

Your Fair Lending Advocate!

Delaware CRA News

A Quarterly Publication of the Delaware Community Reinvestment Action Council, Inc.



We are about equal access to fair credit

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- 2 Letter from Bob
- 3 Saving Tips and Your Budget
- 4 Credit Scores
- 5 Traditional and Exotic Mortgages
- 6 Credit Cards, Title, and Payday loans
- 7 Portfolio and Market Share Analysis (HMDA)
- 8 Denial Disparity Ratio Analysis (HMDA)
- 8 Predatory and Subprime Loans--defined

Designed by Christopher Means for DCRAC, Inc.

DCRAC | Founded in 1987

OUR MISSION: To ensure equal access to credit and capital for the under-served populations and communities throughout Delaware through Education, Outreach, Advocacy, and Legislation.



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& the rest of the board

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Founded in 1987

Dear Friends:

Hope you enjoy this newsletter. It is filled with information you or your constituent could use. Do be sure to send us your comments. They help us serve you better.

We are building support for the low income community credit union in Wilmington. While the first draft of our charter application is complete, much work lies ahead of us before we can submit our charter application. We are hopeful that your support will help us realize this dream. Specifically, we are looking for opportunities to meet with potential members of the credit union so that our business plan accommodates what they seek in a credit union.

We are asking that if you are in a leadership position in a civic group, planning council, church, or other such groups could you convene a community meeting to discuss a community credit union? We will be happy to share our plans thus far and solicit community feed back. The success of this credit union depends on the members who desire this financial services alternative.

We have launched a weekly program (Saturday from 10 am to 11 am) on WRBG 107.9 FM out of Millsboro, Delaware. This station also allows us regular monthly presence in many other ways. You will have to download destiny media player to listen to it on the web <http://wrbg1079fm.com/>.

If you have a Spanish speaking constituency and you wish to offer seminars on Money Matters! or ¡Fuerza Financiera! please do not hesitate to contact us. Our competent bilingual staff will be happy to teach these seminars.

Thank you for those of you who contribute to us through the Delaware State Employee Charitable Campaign. Our Code is **70099**. If you are a federal employee, you can contribute to us through the Combined Federal Campaign of Delaware. Our code (until Fall 2007) is **30003**.

Do mark your calendar for our annual Celebrate CRA 2006 on **October 3, 2006** from 11:30 am to 1:00 pm at the Delaware History Museum (5th and Market Street, Wilmington). Wish you a joyous and fun filled summer.

Sincerely,

Bob Watson, Jr.

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www.dcrac.org

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Money saving tips

Costs are only going up. Here are some saving tips to keep in mind.

Gasoline:

- * Keep your budget near pre-\$3/gallon days.
- * Car pool? Public transportation?
- * Warm the engine (30 to 45 seconds).
- * Buy gasoline during coolest time of day.
- * Don't exceed speed limit and avoid tailgating.
- * Plan your driving trips.
- * Inflate all tires to maximum recommended limit for the season.
- * Remove excess weight from trunk or inside of car.

Lights:

- * Turn them off!
- * Fluorescent bulbs, three-way lamps, dimming switches!
- * One large wattage lamp instead of two small ones.

Cooking:

- * During summer--BBQ!
- * Avoid the oven. Use microwave and small appliances.

Dish wash:

- * Hand wash. Run on economy cycle when fully loaded.
- * Avoid the drying cycle, stop the dishwasher, open the door and let dishes dry.
- * Use cold water to rinse before loading.

Laundry:

- * Use a clothesline.
- * Clean the dryer filter after each load.
- * Only run the washer when fully loaded.
- * Use cold water.

Water heating:

- * Insulate!
- * Set the temperature at 120°-140°.

Cooling:

- * When away set the thermostat to 85°.
- * When home, set to 76°-78°, health permitting.
- * Consider ceiling/portable/whole house fans.

Heating:

- * Wear warm clothing, extra blankets, etc.
- * Set the thermostat to 68° or lower, health permitting.
- * Use reversible ceiling fans.

Other:

- * Close off unoccupied rooms.
- * Clean or replace filters regularly.
- * Keep outside units free from leaves/debris.
- * Insulate the attic, outside walls, floors, and ducts.
- * Seal cracks with caulking.
- * Weather strip around windows and doors.

Good Luck!

Category (percentages are guidelines only)	Amount
Income (net/take home)	\$
Less Saving/Tithing, or Tithing/Saving (10% - 20%)	-\$
Housing (45%)	
Less Mortgage or rent (include insurance and taxes)	-\$
Less Maintenance, trash, water, sewer	-\$
Less electric/gas, cable, internet, telephone, cell phone	-\$
Other (35%-45% depends on your savings)	
Less Groceries and food (eating out? cut back)	-\$
Less Car (payment, insurance, maintenance)/Bus/train	-\$
Less Parking, gasoline, oil change, tune-ups	-\$
Less Credit card payments	-\$
Less Credit Repair Plan Budget (see page 4)	-\$
How are we doing?	\$
No money, no problem. Income less than expenses, go back and see where you must cut back.	

My Budget!

" Gains made in equal pay, homeownership, and quality childcare are lost when a struggling family is thrown into financial devastation by the debt trap of payday lending." Center for Responsible Lending

One of your goals should be to improve your credit score. As you can see from the information below (from www.myfico.com), having a good credit score is very important. Therefore, if you are striving toward the goal of a 723 FICO Score, here are a few things you may want to consider:

- * Join a Free Financial Fitness Course (www.delawaremoneyschool.com or 1-800-267-5002).
- * Make sure you have written out your budget (see page 3 of this newsletter) and have set aside money for your credit repair plan.
- * Don't forget to order your free credit report (www.annualcreditreport.com or 1-877-322-8228) and attend the course on how to read your credit report (www.delawaremoneyschool.com or 1-800-267-5002).
- * We hope you realize that depending on how shot your credit is, it may take a long while before you can build it up to your goal. So, it may take anywhere from one year to three years or more to build your scores up to 723. Don't groan. You have no choice but to work toward this goal.
- * With your Financial Fitness Certificate, ask the agency for the next steps to **Credit Builder Program**.
- * With this certificate, you will be able to borrow money from a bank--this will in the long run, improve your score. Why? Because a bank loans money only to credit worthy borrowers. The fact that the company you keep is a bank not one who lends to those with credit impairments, will boost your score.
- * When you borrow money under the credit builder program (which requires that you attend a financial fitness course first), you do not get a loan. This money is placed in your passbook savings account. The passbook is held by the bank. When you have paid back the loan, you get the passbook back. Not only have you built your credit, you have also built savings!
- * **PAY ON TIME ALL THE TIME--Not just this loan, but all your bills.**

According to www.myfico.com, this is how FICO score is determined:

So, what can you do to boost your FICO Score?

1. Payment History (35%)
2. Amounts owed (30%)
3. Length of Credit history (15%)
4. New Credit (10%)
5. Types of credit used (10%)

1. Pay all your bills on time all the time.
2. Use about 25% of your line of credit.
3. Build/Rebuild your credit over time.
4. Do not take on too much new debt.
5. Have a variety of credit: Student/Car/ Personal loans, credit cards, mortgages, etc.

On a \$216,000 for 30 year fixed rate mortgage		
If FICO score is	Rate is approximately	Monthly payment is
760 - 850	6.29%	\$1,335
700 - 759	6.51%	\$1,367
680 - 699	6.69%	\$1,392
660 - 679	6.9%	\$1,423
640 - 659	7.33%	\$1,486
620 - 639	7.88%	\$1,567

The higher your FICO® score the less you pay to borrow.
A person with FICO score of 760 or better will pay \$259 less per month than a person with FICO score below 620. THAT'S A SAVINGS OF NEARLY \$3,108 A YEAR or \$93,240 OVER 30 YEARS!

www.myfico.com

"California has more payday lenders than McDonald's and Burger Kings combined. Nationwide, [there are] some 12,000 payday lenders in 30 states and the District of Columbia." PBS Online News Hour, 04/03/01

What is a traditional fixed rate mortgage?

- * Your interest is fixed for the term of your loan.
- * The loan term could be 15 years or 30 years.
 - * That means, for the next 15 or 30 years, your mortgage payments will change only if your insurance or taxes go up or if you refinance.
- * Your monthly payment (PITI) includes
 - * a portion of your **Principal** (small at first),
 - * a portion of the **Interest** (very large at first),
 - * 1/12th of your property **Taxes**,
 - * 1/12th of your homeowners **Insurance**.
- * The lender will consider your debt to income and your housing ratios.
 - * A housing ratio means that you are allowed to spend about 30% of your gross monthly income (GMI) on PITI.
 - * A total debt to income ratio may allow you to spend about 38% to 41% on your housing plus other recurring debts (credit cards, student loans, auto loans, etc.).
- * If you have a 30 year fixed mortgage at 6.25% and rates fall in the future you are free to refinance!

What to watch out for?

- * Is there a prepayment penalty?
 - * If you pay off the loan before a certain period of time, you will have to pay a penalty.
- * Is this a line of credit?
 - * A line of credit is like buying your home with a credit card.
- * Does the payment include taxes and insurance?
 - * If not, how will you pay them when the annual bill comes due?
- * Is there a balloon?
 - * It means at some time in the near future (3 to 5 years) you may have to pay back the full amount you borrowed.
- * Is this a simple interest loan?
 - * Unless you know what you are doing, this is not a good option.

For first-time home buyers, we strongly urge that you stay away from exotic mortgages discussed below. Above all, do listen to your housing counselor!

1-888-995-HOPE or www.995HOPE.org

Home Owner Hotline's mission is helping those who are having trouble paying their mortgage get back on track financially

Your **adjustable-rate mortgage (ARMs)** offer could be a low introductory interest rate that climbs quickly and frequently and could be based on a rate that the Federal Reserve has hiked 16 times in the past 16 quarters.

The **interest-only mortgages** don't really save you much. You know by now that in the first few years of your payment, a larger portion of the payment goes toward the interest. So are you really saving?

The most dangerous one is the **option arm**. You get to pick your payment.

- * With the **minimum payment** you pay no principal and less interest than what accrues on the loan. The unpaid interest is added to the loan balance. Result? Negative amortization (you owe more than you borrowed). Those of you who pay only the minimum on your credit cards think twice!
- * The **interest-only payment** could change each month. Remember, you will still owe the entire principal (amount you borrowed). When the balance reaches a certain point (110%, 115% or 125% of the original balance) the loan is "recast" and the minimum payment goes up.
- * With **fully amortizing 30 year payment**, you pay both principal and interest and keep your loan on schedule. Your payment is calculated each month based on the prior month's fully indexed rate, loan balance and remaining loan term. If you pick this option, in 30 years, your loan will be paid off. From budgeting point of view, your mortgage payment will go up or down a little too frequently for comfort.
- * With **fully amortizing 15-year payment** (offered only on the 30-year or 40-year term), the option may cease when the loan has been paid to its 16th year.

"Annual percentage rates on average exceed 400% and trapped payday borrowers are often threatened with legal action and intimidating collection tactics." Center for Responsible Lending.

For a disciplined user, credit cards are a gift horse!

If you answer yes to any of the questions below, please go to pages 3 and 4 first.

- * Is your credit card a source of mounting debt?
A credit card should be a substitute for your cash or checks.
- * Do you pay the minimum each month, late fees and over the limit fees?
If you pay 5% of the balance and never use the credit card again it could take you about 2 years to pay this loan off. Besides, 30% of your score is based on how much credit have you used up.
- * Have you read horror stories about your credit card lender?
Google is the greatest equal access to information tool, we hope you use it.
- * Do you have an imperfect credit score?
You may want to improve the score first.
- * Do you ignore the fine print?
You want to know when the short-term, introductory low interest rates expire.
- * Are you unaware of the Universal Default Clause?
Even if you paid your lender on time but were late on other payments, your interest rate may go up.
- * Did you think that cash advance is treated the the same as a purchase on your credit card?
Interest is charged immediately from the date of the cash advance and continues to be charged until the entire bill is paid. Cash advance is a very expensive debt.

If you need to repair your credit, you may want to try and do it yourself first. If you must use a credit repair agency, make sure the agency is certified by NFCC and recognized by the Bankruptcy Court. In Delaware, one such agency is Consumer Credit Counseling Services (1-800-642-2227).

Delaware does not have a usury law. That means, if a lender charged you 1000% APR (annual percentage rate), no laws were broken.

Title Loans are driving borrowers into financial ruin.

We once had a client who borrowed \$200 and promised to repay \$800 within 30 days. After refinancing this loan half a dozen times and paying a fee each time, he lost his car. Car title loans are marketed as small emergency loans. A typical car title loan has a triple-digit annual interest rate. It requires repayment within one month. The loan is for much less than the value of the car. So, in the end, when you lose your car, you have lost much more than the car. You have lost the additional value in it AND, in Delaware, your ability to earn a living.

Payday Loans = Costly Cash

We have had clients who have five payday loans at the same time! These are small, short-term, high-rate loans and go by a variety of names: payday loans, cash advance loans, check advance loans, post-dated check loans or deferred deposit check loans. Usually, a borrower writes a personal check payable to the lender for the amount he or she wishes to borrow plus a fee. The company gives the borrower the amount of the check minus the fee. Fees charged for payday loans are usually a percentage of the face value of the check or a fee charged per amount borrowed - say, for every \$50 or \$100 loaned. And, if you extend or "roll-over" the loan - say for another two weeks - you will pay the fees for each extension.

You should build your own emergency fund so you can avoid these loans. At most, how much would they lend? \$1,000? You need to build your own bank to that amount. Make saving a life-long habit. Don't keep this skill to yourself. Pass it on to your friends, family, and co-workers.

"Some payday lenders waive the initial fee to attract customers, "It's similar to what you hear from drug dealers: The first hit is for free." Mark Pearce, executive vice president of the Center for Responsible Lending, Bloomberg Markets, January 2005

In this Portfolio analysis using 2004 HMDA data we look at the racial makeup of the households in our Counties and compare the percentage of home purchase lending that went to a particular racial group.

Home Purchase Lending	New Castle County		Kent County		Sussex County	
	% Household	% loans	% Household	% loans	% Household	% loans
White	75.90	69.72	76.73	72.33	83.87	83.71
African American	18.68	14.11	18.84	12.78	13.05	2.03
Hispanic/Latino	3.71	4.40	2.45	2.96	2.40	1.94
Asian	2.40	3.89	1.22	2.07	0.39	1.30

One would expect the loan portfolio to reflect the racial make-up of the county as it does for white households in Sussex County. It doesn't.

- * African Americans make up 13.05% of households in Sussex County yet receive only 2.03% of the home purchase loans.
- * Latinos make up only 3.71% of New Castle County households, yet they receive 4.40% of the purchase loans.
- * In Kent County, Asians make up 1.22% of the households but they receive 2.07% of the purchase loans.

In this Market share analysis using 2004 HMDA data we look at the proportion of prime and subprime home purchase loans that are made based on the borrower's race.

Home Purchase Lending	New Castle County		Kent County		Sussex County	
	% Prime	% subprime	% Prime	% Subprime	% Prime	% Subprime
White	92.53	7.47	93.21	6.79	95.56	4.44
African American	79.55	20.45	88.11	11.89	87.21	12.79
Hispanic/Latino	86.20	13.80	86.84	13.16	91.46	8.54
Asian	96.47	3.53	92.45	7.55	96.36	3.64

- * In New Castle County African Americans are 2.74 times as likely as whites to get subprime loans. Latinos are 1.85 times as likely as whites to get subprime loans.
- * In Kent County, African Americans are 2.88 times as likely as whites to get subprime loans. Latinos are 1.92 times as likely as whites to get subprime loans.
- * In Sussex County African Americans are 1.75 times as likely as whites to get subprime loans. Latinos are 1.94 times as likely as whites to get subprime loans.

Using 2004 HMDA data we will look at Denial disparity ratio analysis by comparing loan denial rates in each borrower category. Below we explore home purchase loan denials based on the income level of the loan applicant.

Home Purchase Lending	New Castle County		Kent County		Sussex County	
	Applied	% Denied	Applied	% Denied	Applied	% Denied
<50% MSA* Income	1300	19.23	150	20	140	27.14
50-79.99% MSA Income	3074	10.12	686	11.66	611	14.89
80-119.99% MSA Income	3070	8.08	1028	9.05	841	13.32
>120% MSA Income	3525	6.70	1398	6.37	3617	6.14

* MSA means Metropolitan Statistical Area

- 1 Denial rates among low income (<50% MSA income) applicants is highest. They are 2.87 times more likely to be denied a home purchase loan than upper income borrowers (>120% MSA Income) in New Castle County. In Kent County, this disparity is 3.14. In Sussex County this disparity is 4.42.
- 2 Same seems to hold true for moderate income borrowers (50-79.99% MSA income). The disparity at its highest between moderate income and upper income is 2.42 in Sussex County. This is lower than the highest disparity between low income and upper income borrowers.

A **predatory loan** is an unsuitable loan designed to exploit vulnerable and unsophisticated borrowers. Predatory loans are a subset of sub-prime loans. A predatory loan has one or more of the following features:

- 1) charges more in interest and in fees than is required to cover the added risk of lending to borrowers with credit imperfections,
- 2) contains abusive terms and conditions that trap borrowers and lead to increased indebtedness,
- 3) does not take into account the borrower's ability to repay the loan, and
- 4) violates fair lending laws by targeting women, minorities, and communities of color.

A **sub-prime loan** is a loan designed for those borrowers with credit impairments. These loans are more expensive than prime loans. While DCRAC is not absolutely against sub-prime loans, it is our position that sub prime lending without adequate consumer safeguards leads to predatory lending.

1-888-995-HOPE or www.995HOPE.org

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