



WOODSTOCK INSTITUTE

Role of Non Profit Research in Community Development

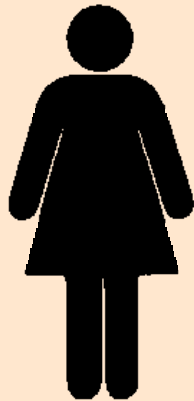
Tom Feltner
North Park University
March 31, 2007



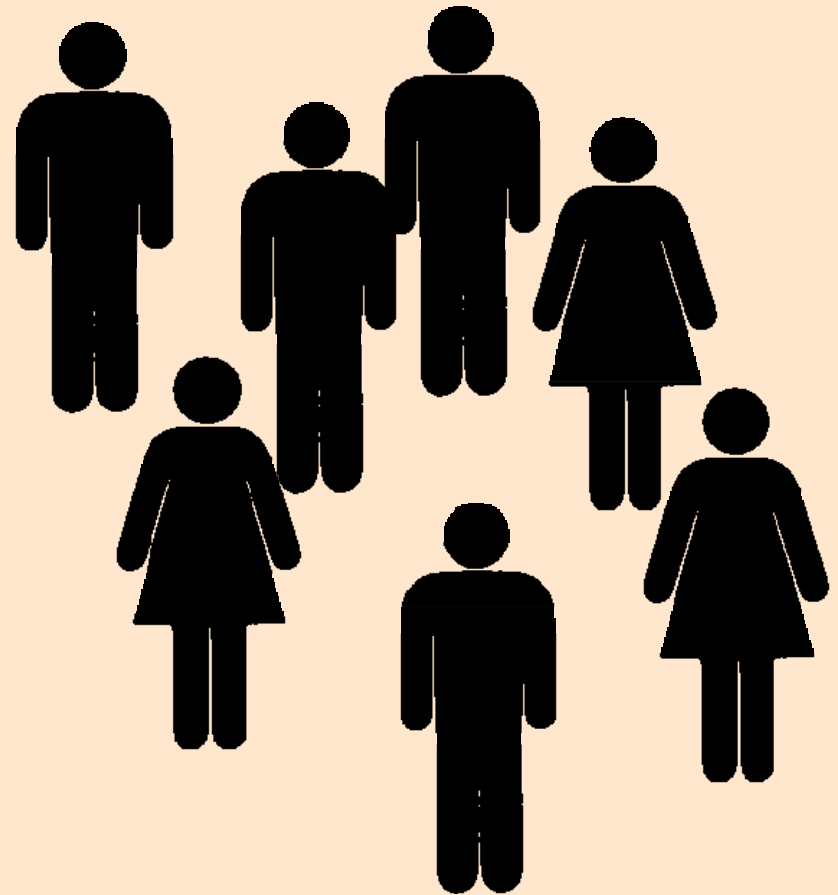
Why Research and Advocacy?

Problem: individual and community effects

Individual Effects



Community Effects





Why Research and Advocacy?

Solution: measuring community effects

Informing communities about the financial services policy issues that impact them most

Documenting patterns of discrimination and helping local organizations and media understand the problem

Giving communities the tools to make better, safer financial decisions

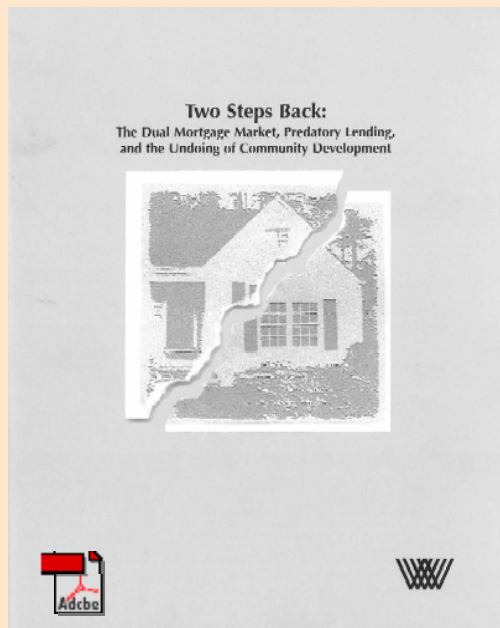
Payday Lending Reform Under Public Act 094-0013

State	Yes	25% Maximum Annual Interest Rate	Maximum (Annual) Rate (%)	Recovery Period (Days)	Debtors' Exemption (\$100,000)	Consumer Services (Yes)	Max. Consumer Fines/Points	Card to Monitor
Alabama	Yes	Yes	18%	30	30	Yes	4	41
Alaska	Yes	Yes	36%	30	30	Yes	4	31
Arizona	Yes	Yes	36%	30	30	Yes	4	31
Arkansas	Yes	Yes	18%	30	30	Yes	4	31
California	Yes	Yes	18%	30	30	Yes	4	31
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Nevada	Yes	Yes	18%	30	30	Yes	4	31
New Hampshire	Yes	Yes	18%	30	30	Yes	4	31
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Wyoming	Yes	Yes	18%	30	30	Yes	4	31
Unlabeled	Yes	Yes	18%	30	30	Yes	4	31
Unlabeled	Yes	Yes	18%	30	30	Yes	4	31

Key consumer protections include:

- (1) a fee cap to reduce the total cost of using payday loans
- (2) an ability-to-repay test to determine if a borrower is qualified to receive a loan, based on the borrower's income and other financial information
- (3) a requirement for payday lenders to provide a copy of the state's payday lending law to borrowers
- (4) a requirement for payday lenders to provide a copy of the state's payday lending law to borrowers
- (5) a requirement for payday lenders to provide a copy of the state's payday lending law to borrowers

See projections for each state based on analysis conducted by the National Conference of State Legislatures (December 2004) and compiled within by Thinkbook Institute (February 2005). Please contact Thinkbook Institute at 301-417-4070 for more information.





Fair Mortgage Lending

Individual: problems with “alternative” mortgages

Increase in Minimum Monthly Payments and Outstanding Loan Balance with an April 2004 \$400,000 Payment-Option ARM, Assuming Rising Interest Rates

Year	Minimum Monthly Payment	Total increase in outstanding balance
1	\$1,287	N/A
2	\$1,383	\$3,299
3	\$1,487	\$10,714
4	\$1,598	\$19,735
5	\$1,718	\$27,278
6 and beyond	\$2,931	\$33,446

Source: GAO-06-1021 Alternative Mortgage Products (2006).



Fair Mortgage Lending

Individual: implications of inappropriate pricing

Pricing implications of interest rate changes on \$100,000 30-year fixed rate mortgage

Rate	Monthly Payment	Interest paid over life of the loan
5%	\$537	\$93,256
7%	\$665	\$139,509
10%	\$878	\$215,926

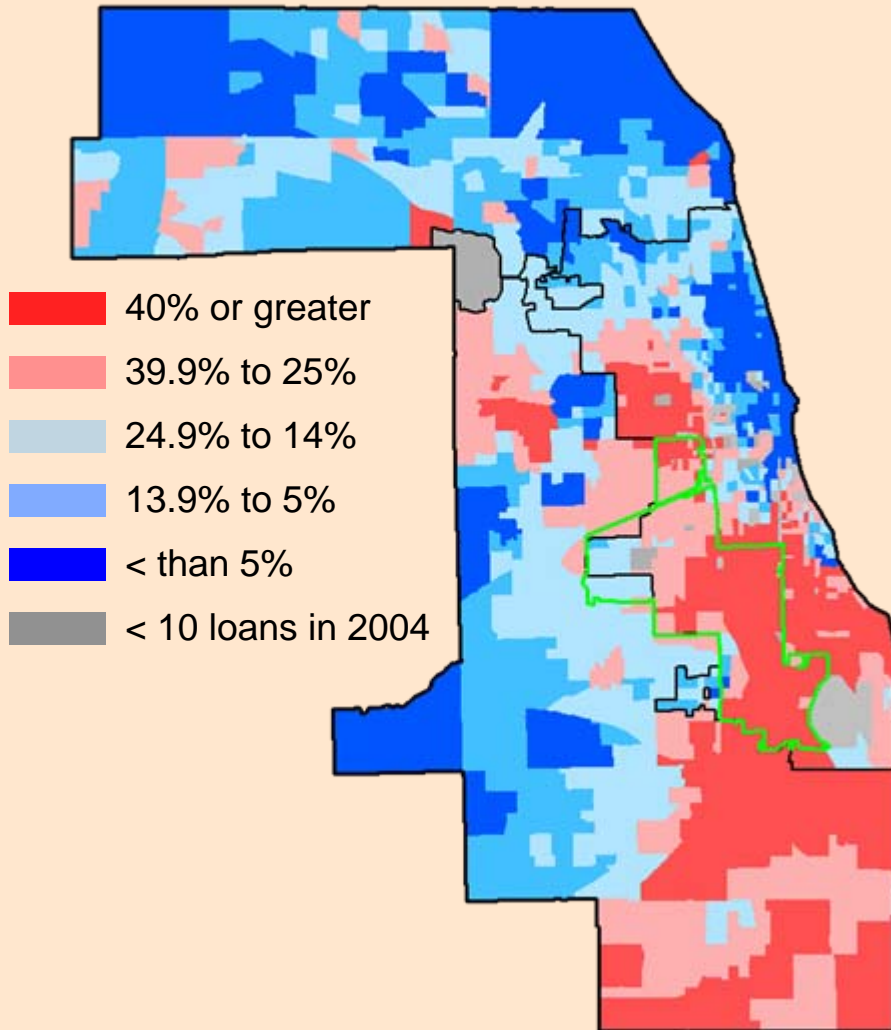
Source: Woodstock Institute calculations



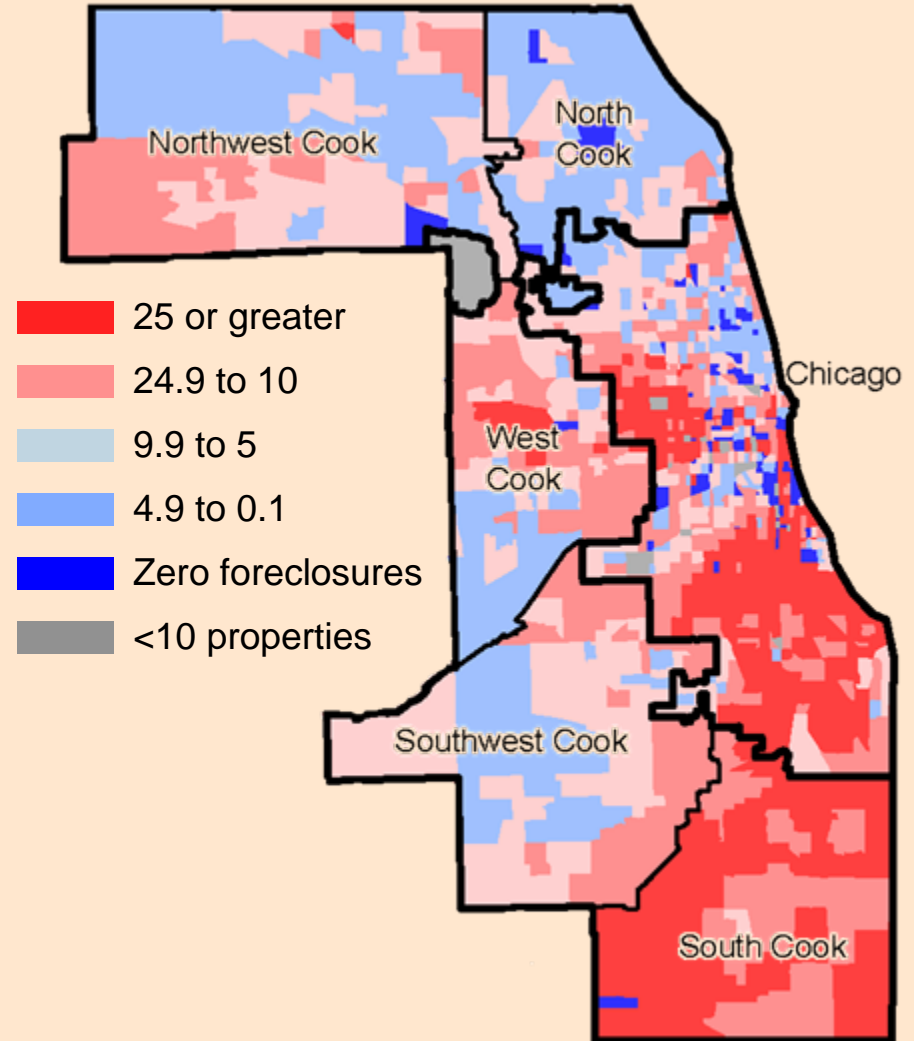
Fair Mortgage Lending

Community: distribution of subprime lending

2004 High Cost Mortgages



2005 Foreclosures per 1,000 Mortgageable Properties

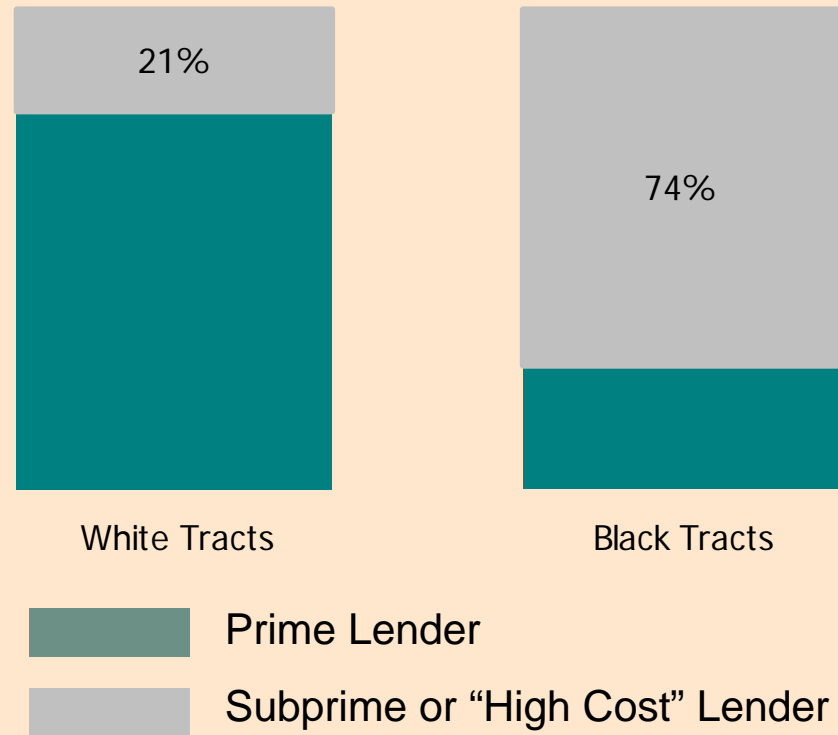
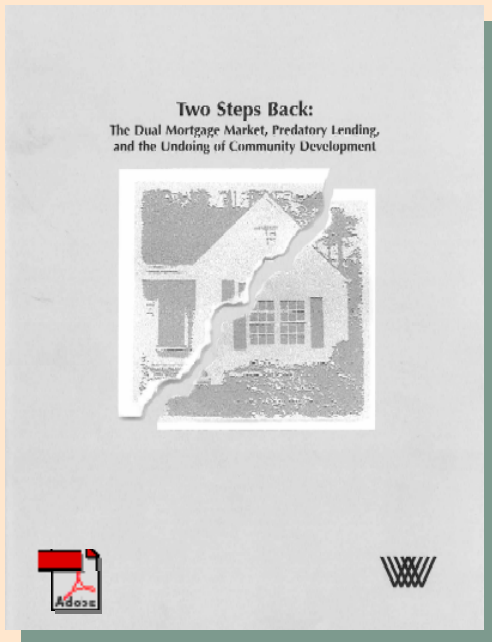




Fair Mortgage Lending

Community: Subprime lending in minority areas

Percent of 1998 refinance application by type of lender – heavily concentrated in minority communities

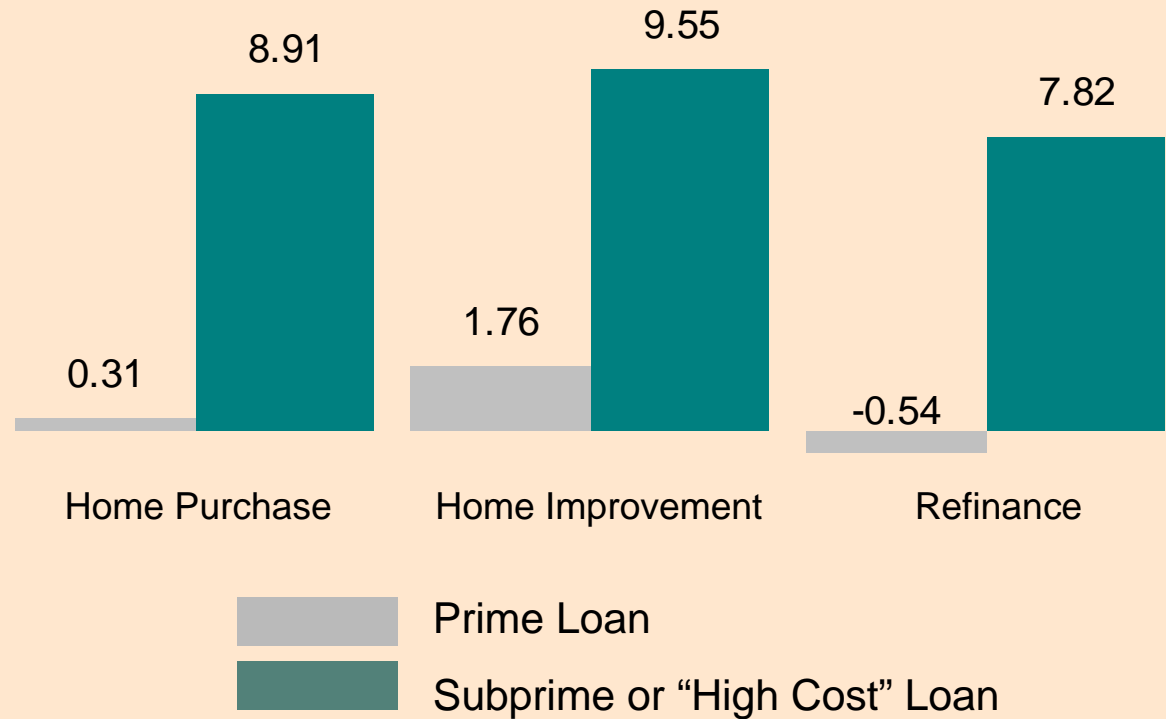




Fair Mortgage Lending

Community: Subprime effect on foreclosures

Expected Foreclosures per 100 loans by loan type





Fair Mortgage Lending

Community: Foreclosures reduce property values

Concentrated subprime lending increases risk of foreclosure and reduces neighborhood property values



3,750 foreclosures in 1997 and 1998 are estimated to reduce nearby property values by more than **\$598 million**

average cumulative single-family property value effect of **\$159,000 per foreclosure**

1.44 percent decline in property values for each foreclosure within one-eighth of a mile of a house in a low- or moderate-income census tract.

Given the \$111,002 for properties in low- and moderate-income tracts, this amounts to a loss of nearly **\$1,600 per foreclosure** for the average property



Fair Mortgage Lending

Solution: Negotiating CRA agreements with banks

CRA agreements increase mortgage lending and ensure that banks are accountable for lending in underserved areas

Woodstock Institute
applied research, policy and practice
innovation in community economic development

Home | About Us | Publications | Program Areas | Newsroom | Fact Book | Legislative | CRA Coalition | CU Blog

Home > CRA Coalition > CRA Agreements > JP Morgan Chase (Current)

JP Morgan Chase (Current)

Memorandum of Understanding of Community Reinvestment Goals JP Morgan Chase and the Chicago CRA Coalition upon the Acquisition of Bank One, NA 2004 through 2009

HOUSING AND MORTGAGE LENDING

Primary Goals

JPMC will seek to reach or exceed the market share ratio lending goals depicted in the charts below, for each category of lending, including originated loans. The Bank will report on its progress in mortgage lending and small business lending by borrower characteristics and by census tract. JPJC will not report its small business lending by race until such data is publicly available. If JPJC makes a bulk purchase of mortgages in the Chicago market for the purpose of improving its CRA performance, the Bank will provide the purchased loan data to the Coalition by race/income of borrower and income of census tract at its next regularly scheduled meeting.

Lending Goals by Borrower Characteristic

	LMI / MUI MSR	Black/White MSR	Latino/White MSR
Home Purchase	1.0	1.0	1.0
Home Improvement	1.0	1.0	1.0
Refinance	1.0	1.0	1.0

CRA agreements online at
www.woodstockinst.org

Market share analysis for mortgage lending to lower-income and minority borrowers and communities

Market share analysis for mortgage lending to lower-income and minority borrowers and communities

Weighted ranking of grants and investments to CBOs, CDFIs and affordable housing organizations

Analysis of bank branch distribution

Mutually acceptable best practices



1970s

CRA Coalition Founded

1980s

First Chicago CRA Agreement

1997

Established Steering Committee
And Task Force Structure

1998

Established the Alternative
Banking Program

1998

CRA Agreement with Bank One

1999

CRA Agreement with Charter One

2004

Negotiated MOU with Chase

2005

"Keeping it Real"
Seminar established

2006

Working regionally

CRA COALITION

Better banking policy and practice
for stronger Illinois communities

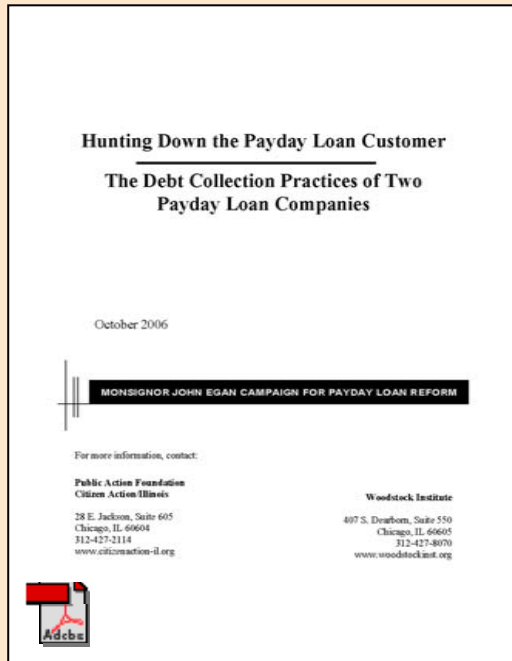
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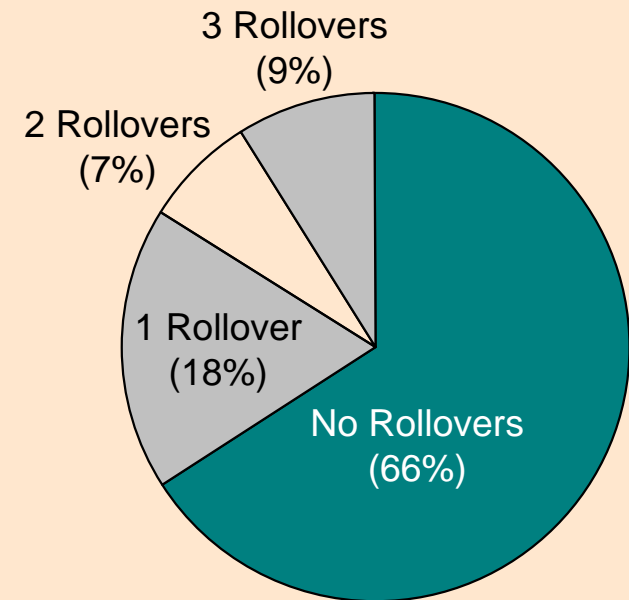
Fair Pricing for Consumer Credit

Individual: interest only payments are common

Refinancing or “rollovers” occur when borrowers can only make interest payments



Rollover	Cost
2 weeks	\$46.50
4 weeks	\$93.00
6 weeks	\$139.50
8 weeks	\$186.00
10 weeks	\$232.50



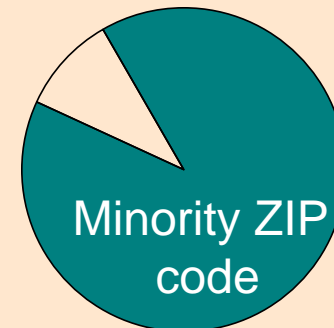
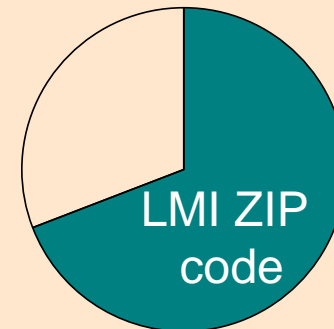
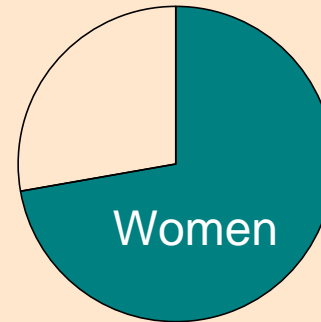
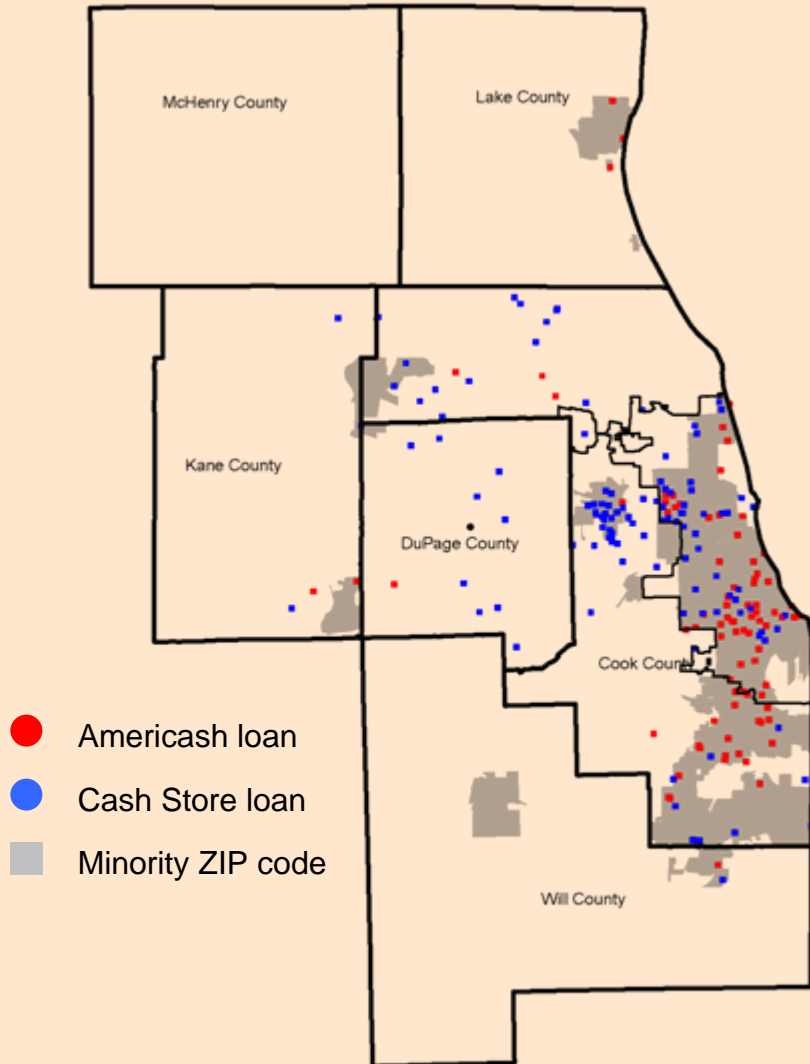
Source: Hunting Down the Payday Loan Customer: The Debt Collection Practices of Two Payday Loan Companies. Monsignor John Egan Campaign for Payday Loan Reform. 2006.



Fair Pricing for Consumer Credit

Community: where are defaults occurring?

Distribution and summary of payday loan defaults in 2005-2006



Source: Hunting Down the Payday Loan Customer: The Debt Collection Practices of Two Payday Loan Companies. Monsignor John Egan Campaign for Payday Loan Reform. 2006.



Fair Pricing for Consumer Credit

Solution: regulating payday loans in Illinois

Payday Loan Reform Act keeps credit available and borrowers safe

Payday Lending Reform Under Public Act 094-0013

State	Reg. Cap. (1)	Maximum Amount (\$)	Maximum Term (2)	Maximum Finance Charge (%)	Consumer Disclosures (3)	Fee Cap. (4)	Card to Monitor (5)
Illinois	Yes	\$500	7	18%	Yes	\$20	77.80
Alabama	Yes	\$500	7	18%	Yes	\$20	77.80
Alaska	Yes	\$500	7	18%	Yes	\$20	77.80
Arizona	Yes	\$500	7	18%	Yes	\$20	77.80
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Unlabeled	Yes	\$500	7	18%	Yes	\$20	77.80

Key consumer protections include:

- (1) a fee cap to reduce the total cost of using payday loans
- (2) an industry-wide cap on borrowing to prevent over-borrowing or using the proceeds of one payday loan to pay off another
- (3) a necessary payday payday loan to ensure the right of state consumers to have access to credit
- (4) a fee cap to ensure consumers are not financially overburdened
- (5) a fee cap to ensure consumers are not financially overburdened

For protections for each state based on analysis conducted by the National Conference of State Legislatures (December 2009) and compiled updates by Woodstock Institute (February 2010). Please contact Woodstock Institute at 301-461-6100 for more information.

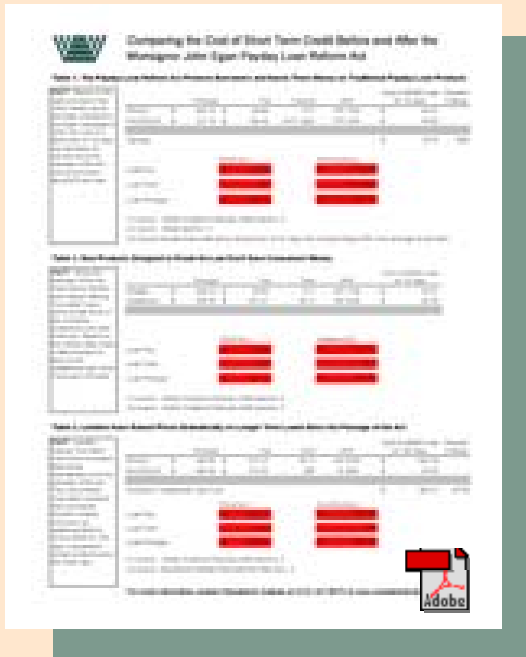
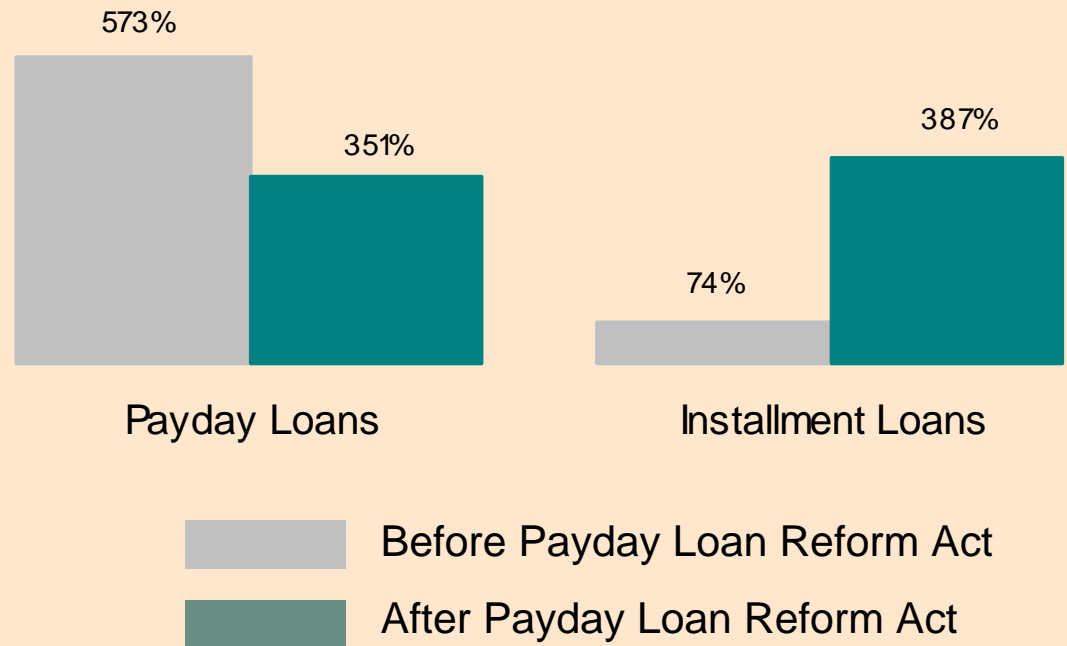




Fair Pricing for Consumer Credit

Solution: regulating payday loans in Illinois

Change in pricing for a \$300, two week loan before and after the Payday Loan Reform Act





Fair Pricing for Consumer Credit

Solution: promoting affordable alternatives

Credit union alternatives: APR for typical \$300, 14 day loan

Table 1: Illinois Payday Lending Compared to Washington State Employees CU

	Principal	Fee	Term(s)	APR	Cost of a \$300 Loan for 14 days
Illinois	\$ 300.00	\$ 40.00	15.7	351.17%	\$ 40.41
WSECU	\$ 300.00	\$ 5.00	45	81.11%	\$ 9.33
Savings					\$ (31.08)

Loan Fee: Illinois \$40.00, WSECU \$5.00
 Loan Term: Illinois 15.7, WSECU 45
 Loan Principal: Illinois \$300.00, WSECU \$300.00

(1) source: Veritas Solutions February 2006 report p. 4

Table 2: Illinois Payday Lending Compared to Langley FCU

	Principal	Fee	Term(s)	APR	Cost of a \$300 Loan for 14 days
Illinois	\$ 300.00	\$ 40.00	15.7	351.17%	\$ 40.41
Langley	\$ 364.42	-	30	18.00%	\$ 2.07
Savings					\$ (38.34)

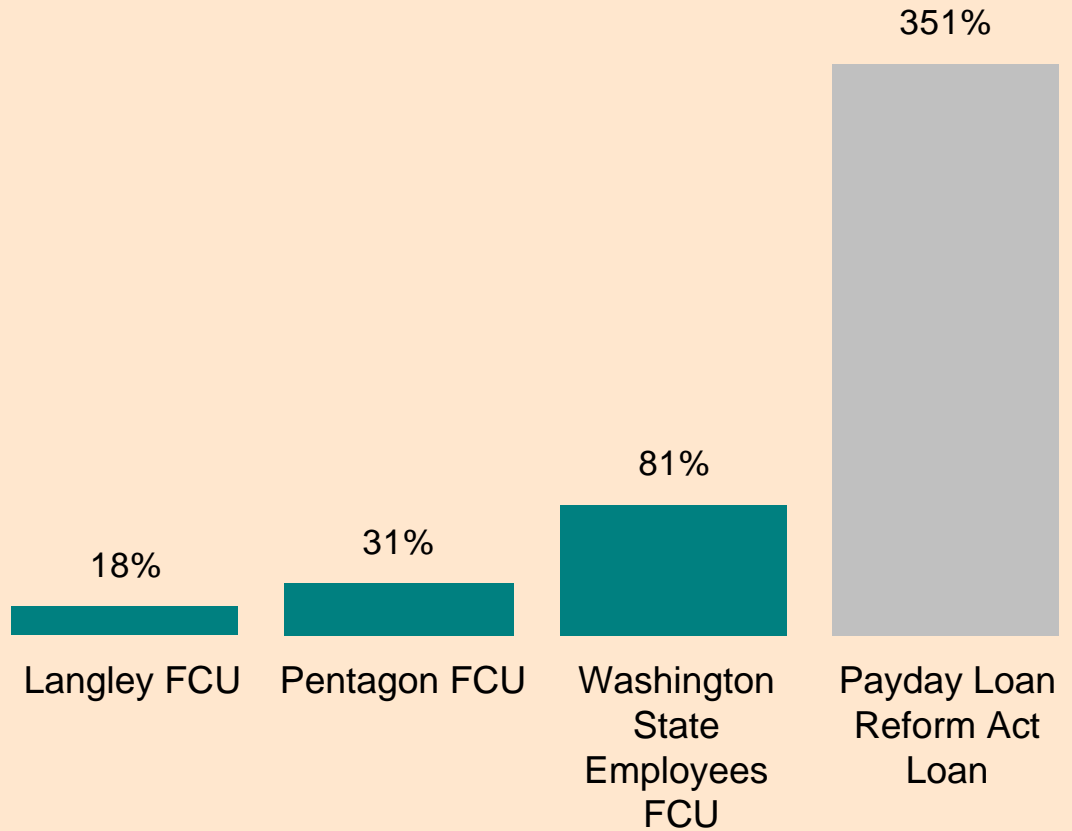
Loan Fee: Illinois \$40.00, Langley -
 Loan Term: Illinois 15.7, Langley 30
 Loan Principal: Illinois \$300.00, Langley \$364.42

(1) source: Veritas Solutions February 2006 report p. 4

Table 3: Illinois Payday Lending Compared to Pentagon FCU

	Principal	Fee	Term(s)	APR	Cost of a \$300 Loan for 14 days
Illinois	\$ 300.00	\$ 40.00	15.7	351.17%	\$ 40.41
Pentagon	\$ 500.00	\$ 0.00	14	31.20%	\$ 5.00
Savings					\$ (35.41)

Loan Fee: Illinois \$40.00, Pentagon \$0.00
 Loan Term: Illinois 15.7, Pentagon 14
 Loan Principal: Illinois \$300.00, Pentagon \$500.00



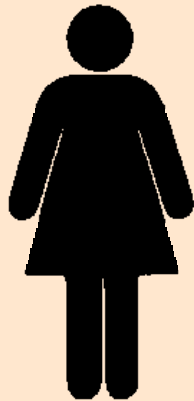
Source: Woodstock Institute calculations. May 2006. For more information on credit union payday loan alternatives see the *Building Community Assets Blog* at www.woodstockinst.org/blog.



Why Research and Advocacy?

Problem: individual and community effects

Individual Effects



Community Effects

