives.

Democrats contend the measures approved will lift the incomes of about 13 million workers -- 5.6 million who earn less than \$7.25 an hour and 7.4 million people who earn slightly more but are likely to see their wages increase.

Workers would get their first raise, to \$5.85 an hour, 60 days after the measure is signed by Bush. A year later, the minimum wage would rise to \$6.55 an hour, and it would hit \$7.25 a year after that.

Lori Montgomery

"Providing Resources to Reach the American Dream"

INFLATION TARGET SHIFTING

For months, Wall Street has been begging for a signal that the Fed is done increasing interest rates to slow the economy, an inflation-fighting measure.

As they meet June 27 and 28 to review monetary policy, Ben S. Bernanke, Federal Reserve chairman and his Fed colleagues appear reluctant to declare victory, even though inflation has eased in recent months. On the contrary, they are likely to say they want inflation to keep falling and are concerned about the risk that it could flare up again. That means they won't lower borrowing costs anytime soon.

Many investors and analysts cheered recently when they thought inflation had subsided. The central bank's preferred core inflation measure, which excludes food and energy prices, dipped in April to 2 percent. That is within the range of 1 to 2 percent identified by Bernanke and others as their comfort zone for core inflation.

After years of focusing publicly on core inflation, its members are paying more attention to broader measures that include the cost of fuel and food. Those items have long been dismissed as too volatile to shed much light on long-term inflation trends -- they can rise or fall rapidly in a short period.

But for nearly five years, food and fuel prices have done a lot more rising than falling, and some economists say they have become a sustained source of inflationary pressure. With forecasts calling for strong global economic growth, international competition for commodities such as oil, corn and other grains is heating up, driving the price increases. Another factor is renewed interest in ethanol, which is causing increases in the price of corn, which is used to make ethanol in the United States. That, in turn, makes meat, eggs and dairy products more expensive because corn is a primary feed for cows, chicken and other livestock.

If the Fed shifts its focus from core inflation to overall inflation, "it would unnerve more than a few market participants," potentially causing mortgage and other long-term interest rates to rise, said David Shulman, senior economist with the Anderson Forecast at the University of California at Los Angeles.

This creates a communication challenge for Bernanke, who has long argued that the Fed should express its goals as clearly as possible, both through its words and by adopting a numerical inflation target. The financial market's expectations for interest rates affect stock prices and help determine mortgage rates and other borrowing costs for consumers and businesses.

Nell Henderson

WE ARE ON THE WEB!
WWW.PFHO.ORG



PARTNERSHIP FOR HOME OWNERSHIP

522 South Fifth Street
Springfield, Illinois 62701

Phone: 1-800-370-6697

Fax: 217-529-5893

Website: www.pfho.org

**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.

For more information contact

Beth Llewellyn or Laurie Van Houten at:

1-800-370-6697

bllewellyn@iar.org

ljvanhouten@iar.org

2007 BOARD OF DIRECTORS



2007 President:

Sue Wiskowski-Fair, Realty Executives



2007 Directors:

- Alex Chapparo, Hudson Street Realty
- Elaine Davis, Three Rivers Workforce
- Jean Garrison, Affordable Housing Consultant, Genworth Mortgage Insurance Co.
- John Kretchmar, Chicago Exclusive Properties
- Pam Krieter, EVP, REALTOR Assoc. West/South Suburban Chicagoland
- Paul Lopez, Park Federal Savings Bank
- Roger Morsch, IHDA Single Family Programs
- Carol Menendez, Illinois National Bank
- Leo Sheridan, Broker
- Tracey Taylor, Chair, Housing Opportunity Working Group
- Donna Thomas, Past President
- Jean Webber, Dawn-Webb & Associates
- Peter Stojic, National City
- Barry Ramsey, USDA-RD, Ex-Officio