

CONSUMER ACTION NEWS

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Falling for unaffordable home loans Predatory lending practices hit home for many borrowers

By Ruth Susswein

Some lenders and brokers are pushing people into loans with high interest rates and high fees, and as interest rates rise, more and more homeowners are finding themselves with loan payments that they cannot afford to make.

Homebuyers and homeowners need to be very careful about the loans they take out to buy or refinance property.

Homeowners with weak credit records often find themselves steered into "subprime loans," costly contracts that are intended for people who cannot qualify for low rate loans and that feature exorbitant fees and above-market interest rates.

Companies that take advantage of people with weak credit to steer them into high-cost loans are called "predatory lenders," and many of their clients end up in default be-

cause they can't afford to pay back their loans. Data shows that predatory lenders often charge minorities more than they'd charge another equally qualified borrower.

Predatory lenders charge extraordinarily high loan origination fees, or

"points," based on a percentage of your loan amount. If a lender tries to charge you more than two points for a subprime mortgage or more than one point for a market-rate mortgage,

See "Predatory," page 2

Avoid 'toxic' mortgage loans

- Don't be convinced to borrow more money than you can afford to repay.
- Calculate all your monthly costs, including mortgage, mortgage insurance, homeowner's insurance, property taxes and any homeowner association dues.
- Shop around—never take a loan offer without comparing offers from other lenders.
- Avoid costly "no document" or "interest-only" loans.
- Ask your lender about your options if you are at risk of foreclosure.
- Don't borrow against your home equity for frivolous reasons.

— R.S.

CA has a new housing web site

Housing Information, a Consumer Action (CA) sister website, is a resource designed to give consumers and community-based agencies access to multilingual educational resources promoting intelligent and cost-effective home-buying decisions.

The new web site can be found at www.housing-information.org. It can also be accessed from CA's web site via the pull-down menu, "Select a Project or Program."

In designing the Internet education project, CA has emphasized factually correct and unbiased information and tips to help consumers:

- Prepare for homeownership
- Understand the housing market
- Compare necessary home-buying services, and
- Make wise choices in financing and home-buying services

The site features CA's multilingual consumer education materials

See "Housing site," page 3

If you have to move, should you sell or rent your home?

By Jennifer Daw Holloway

You just landed a great job—but it's 250 miles from your home. You can't commute. You've got to move. Should you sell your house? What about the potential for financial loss in an ailing housing market? Should you rent your house instead?

This is not an uncommon dilemma. U.S.

Census Bureau data shows that each day 5,373 Americans move. In most cases for homeowners, moving means selling. Few people can afford to buy a home in their new location without selling their current house.

Slowing market?

But what if you bought at the top of the market and now the market in your area has slowed? "First, look at the housing market where you're going—is it cheaper? Then it's probably best to sell, even if you take a loss," says Michael Tubbs, a real estate agent in Washington, DC.

If you have enough equity in your home, selling for a reduced price won't necessarily hurt as much, he adds. But, if you only bought your house a short time ago and have little equity, you won't fare well in today's market. "Still, it probably makes

more sense to sell and take the loss if you don't plan to come back any time soon," Tubbs says.

How long will you be gone? If you plan to return to the area within the next few years, renting isn't a bad idea. If you bought your house for \$215,000 two years ago, but you know that in a year or so you'd be out-priced in your current neighborhood, it might make sense to hang onto your house and rent it.

Your asking price

Can you get what you want for your current home? If you can't get your price, you could rent your home

See "Sell or rent?," page 3

Mortgage bills come due for Hurricane Katrina victims

By Jennifer Daw Holloway

Hurricane Katrina's wrath didn't just level physical property, it left many devastated residents with mortgages they couldn't afford to repay. After a period of loan forgiveness, lenders are now asking homeowners to resume footing the bills.

After the storm hit, the federal government came up with a policy to allow hard-hit homeowners a forbearance period on their mortgage payments. Some people accepted the option to temporarily excuse their debt. Others continued to pay their mortgages, either because they had savings or because they didn't know they had a choice, said attorney Alys Cohen of the National Consumer Law Center in Washington, DC.

Cohen noted that some people worked out lower mortgage payments with their loan servicers, assuming they'd be able to continue making lower payments. But at the end of November, the forbearance period ended—and many Gulf Coast residents are financially strained to the breaking point.

"Most people are no better off than they were a year ago. They may not have all their income back. Our concern is what will happen to them going forward. They need a lot of flexibility from their loan servicers and they need assistance if they default or go into foreclosure," said Cohen.

Homes may be lost

Any borrowers seeking further forbearance are subject to close scrutiny. "This will hit low to moderate income homeowners especially hard," said Cohen. Many people will lose their homes if they can't begin—or continue—to make payments on their loans.

Homeowners who act quickly may be able to negotiate with lenders to save their homes. Cohen believes that many lenders will attempt to work out repayment plans to avoid foreclosing on these properties.

"Essentially, people need to ask for what they want. They need to put their best foot forward in terms of what they can afford," urged Cohen.

See "Katrina," page 3

Consumer Action

www.consumer-action.org

Consumer Action is a non-profit 501(c)(3) advocacy and education organization founded in 1971. CA publishes surveys and distributes multilingual educational materials in printed form and on the Internet.

Referrals and advice

CA will provide nonlegal advice and referrals on consumer problems. Chinese, English and Spanish are spoken.

(415) 777-9635
(213) 624-8327
hotline@consumer-action.org

San Francisco

221 Main St., Suite 480
San Francisco, CA 94105
(415) 777-9648
E-mail: info@consumer-action.org

Ken McEldowney
Executive Director

Michael Heffer
Business Manager

Kathy Li
Director, San Francisco Office

Candace Acevedo
Associate Director, S.F. Office

Mikael Wagner
Director of Training and Outreach

Joseph Ridout
Consumer Services Manager

Nani Susanti
Technical Assistance

Angela Kwan
Webmaster

Hazel Kong
Office Manager

Cui Yan Xie
Administrative Assistant

Ricardo Perez
Mail Room Operations

Ruth Gilbert, Shelly Gartner
Consumer Advice Counselors

Jamie Woo
Consumer Advocate

**Kinny Li, Miao Li, Philip Mak,
Brian Quan, Dennis Wong**
Support

Los Angeles

523 West Sixth St., Suite 1105
Los Angeles, CA 90014
(213) 624-4631

Cher McIntyre
Director of Advocacy

Nelson Santiago, Linda Williams
Consumer Advocates

Washington, DC

P.O. Box 1762
Washington, DC 20013
(202) 544-3088

Linda Sherry
Director, National Priorities

(Editor, Consumer Action News)

Ruth Susswein
Deputy Director, National Priorities

Jennifer Daw Holloway
Associate, National Priorities

Sol Carbonell
Associate, National Priorities

Healthy Children Organizing Project

221 Main St., Suite 480
San Francisco, CA 94105
(415) 777-9648, Ext. 307
Web site: www.healthychildrensf.org

Neil Gendel
Director

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Predatory

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get a quote from another lender.

Predatory lenders might ask you to make a false statement on your loan documents, such as inflating your income or stating you have more cash than you do. Predatory loans also may have prepayment penalties (fines for paying the loan off early) when the borrower refinances. These lenders also try to force borrowers into purchasing insurance or other add-on products in order to secure the loan.

Some lenders and brokers encourage "loan flipping," in which the homeowner gets a new refinancing agreement—and not much else—while the lender earns more and more fees at the settlement table. Some mortgages have higher interest rates because brokers earn bonuses, called "yield spread premiums," for placing borrowers in loans that cost more.

A recent Consumer Federation of America (CFA) study shows that people of color, the elderly, women and rural residents are far more likely to be steered into high cost home loans, even when they are as qualified as other borrowers.

Most of these unaffordable home loans are 30-year adjustable rate mortgages (ARMs) that start out with a "teaser," or low introductory rate. After two years the rate "resets" to a much higher interest rate, and that rate can continue to rise for the next 28 years. These loans are called "2/28" hybrid loans.

As an example, a borrower earning \$30,354 per year takes a 2/28 loan for \$180,000 at 7.55% for two years. The initial payment is \$1,265 a month. But then the rate jumps to 11.25%. It now costs that homeowner \$1,726 a month—an extra \$461. The payment also will be higher because the loan amount needs to be paid off in 28 years instead of the more traditional 30. Since the loan carries an adjustable rate it might continue to rise for the life of the loan, if prevailing interest rates rise.

"Nobody's equipped to deal with these bigger payments," said Jordan Ash, a director with the housing counseling group ACORN. "Adjustable rate products are not suitable when a person's income is guaranteed to stay the same."

Qualifying for the loan

To make matters worse, subprime lenders typically qualify borrowers for these loans based only on the initial rate. You may be able to afford a loan with a 7.55% low introductory rate, but how likely is it you can swing the monthly payments once the rate shoots up to 11.25%?

According to ACORN, about 40% of subprime loans are made without even verifying a borrower's income. Some lenders are basing loans on the value of the property, not on the borrower's ability to repay.

The focus for the lender, the broker and often the borrower is on closing the deal. Commissions are paid on new loans, not on how well the loan is paid over time. Closing costs, broker's fees and title insurance premiums are paid when the deal closes, not when you make your monthly payment.

Borrowers mistakenly trust some lenders who tell them how much of a mortgage they qualify for and what payment they can afford to make. And while the practice of underwrit-

Congressman predicts anti-predatory lending victory is near at hand

In a speech at the Consumer Federation of America's annual financial services conference on Nov. 30, Rep. Brad Miller (D-NC), a leader in the fight against predatory lending, predicted success in the next Congress.

"Anti-predatory lending legislation we introduce might actually become law," said Miller, who was instrumental in passing an anti-predatory lending law in North Carolina.

Miller, who called homeownership "a membership card into the middle class," said "disclosure and consumer education are simply not enough."

Among other things, Miller said that there must be "real limits on up-front fees that strip people of the equity in their homes" and protections from being steered into more expensive loans than they deserve.

He blasted racial discrepancies in lending that can't be explained by credit scores or other valid risk factors.

"We cannot allow a higher interest rate for 'borrowing while black,'" said Miller.

—L.S.

ing a mortgage based only on the initial adjustable rate payment is frowned on by banking regulators, it is not illegal.

In September, federal bank regulators set guidelines recommending that lenders only make loans based on the full interest rate—the rate the loan jumps to once the teaser rate expires. But these guidelines only apply to national banks.

Consumer Action has joined many

Borrowers mistakenly trust some lenders who tell them how much of a mortgage they qualify for and what payment they can afford to make.

consumer groups in urging officials to apply these standards to all subprime lenders and brokers.

When rates reset

The Center for Responsible Lending (CRL) warned Congress this fall that 41% of subprime loans will re-adjust this year, increasing monthly payments by a whopping 25%-50%.

"If your loan increases 50% in two years, and your income will not increase by the same amount, then it's not a suitable loan," said Josh Nassar, vice president of federal affairs for CRL, a homeownership research group. "This could have a devastating impact on homeowners, forcing them to tap into their home equity or they won't be able to pay...which could lead to foreclosure."

(Your home equity is the share of your home's value that you own outright. Homeowners who have sufficient home equity can borrow against it.)

Homeowners who cannot afford higher mortgage payments when adjustable mortgages reset may have to refinance. When they refinance, they often pay high fees and a higher interest rate over a longer period of time. This could eat up home equity if they choose to refinance closing costs on the new mortgage.

Greater foreclosure risk

As housing sales slow in most parts of the country and interest rates rise, refinancing options become more limited as well, leaving homeowners at greater risk of foreclosure. The Mortgage Bankers Association's National Delinquency Survey shows 11.7% of subprime borrowers were more than 30 days behind on their payments in the second quarter of 2006—up from 10.3% a year ago.

Some predict even more dire consequences. University of California

researchers at the Fisher Center for Real Estate & Urban Economics predict that as many as 20% of subprime borrowers will be behind on mortgage payments by 2008.

Holding lenders liable

To address these issues, the House is expected to reintroduce a bill to prohibit predatory lending that will be similar to one sponsored in the last Congress by Rep. Brad Miller (D-NC), Rep. Mel Watt (D-NC) and Rep. Barney Frank (D-MA). As introduced, that bill would prohibit rolling certain fees into a home loan, ban prepayment penalties and prohibit lending without considering a borrower's ability to repay. Some of these provisions would not apply

unless the loan featured high fees or rates.

The federal Homeownership & Equity Protection Act (HOEPA) was intended to prohibit predatory lending, balloon payments and high fees. However, its protections apply only to loans that qualify as "high cost" and too many mortgages don't meet the threshold but are still unfair and deceptive. While some state laws have reduced inflated fees and rates, consumer groups anticipate the need for new legislation to deal with inequities in the home loan market.

Legislation envisioned

Consumer groups expect a new bill to be introduced early in the next Congress that "would help people stay in their homes," said Margot Saunders of the National Consumer Law Center.

As envisioned, the bill would:

- Require brokers and lenders to share responsibility in helping people sustain homeownership.
- Require all subprime lenders to base qualifying decisions on the full rate of the loan and on a borrower's actual ability to repay.
- Require income verification.
- Require appraiser's bonds to eliminate inflated home appraisals.
- Ban mortgage brokers from profiting by charging borrowers a higher interest rate than they deserve, or by steering them to high cost loans.
- Lower the high cost threshold under the HOEPA law.
- Establish a Home Preservation Loan Fund that would provide money to homeowners to avoid foreclosure.

While Congress debates these issues, borrowers may want to compare their refinancing options among several lenders, and if feasible, replace their ARM loans with fairly priced fixed rate mortgages. ■

Fed takes aim at 'exotic' ARM hybrid mortgages

By Linda Sherry

To make monthly mortgage payments more affordable, many lenders offer so-called "exotic" mortgages. These non-traditional adjustable rate mortgages (ARMs) allow homebuyers to pay only the interest on the loan during the first few years or to make a small payment that is less than the monthly interest on the loan.

The popularity of exotic mortgages has grown as housing prices have risen, because non-traditional loans allow homebuyers to qualify for a larger loan. These mortgages often begin with a low introductory interest rate or payment plan, but the monthly mortgage payments will jump in the future. Low documentation mortgages have easier standards for qualifying, but carry higher interest rates or higher fees. Some lenders of exotic mortgages will lend 100% or more of the home's value—but that can leave homeowners at risk if the value of the house goes down.

Two kinds of exotic loans—interest-only loans and "payment option" mortgages—may put homeowners on a path to foreclosure.

Guidance for lenders

In late September, five federal agencies charged with overseeing the U.S. banking system jointly issued guidance on appropriate marketing to all federally chartered banks, mortgage banking subsidiaries and credit unions.

In mid-November the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators issued similar model guidance for state-regulated mortgage brokers and independent mortgage companies and encouraged the state regulatory agencies to adopt the guidance for the organizations they regulate.

Regulators said lenders are exposing themselves to undue risk by offering exotic mortgages to borrow-

ers who can't qualify for traditional mortgages. These loans threaten the safety and soundness of U.S. banks.

Payment option loans

On a month-to-month basis, payment option mortgages let borrowers choose:

- Payments that include both interest and principal (an ordinary mortgage payment).
- Artificially low minimum payments that allow the original loan balance to increase.
- Interest-only payments that do not reduce the amount of the original mortgage.

When the mortgage reaches a specific reset point, borrowers' monthly payments jump steeply to a fully indexed payment that includes deferred interest and principal payments.

Consumers with payment option ARMs also may face negative amortization, a situation in which the monthly payments do not cover all of the interest owed. The unpaid interest is added to the mortgage, causing the borrower to owe more than they originally borrowed. For example, a homebuyer takes a mortgage for \$250,000 and five years later finds she owes \$275,000.

Interest-only mortgages

Interest-only loans allow mortgage holders to make reduced payments for the first three to 10 years because the payments do not reduce the original mortgage. At the end of the period, borrowers still owe the original mortgage amount and their payments jump significantly to pay off the loan over a shorter period.

Appropriate marketing

The regulators found no fault with these mortgages if they are marketed appropriately to qualified borrowers who understand the loans, but they were critical of these mortgages when they are:

- Issued to borrowers whose

Adjustable rate mortgages

How to protect yourself

- **Know your credit history.** Get your free annual credit reports at Annual Credit Reports (www.annualcreditreport.com). If you know you have good credit, you can get the best loan terms available.
- **Ask your lender for your credit score.** Generally a score of 650 or higher means that you qualify for the most favorable loan terms.
- **Don't stretch to buy a home.** Your mortgage payments should be comfortable and predictable. If you are getting a non-traditional mortgage, consider how the initial payments will change when the introductory period ends or when the loan eventually begins to adjust.
- **Compare mortgage offers to get the best deal.** Different lenders charge different rates and fees and have different options.
- **Understand the ways adjustable rate mortgages (ARMs) will change over time.** Ask yourself if you can handle payment increases if the interest rate goes up.
- **Ask if the mortgage terms allow "negative amortization"—you do not want to owe more than you borrowed when you sell the home.**

—L.S.

incomes can't support the eventual fully indexed payment, once the low payments of the introductory period are over.

- Approved with minimal or no documentation.
- Used with simultaneous "piggyback" second mortgages as down payments, so that the homebuyer has no equity in the home.
- Granted to people with poor or impaired credit histories.
- Provided to investors who do not intend to occupy the home.

Under the regulators' guidance, lenders must make certain that all loan applicants for payment option and interest-only mortgages fully understand the way the loans work and when, how and to what amount the payments will increase.

The top U.S. banking regulator, Comptroller of the Currency John Dugan, has noted that all banks must make sure borrowers can pay back the full amount they borrow, and that homeowners must be informed about the terms of their mortgages. "The last thing that any of us wants is for the American dream of homeownership to turn into an American nightmare of foreclosure," said Dugan during a speech this fall.

In testimony before the Senate Banking Committee earlier this year, the Government Accountability Office (GAO) estimated that non-traditional mortgages rose from a 10% market share to a 30% share between 2003 and 2005.

In late October, the federal bank, thrift, and credit union regulatory agencies issued a booklet to help consumers evaluate whether interest-only (I-O) mortgages and payment option ARMs are right for them. The publication, which can be downloaded from CA's housing site (www.housing-information.com), features a glossary of mortgage terms, a loan shopping worksheet, and a list of resources for consumers who are buying a house or refinancing a mortgage.

The government publication stresses the importance of understanding key mortgage loan terms, warns of the risks that exotic mortgages may pose to consumers and urges borrowers to be realistic about whether they can handle future "payment shock" when the full monthly payments kick in. (Monthly payments may double or even triple following the interest-only period or when the payments adjust.) ■

Sell or rent?

Continued from page 1

until the market picks up. This can be risky since you can't predict what will happen in the housing market.

Can you afford to rent your home? Your rental income may cover a new mortgage and expenses, especially in a cheaper part of the country, but you need to have cash reserves to handle upkeep, gaps in tenancy or damage to the place you're renting. Damages often lead to eviction, a process that can drag on. During that time tenants often refuse to pay rent, which can cost thousands of dollars.

If you don't feel comfortable being a landlord, you'll have to pay someone else to do it—hiring a property management company can cost approximately 10 percent of your monthly rental income.

Capital gains taxes

Don't forget taxes. If you live in the home that you rent for two of the five years before you sell, you and your spouse can avoid capital gains on profit of up to \$500,000. (An individual can shelter \$250,000.)

(If you are moving because of a job transfer, you may be eligible for the \$250,000/\$500,000 deduction

on capital gains even if you haven't lived in the home for two years.)

If you rent out your house until the market improves, you will be eligible for rental tax breaks—you can deduct for maintenance, depreciation and other expenses—but you may face higher taxes related to depreciation when you sell the property.

For details, see Internal Revenue Service Publication 527, "Residential Rental Property," or Publication 523, "Selling Your Home" from the IRS web site (www.irs.gov). ■

Katrina

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For borrowers who choose to negotiate, there are some important things to remember:

- Be sure that no lump sum payment is required and that you are given an extended period for repayment.
- Be certain that loans are readjusted by your loan servicing company to avoid negative amortization for the life of the loan. Negative amortization means that monthly payments fail to cover the interest cost, causing your balance to increase. If this happens, you could owe more money

than you did at the beginning of the loan.

- Mississippi homeowners affected by a natural disaster can go to court and file a lawsuit to stop a lender from foreclosing. (Lenders must provide information when asked about this right.) You must take action, because a foreclosure conducted during a moratorium is valid if the borrower did not exercise this right.
- Ask your lender to use your pre-hurricane credit scores if you've been hard hit financially. (Many companies have already chosen to do this.)

To find legal assistance in your area, visit the Legal Services Corporation web site (www.lsc.gov) and use its "Find Legal Assistance" menu.

For more about the work of the National Consumer Law Center and its Katrina Project, visit the center's web site (www.nclc.org). ■

Housing site

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as well as descriptions and links to recommended publications created by other non-profit agencies and the government. Visitors will find the

latest headlines on housing topics, a calendar of housing events and a searchable database of housing resources.

Key content

Content areas for the Housing Information site include:

- Homebuyer readiness.
- Purchasing and mortgage financing decisions.
- Choosing a real estate professional.
- Home and property inspections.
- Title insurance in home buying.
- Selection and purchase of homeowner's insurance.
- Money management and credit education.
- Foreclosure avoidance.
- Protection of home equity.

Funding

The website is supported by a California state fund that resulted from an investigation into title insurance practices. The grant required that all grant activities be carried out within California.

To widen the reach of the site, CA will use existing grants and seek additional, separate funding to expand the content of the Housing Information website nationally. ■ —L.S.

Buy or rent a place to live?

Comparing your options in an uncertain housing market

By Ruth Susswein

Gone are the days when bidders would run to open houses waving checkbooks. Today, sellers are negotiating and buyers are holding out for a better deal. The buyer's market is back.

That's good news for homebuyers, but how do you know if it really is the time to buy?

In September, the price of a new single family home dropped nearly 10% from a year ago, according to the U.S. Commerce Department. Now there are more houses on the market to choose from. With the median price of a house down to \$217,000 nationally, some window shoppers are ready to buy. But housing prices are still historically high. Mike Fratantoni, senior economist for the Mortgage Bankers Association, said "buyers have time to think about the offer these days. They're in a bit of a stronger negotiating position."

Some sellers are closing the deal by covering closing costs. Builders are tossing in upgrades, like fancy granite countertops, at no extra charge. But is that enough to saddle you with a mortgage? Your answer may be found in knowing the true cost of owning.

Upfront costs

First, there are the upfront costs of buying. These can run as much as 15% of the house's sale price. A 2006 survey by Bankrate.com based on a mortgage loan of \$180,000 found that total closing costs of all types ranged from \$1,020-\$11,395, with an average of \$3,350. The survey examined 306 good faith estimates from lenders in every state.

To find the survey, type "closing costs" in the search field at Bankrate (www.bankrate.com).

Bankrate found 47% of the good faith estimates charged origination points. This fee is charged as a percentage based on the size of the loan. For instance, a one point fee on a \$180,000 mortgage would be \$1,800. Forty-six percent of the good faith estimates listed a broker or lender fee, sometimes instead of origination points, and sometimes in addition to origination points.

Now add a down payment to those

upfront costs. Consider how much you can afford to put down. If you can't come up with a traditional 20% down payment, you will be required to pay private mortgage insurance (PMI) which can run about \$40-\$50 a month per \$100,000 of the mortgage principal.

Consider how much money you'll need each month to cover your expenses. Housing costs include much more than the monthly mortgage payment. Some financial planners suggest that you estimate your total costs by adding 40%-45% to your mortgage payment to come up with a true monthly total.

That figure should include:

- Homeowner's insurance.
- Property taxes.
- Utilities.

- Repair fund (a minimum of \$100 a month).
- PMI if required.

Subtract your current rent and utilities from the total monthly housing payment. This will give

you a figure of how much more you will need to spend each month if you choose to buy.

Swinging a purchase

Use an online mortgage calculator to determine how much house you can afford. To find a calculator, type the words "rent or buy" or "housing affordability calculator" into a search engine such as Google. In the calculator fields, fill in the purchase price and any other figures you may have, such as a down payment percentage, interest rate, etc. If you don't know these numbers yet, the calculator will estimate them for you. In seconds, calculators can tally how much monthly income you'll need, the maximum amount of debt you can carry and what your monthly mortgage payment would be.

Hold for three years?

The Mortgage Bankers Association (MBA) recommends holding onto your home for at least three to four years to offset the cost of buying. Over time, home values have appreciated, allowing homeowners to build wealth. MBA, the mortgage lending trade association, notes that nationally housing prices have risen on average 5% a year for the past

A 2006 survey found that total closing costs of all types averaged \$3,350 on a mortgage loan of \$180,000.

FHA loan reform raises concerns among advocates

By Linda Sherry

A coalition of consumer groups is working to amend proposed federal legislation covering changes in federally backed home loans.

Consumer Action has joined ACORN, the Center for Responsible Lending, the Consumer Federation of America, the National Association of Consumer Advocates, the National Community Reinvestment Coalition, the National Consumer Law Center and the National Council of La Raza in expressing reservations about Federal Housing Administration (FHA) loan reform efforts in Congress.

FHA loans are fixed or adjustable-rate loans insured by the U.S. Department of Housing and Urban Development (HUD). The purpose of FHA loans is to make housing more affordable, especially for first-time homebuyers. All lenders who make FHA loans are protected against borrower default through a federal insurance fund paid for by the upfront and ongoing mortgage insurance premiums of borrowers.

The House last summer passed an FHA reform bill, the "Expanding American Homeownership Act of 2006" (HR 5121), and companion legislation was introduced in the Senate. The key purpose of both bills is to enable the FHA to rebuild its market share, which has recently slipped from about 12% in the late 1990s to around 3% in 2006.

However, the coalition of consumer groups believes that the legislation is flawed because:

- Provisions that seek to enlarge third-party mortgage broker participation in FHA loans do so at the expense of diluting financial accountability requirements. The largely unregulated mortgage broker industry is too closely associated with the proliferation of predatory lending practices occurring in the subprime market.

- The FHA would switch single family programs from the traditional flat premium to a risk-based pricing structure. While this change could benefit some, it would mean that those with weaker credit scores would be required to pay more and that origination incentives would promote the making of higher cost loans. The coalition is concerned that customers who are priced out of the FHA market may turn to subprime loans, and that some of these borrowers may become the victims of predatory lenders.

- The bills do not attempt to strengthen foreclosure prevention programs. The coalition pointed out that stronger servicing and loss mitigation could help to decrease claims against the FHA insurance pool. The coalition, as part of any reform, favors emphasizing home-saving options and expanding program availability to borrowers.

In early December, Barney Frank (D-MA), who is expected to become chairman of the House Financial Services Committee, said he wants to restructure the House FHA reform bill so that riskier subprime borrowers don't have to pay higher mortgage insurance premiums.

Frank, speaking at a Women in Housing and Finance symposium, estimated that the FHA can generate more revenue by serving richer communities if loan limits are raised and that this will balance out the higher losses associated with lending to people with less than prime credit histories. ■

35 years. The mortgage bankers group expects national home prices to increase by 2-3% in the next year or two. However, other economists predict that housing prices will drop through 2008 in dozens of major cities across the country.

"We encourage people to buy no matter what the market is doing because homeownership is a huge deal. It's the major source of wealth for most people," said Jordan Ash of the national housing counseling group ACORN.

Income tax benefits

Homeowners who itemize deduc-

tions can deduct home mortgage interest for a first and even a second home on their Form 1040, Schedule A. You can also deduct local property taxes. For many homeowners, these deductions result in added income that they did not have as renters. (While it seems unlikely, there has been talk in Congress of repealing the home mortgage deduction.)

Homeownership has always been a big part of the American dream, but lifestyle plays a role in deciding whether to buy. Consider how long you plan to stay in one area or if you want the flexibility to move to a new place easily.

Some economists argue that current flat housing prices make a good case for renting. But rents are rising and vacancies are becoming scarce in many areas.

If you choose to rent for now, take some steps to be in a better position to buy in the future:

- Set aside money each month to put toward a down payment.
- Check your credit report each year to be sure your payment history is correct. Visit Annual Credit Report (www.annualcreditreport.com) to get your free reports.
- Pay all bills on time to maintain or improve your credit history. ■

ACORN offers free housing counseling programs for first-time homebuyers. Visit www.acornhousing.org to locate your local office.

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