

To Woo New Buyers, Hovnanian Helps Fix Credit Reports 10-12-07 12:48 PM EDT

NEW YORK -(Dow Jones)- Until several years ago, Christopher Bittle was frivolous with his finances, frequently making late payments on credit cards and cable bills.

But Bittle's priorities changed when his third child arrived last year and his family was squeezed into a two-bedroom apartment in Greensboro, N.C.

The 36-year-old aircraft maintenance technician knew it was time to clean up his credit and buy a house. But as a housing and credit crisis roils the globe, lenders are steering clear of buyers like Bittle.

So, to qualify for a loan, he turned to an experimental program run by K. Hovnanian American Mortgage, a [Hovnanian Enterprises Inc.](#) (HOV) subsidiary that partners with an outside firm to help consumers rehab their credit for a traditional loan.

Bittle paid bills on time, settled with collection agencies and learned about financial topics including budgeting and managing credit-card debt. It took several months, but his credit improved enough to get a 30-year-fixed loan for a 1,680-square-foot home with three bedrooms and sleek black appliances.

Such success stories are why Hovnanian, the nation's sixth-largest builder, is expanding the free program nationwide. And it isn't the only builder nursing promising buyers to the dotted line: Building behemoth [D.R. Horton](#) (DHI) runs a similar service.

To be sure, these services are something buyers can do themselves: there are complimentary credit reports at www.annualcreditreport.com and consumers can even challenge errors online. Plus, plenty of independent groups will help. Some critics say the companies take advantage of consumers' woes to boost sales.

"Caution should be the watchword," said Douglas Robinson, with NeighborWorks America, a Washington nonprofit that helps low- and moderate-income buyers obtain credit counseling and mortgages.

Hovnanian, whose stock is down more than a quarter in the last three months, doesn't deny the goal is to boost sales in its building and mortgage divisions. But it also aims to stymie foreclosures by keeping buyers out of houses they can't afford. It is too early to know how the program, which currently has 175 enrolled, will affect the bottom line.

"It's an act of faith," said Dan Klinger, the mortgage arm's president. "We don't think it's a silver bullet. It's incremental business."

These are tough times for builders. After watching helplessly as the housing bubble's dramatic implosion halted a record buying stampede, they have done anything for a deal: paid closing costs, tacked on appliances, gift cards, vacations and even offered up cars. Last month, Hovnanian grabbed headlines with six-figure discounts to move inventory.

"In the peak of the building boom, you were lucky to get a new house and [builders] knew that. But now that a new home buyer is hard to come by, they're not about to let one slip through their fingers," said Ritch Workman, president of the Florida Association of Mortgage Brokers.

Klinger agreed: "You don't want to say no, especially nowadays."

Denials were also scarce during the boom, but for different reasons: Lenders overlooked anemic credit scores and a lack of a downpayment or documented income as they passed out loans like lollipops in a bank. In 2001, subprime loans, the ones given to the riskiest consumers, made up 6% of mortgage originations. Last year, they were 24%, according to UBS. Plus, many loans had low teaser rates, poised to reset with much higher monthly payments.

That's fueling a foreclosure wave. Already, the number of delinquencies has spiked, forcing scores of lenders out of business.

Surviving lenders tightened requirements and some even eliminated subprime loans. They are again scrutinizing credit reports and scores, which detail housing payment history, length of credit and debt, providing a snapshot to help gauge risk. Even one late payment can ding a score.

"When people have bad credit, they generally don't make good homeowners," said Jeffrey Guarino, managing director of Gotham Capital Mortgage Corp. in Manhattan. "The numbers back them up."

Hovnanian disagrees. Reports can contain errors - some significant enough to derail a deal - and scores can quickly plummet after identity theft, illness or divorce. That is who Hovnanian aims to work with.

"There are certain things that if a customer doesn't pay, it shows no conscience, people that don't make child support payments and don't pay utility bills and don't pay taxes, those are the ones we steer clear of," said Klinger, the mortgage executive. "This is for the customer that you can see got just a little bit over their head."

Of course, such consumers helped drag the industry into this mess. But Vicki Bryan, senior high-yield analyst at Gimme Credit, sees potential.

"They're helping buyers come up to the standards they need," she said. "I don't think it's an act of desperation. I think it's Hovnanian trying to fix the problem, and I like that."

Hovnanian quietly started the program in September 2006 in Greensboro, a small Tar Heel city filled with entry-level buyers with the lowest credit score of Hovnanian's 27 nationwide business units. The company noticed that, because of tighter lending requirements, eager buyers with lower credit scores could not get a traditional or would not take a subprime loan with a higher interest rate.

Within 45 days, participants' credit reports improved. The first graduate closed on a house in March.

In July, the program was pitched to about 100 senior managers, including company honcho Ara Hovnanian. It is now available in 19 states for products including single-family homes, townhomes and active adult communities.

Applicants are screened carefully and about half of those referred sign up. Participants should pay bills on time and avoid incurring dramatic new debt. (Hovnanian initially charged \$800 for couples; it is now free.) The company pays Fort Lauderdale-based Debt Resource USA \$150 upfront and \$200 when - and if - a student graduates and closes on a house. Hovnanian encourages graduates to continue their financial education long-term.

In a third of communities, aspiring buyers sign contracts before joining the credit program. Those who don't complete the program can't buy a house.

Hovnanian wants potential buyers to use its mortgage subsidiary, though that is not required. Klinger said the company's rate is competitive: Thursday's 30-year fixed rate was 6.5%. Several industry watchers said they liked that consumers can shop around.

Bittle, who closed on his North Carolina home late last month, said he was happy with his market-rate Hovnanian loan.

"I don't want to turn my back on them," he said, "Because they didn't turn their back on me."

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