



P A R T N E R S H I P F O R H O M E O W N E R S H I P

SPECIAL POINTS OF INTEREST:

- IHDA's interest rates for the Rural Guarantee Housing Initiative are 6.015% with \$1500 in closing cost assistance; 5.89% with \$1000 in closing cost assistance or 5.64% 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**

T H R E E W O R L D S O F L E N D I N G

What exactly is a subprime loan? And what exactly is the problem with defaulting on a subprime loan versus a prime loan? Are there signs to watch out for when you are discussing mortgages with a bank or a lender?

First, you need to know that there are three lending worlds out there. One world is for borrowers who are ready for prime-time loans -- they easily qualify for a lender's best interest rates. Scores in the low 700s and above put you in prime territory.

In the current interest rate environment, if you're a credit-worthy customer also known as a "prime" borrower, you should qualify for a mortgage interest rate that is less than the prime rate, which is currently 8.25 percent.

In the middle is not-so-prime-time lending -- or the "Alternative-A" mortgage world. These loans are made to people who are considered less risky than subprime borrowers but aren't as creditworthy as someone in the prime category. Alt-A borrowers, as they called, can have high credit scores but may not be able to verify their income. Generally, the rate these borrowers pay is lower than that for subprime

loan. This sector is also having payment trouble.

The furthest from the prime world is the subprime market. Subprime loans are typically made to borrowers who have spotty credit records. The interest rates on these loans are usually at the prime rate or higher. Subprime loans include nontraditional products with terms that allow borrowers to pay interest only, or adjustable rates that are subject to sudden spikes after a certain time.

Generally you enter subprime territory when you have a credit score in the low 600s. Each lender sets its own benchmark for subprime customers. One lender may set the bar at a credit score of 650 or below; another might set the bar at 620.

But a low credit score isn't the only factor that may push you into a subprime loan. You might be limited to such a loan if you have a low down payment or you can't accurately document your income.

By the end of the year, as many as 2 million subprime borrowers could lose their homes to foreclosure, according to the Center for Responsible Lending, a nonprofit, non-partisan research and policy

organization.

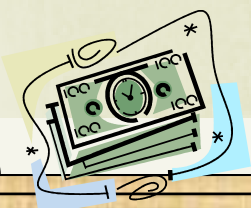
When it comes to defaulting on a subprime loan or a prime loan, there is no difference.

The last question -- what to watch out for in a mortgage loan -- is one all borrowers should be asking. The Center for Responsible Lending, which has been highly critical of subprime lenders, lists some of the things to look for and avoid in a mortgage loan:

- **Excessive fees.** Don't be so quick to get a home loan that you ignore the fees. Mortgage lenders often disguise or play down fees because they are often rolled into a loan.
- **Prepayment penalty.** A mortgage with a prepayment-penalty option requires you to pay a penalty or fee if all or most of loan amount is repaid within a certain time (generally ranging from two to five years from the start of the loan).
- **Loan flipping.** Despite the rise in foreclosures, the offers to refinance are still as plentiful as the dandelions that pop up every spring. But crunch the numbers. Some refinance deals generate lots of fee income for the lender but provide little financial relief to the borrower.

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GRAD'S ASSIGNMENT: LOAN CONSOLIDATION

As college graduation season has just passed, the newly anointed degree-holders will have to face a new reality -- life with hefty education debt.

By the time they graduate, about two-thirds of students at four-year colleges and universities have accumulated student loan debt, according to the Project on Student Debt. That debt load averages \$19,200 per student, and many graduates face the prospect of having to pay back much more.

One move graduates should consider is consolidating their federally backed loans. This decision should be made before July 1. That's when the federal government will recalculate the interest rate on variable student loans. Although Congress changed the law so that Stafford loans made after July 1, 2006, are fixed at 6.8 percent, there are still plenty of loans out there with variable rates.

Under the federal consolidation program, student and parent borrowers can bundle all of their loans into one fixed-rate loan and stretch out the payments to 30 years

from the standard 10 years, depending on the debt amount.

You can consolidate your federal loans only once, unless you have new loans that were not included in the original consolidation. You can no longer consolidate while you are still in school. And when you do consolidate, you lock in the weighted average of all your student loans, rounded up to the nearest eighth of a percentage point.

If you decide to consolidate to avoid a possible rate increase, you'll have to get your application in by June 30. Another reason to act fast: Graduates who consolidate their Stafford federal student loans during their grace period -- the six months after graduation -- are eligible for a 0.6 percent interest-rate reduction.

Please visit these sites for more information: www.nsls.ed.gov, www.loanconsolidation.ed.gov, and www.projectonstudentdebt.org.

Michelle Singletary



\$21 DOESN'T BUY GROCERIES

Rep. Tim Ryan (D-Ohio) stood before the refrigerated section of the Safeway on Capitol Hill and looked longingly at the eggs.

At \$1.29 for a half-dozen, he couldn't afford them.

Ryan and three other members of Congress have pledged to live for one week on \$21 worth of food, the amount the average food stamp recipient receives in federal assistance. That's \$3 a day or \$1 a meal. They started May 16, 2007.

Rep. Jim McGovern (D-Mass.) and Rep. Jo Ann Emerson (R-Mo.), co-chairmen of the House Hunger Caucus, called on lawmakers to take the

"Food Stamp Challenge" to raise awareness of hunger and what they say are inadequate benefits for food stamp recipients. Only two others, Ryan and Janice Schakowsky (D-Ill.), took them up on it.

"All of us in Congress live pretty good lives," said McGovern, who ate a single banana for breakfast yesterday and was going through caffeine withdrawal by midday.

"We don't have to wake up worrying about the next meal. But there are a lot of Americans who do. I think it's wrong. I think it's immoral that in the U.S., the richest country in the world, people are

hungry."

McGovern and Emerson have introduced legislation that would add \$4 billion to the annual federal food stamp budget, which was \$33 billion last year and covered 26 million Americans. The proposal could be incorporated by Congress into the new farm bill.

"We're trying to get this debate going," McGovern said. "There are more working people today getting food stamps than six years ago. . . . There's not a member of Congress that doesn't have hunger in their district."

Lyndsay Layton

"Providing Resources to Reach the American Dream"

A HIGHLY CHARGED RELATIONSHIP

Consumers today can't get enough of their credit cards, slapping them down with a passion to pay for everything from fast food to plane tickets at a rate of 10,000 transactions a second worldwide.

But while Americans love the convenience of plastic, they often hate the credit card issuer. Credit card complaints outstrip all other bank-related grievances filed with federal regulators in recent years.

The avalanche of gripes generally boils down to objections about a half-dozen practices, according to congressional staff and consumer groups. The complaints mostly center on what consumers see as un-

fairly high interest rates and penalty fees; confusing policies that constantly change, almost always in the lender's favor; and near-insurmountable hurdles to getting help when a consumer falls into trouble or when a company makes a billing mistake.

Regulators are listening to the complaints and preparing to issue stronger consumer protection rules. The Federal Reserve proposed new, long-awaited regulations on May 27, 2007 that would require credit card companies to make disclosures clearer and easier to understand. But some lawmakers say they think that the Fed rules, which could become final by year's end, may not be

enough and that new law might be needed.

A bill introduced by Sens. Carl M. Levin (D-Mich.) and Claire McCaskill (D-Mo.) would ban interest charges on debt paid by the due date, cap penalty interest-rate increases and prohibit interest from being charged on late fees or over-the-limit fees. The measure would also ban late fees if a card issuer delays crediting a payment, require firms to offer the option of a fixed limit a customer would not be allowed to exceed and require companies to apply payments first to charges carrying the most expensive interest rate

Kathleen Day



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Homebuyer??*

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SAVINGS THAT START FROM THE FIRST PAYCHECK

Remember the first job you got when you were a kid?

You couldn't wait to get that first paycheck so you could run out and open a retirement account, right?

Today's working teenagers, I'm happy to say, aren't much different from previous generations when it comes to spending that first paycheck. Somehow the notion of a 15-year-old lusting after a Roth IRA is disturbing -- though it may make sense for their parents and grandparents to consider setting one up for them.

Take a 15-year-old who earns \$1,500 this summer. If her parents contribute \$500 to a traditional or a Roth IRA this year, and keep that up until she turns 21, in 50 years -- assuming an 8 percent annual return -- she'd have \$208,000 from the \$3,500 originally invested. That might not be enough to live on in retirement 50 years from now, but it's a good payoff from a relatively small investment.

But the bigger payoff may be in the opportunity to talk to your child or grandchild about the importance of financial planning. It's a great way to talk about how compound interest works -- earning money on the money your money earned the previous year. And it's a great way to explain the trade-off between risk and return. Picking the right investment could be a family undertaking, with the full participation of the teenager. And, with any luck, the teenager will continue adding to the account when she grows up.

When a teenager is opening an IRA, a Roth IRA probably makes more sense than a traditional IRA. The difference between the two is when the money is taxed. With a Roth IRA, it's taxed going in; with a traditional IRA, it's taxed coming out. Most 16-year-olds are probably at a lower tax rate today than they will be in the future, so it makes sense to opt for paying the tax today, while assuring retirement security for many days after tomorrow.

Martha M. Hamilton

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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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