



PARTNERSHIP FOR HOMEOWNERSHIP

IN PURSUIT OF A DOWN PAYMENT

SPECIAL POINTS OF INTEREST:

- IHDA's interest rates for the Rural Guarantee Housing Initiative are 6.175% with \$1500 in closing cost assistance; 6.05% with \$1000 in closing cost assistance or 5.80% with no closing cost assistance. ( This applies to NEW reservations only.)

Illinois Housing Development Authority

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

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Even for people who have money, coming up with a down payment to buy a house has become a lot more challenging in recent months. Take Peter McGarvey, who in September found a house big enough to accommodate his family of four and close enough to the Metro that his wife could commute to work. A bidding war ensued over the 2,000-square-foot home, in Takoma Park. He offered \$710,000 and won.

Then came the hard part: making enough of a down payment to get a good rate on a loan and keep the monthly mortgage payments manageable. Because he had not yet sold the house he already owned, he had to cobble together a down payment from other sources. "We have lots of equity in the house, and we have money saved up. Unfortunately, most of it is in retirement funds and mutual fund investments," McGarvey said.

Here's how McGarvey and his wife came up with 10 percent to put down, plus the cash they needed for closing

costs: \$25,000 was left from the sale of mutual funds about a year ago, \$25,000 came from their parents and another \$50,000 came out of the Thrift Savings Plan, a retirement program for federal employees that McGarvey's wife has through her job at the Environmental Protection Agency.

Even a few months ago, borrowers did not have to go to such lengths. That's because it was easy to get a mortgage that required little or no money down. In fact, four out of 10 first-time buyers used no-money-down mortgages in 2005 and 2006, according to surveys by the National Association of Realtors. The median down payment for first-time buyers in those years was 2 percent of the purchase price, meaning half paid more and half paid less.

But now that those loans are being blamed for a spike in foreclosures, many lenders are no longer offering them or have become pickier about who gets them. The theory goes that borrowers who put a lot of their own

money into properties will be less willing to default and walk away.

That's not to say that lenders are requiring down payments of 20 percent or more, which was the norm until the mid-1980s. There are still some low-down-payment programs. Federal Housing Administration-guaranteed loans, intended primarily for low- and moderate-income, first-time home buyers and others who don't have enough for a down payment, call for 3 percent down. If you're a veteran or a member of the military, you can still get 100 percent financing. The Illinois Housing Development Authority has several programs that require 1% or \$1000 (whichever is higher) for downpayment and offer below market rates for first time home buyers or those who have not owned a home in three years.

But if you don't fall into any of those categories, you're talking about a minimum of 5 percent down. On a \$400,000 house, that's \$20,000.

Edited from an article by Nancy Trejos Washington Post



## ' FEE HARVESTER ' CREDIT CARDS SCAM VULNERABLE CONSUMERS

The credit card solicitation to Chicago consumer Thelma Perry offered “a credit limit of up to \$1,500.” What Perry would get, instead, was a \$250 credit line that was worth far less.

First came the \$9 “processing fee” to accompany the application. Then the card issuer tacked on a \$119 “acceptance fee,” a \$50 “membership fee” and the first \$6 installment of a \$72 annual “participation fee” – leaving the cardholder with \$75 in actual buying power.

Perry sued, arguing in essence that this wasn't much of an offer. One of the three federal appeals court judges agreed, calling the solicitation “an unconscionably one-sided financial deal” offered to “extract one creative fee on top of another from consumers who are either naïve, desperate or both.” Sadly for consumers, the other two judges held that the offer from First National Bank of Pierre, S.D., was “not without value” and rejected Perry's claims.

For unwary consumers targeted by credit card issuers, there is not much help in the courts. Weak federal laws, and lax enforcements of those that exist, leave consumers vulnerable to all sorts of predatory practices.

Just as homebuyers with low credit scores became a lucrative market for unscrupulous lenders peddling high-rate mortgages, consumers with poor credit histories have become inviting targets for card issuers.

A segment of the industry specializes in offering cards with small credit lines and enormous fees. With the onset of the holiday shopping season, even cards with onerous fees or confusing terms might seem enticing.

The National Consumer Law Center, which released a report this

month on what it dubbed “fee-harvester cards,” found the cards often share abusive characteristics:

- **Costly penalties.** Because their limits are so low, holders of fee-harvester cards are particularly vulnerable to over-the-limit fees that drive them further into debt. A sailor, who used a new card to charge \$85 in goods, unwittingly went over her \$250 limit because she didn't take into account the \$178 in fees billed to her card as she signed up.
- **Deceptive add-ons.** Issuers bill customers for expensive and often useless products, such as memberships in dining or travel clubs. One lender advertised a “no annual fee” card, but then required cardholders to buy a \$156 a-year “credit protection policy.”
- **Abusive collection tactics.** One bank's bill collectors peppered debtors with late-night phone calls, intimidated them using bogus titles and profanity, and even withdrew electronic payments from bank accounts without permission, according to the Minnesota attorney general's office.

For years, Congress has ignored consumer cries for tougher federal laws, while tying the hands of authorities in states that offer stronger protections. That has left credit card issuers free to suck consumers dry.

Federal regulators have proposed one answer: Making credit card disclosures more consumer friendly, including requiring prominent disclosure of initial fees that eat up more than 25% of a credit limit. That's helpful, but it's still a pretty weak weapon.

Either Congress needs to get tough on abusive issuers or free states to do the job. If it's not illegal for a bank to charge fees that consume 70% of a credit line – as in Thelma Perry's case – it ought to be.

By Chris Stinebert, USA Today

## JUST SAY NO TO CREDIT CARDS

Want to block the flurry of credit card offers, the ones that say “you've been pre-approved” for some deal? Consider “opting out.” Call the toll-free number 1-888-567-8688 or visit [www.optoutprescreen.com](http://www.optoutprescreen.com). Both are operated by the three major credit bureaus and are free of charge. You'll have to provide your name, address, and Social Security number, information that will be “used only to process your request to opt out,” according to the Federal Trade Commission website.

You can opt out for family members as well, if you're their legal guardian—credit card compa-

nies often target teenagers and others with heavy debt or late payments. You still may get offers from charities, alumni associations and companies you do business with, such as your current credit company.

Opting out lasts for five years unless you follow up with a written request to make it permanent. If you have joint credit with a spouse or partner, you both have to opt out. And if you change your mind and want a new credit card, you can always reverse the procedure and “opt in.”

By Caroline E. Mayer, AARP Bulletin



*“ Providing  
Resources to  
Reach the  
American  
Dream ”*

## LET CONSUMERS CHOOSE ... THE OPPOSING VIEW

When it comes to cracking down on violations of consumer protection laws, we're all for it. The American Financial Services Association strongly opposes abusive practices and believes all credit consumers deserve a clear disclosure of product terms.

We disagree, however, with the suggestion that there is no role for cards with smaller lines of credit – even when they carry higher fees. Pricing for risk means that riskier customers (those with a limited or less-than-perfect credit history) typically pay higher premium to borrow money. This is a fair method of compensating lenders for extending lines of credit that carry a higher probability of default.

While many Americans qualify for credit cards with few or no fees, less creditworthy consumers may choose to have a basic card with a smaller line of credit and

higher fees. For them, this may be preferable to having no card at all.

Credit cards are important for day-to-day activities, such as shopping online or making travel reservations. In some instances, users of small-line credit cards can establish and/or build a positive credit history that will allow them to receive lower borrowing rates and obtain other types of financing in the future.

Whether we're talking about these cards or any other credit products, our organization believes three fundamentals apply:

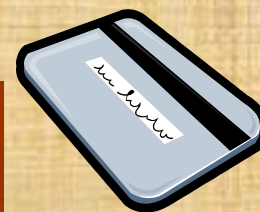
- Fraud by issuers of these products should be prosecuted. While cards with a small credit line and high fees exist for legitimate reasons, they have been exploited by some looking to take-advantage of those with limited borrowing options.

- Customers deserve clear, meaningful disclosures. The Federal Reserve is considering changes to credit card disclosure requirements to improve consumer understanding.

- Customers shopping for credit – regardless of whether they are prime or higher risk borrowers – should carefully evaluate any offer before signing an agreement. They should ask questions and compare offers to obtain credit product that will best meet their needs.

The bottom line is this: Creditors must be in full compliance with the law, and consumers must be allowed to decide for themselves whether these products make sense for them.

By Chris Stinebert, USA Today



## STRAPPED BORROWERS URGED TO ACT

Borrowers at risk of falling behind on their mortgages should engage their lenders early to try to avoid major problems, three top government officials said. Many homeowners encountering financial problems duck calls from their mortgage lenders or wait until they have missed monthly payments to try to do something about it, Treasury Secretary Henry M. Paulson Jr. said in testimony before the House Financial Services Committee. His comments were echoed by Housing and Urban Development Secretary Alphonso Jackson and Federal Reserve Chairman Ben S. Bernanke.

By dealing with problems before falling behind on payments, homeowners can often refinance their mortgages or renegotiate with their lenders, thus avoiding the threat of losing their homes or suffering vast damage to their credit ratings. The issue is likely to become more problematic in the coming year, as about 2 million mortgages signed at low "teaser" rates in 2005 and 2006 reset to higher rates.

"Lenders are proactively contacting homeowners facing an interest rate reset that they likely cannot afford," Paulson said. "Yet those calls often go unreturned because many homeowners mistakenly think that their lender wants to repossess their home in foreclosure." When borrowers don't seek solutions until after

they have missed payments, they will have far fewer financing options," Paulson said.

The comments came as the three officials discussed with Congress ways to lessen the blow of the mortgage crisis. There is general agreement among the Bush administration and Congress that the Federal Housing Administration loan programs should be adjusted to make it easier for people with shaky credit to refinance their loans. And the administration, contrary to its position in the past, has said that it will let government-sponsored housing finance companies Fannie Mae and Freddie Mac buy more sub-prime loans, making more cash available to the troubled mortgage sector. But that doesn't mean everyone who is in trouble on a mortgage would benefit. "Clearly, there are some people who we're not going to be able to help," Jackson said. "Especially the yuppies, who have this extravagant decision to have two or three cars and a huge house they can't afford."

Paulson said that he was inclined toward a requirement that those taking out a mortgage sign a simple, one-page sheet that lays out what payment the homeowner is on the hook for and how much it could rise. That information is often buried in many pages of legalese that many home buyers do not understand.

Edited from an article  
by Neil Irwin, Washington Post

WE ARE ON THE WEB!  
WWW.PFHO.ORG



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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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