Testimony of

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Before the
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Regarding:
The Need for and Implementation of the HB 4050
Predatory Lending Database Pilot Program

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Thank you for the opportunity to testify at today's hearing. My name is Geoff Smith, and I am Project Director at the Woodstock Institute. Woodstock Institute is a Chicago-based non-profit research and policy organization that for over 31 years has worked locally and nationally to promote reinvestment and economic development in lower-income and minority communities. Woodstock has been extremely active conducting research that illustrates the scope of and harm caused by abusive mortgage lending practices and the impact that concentrated foreclosure have on individuals, neighborhoods, and cities. We have also worked to develop and promote local, state and federal policy that addresses the problem of predatory mortgage lending.

My testimony today will focus the need for and importance of the Illinois Predatory Lending Database Pilot Program (HB 4050).

Predatory and abusive mortgage lending has been a persistent problem for well over a decade, but while the nature of the predatory lending problem, unscrupulous mortgage lenders and brokers taking advantage of unsophisticated, inexperienced, or unaware borrowers, has remained the same, the methods used by these abusive lenders continues to evolve.

Broadly speaking, the nature of predatory lending has been consistent over that time. Mortgage lenders and brokers target predominantly minority communities. These lenders deceptively and aggressively market their loans and take advantage of homeowners and home buyers by putting them in mortgages unsuitable and unaffordable for the borrower in the long term. Meanwhile the broker and lender earn excessive profits. These unsuitable, abusive loans, in the best case, may cost borrowers hundreds of dollars additional each month in mortgage payments and hundreds of thousands of dollars in interest payments over the life of a mortgage. This is money that could go toward more productive uses such as savings, education, or paying down other forms of debt. In the worst case, these inappropriate, abusive, predatory loans lead to foreclosures that devastate individuals, communities and cities.

There is significant evidence showing that high cost loans are targeted to minority borrowers and communities in Illinois and the Chicago area pay more for mortgages that non-minority communities and that foreclosures continue to be a problem in these areas.

Woodstock Institute analysis of 2005 mortgage lending in the Chicago area shows major disparities in access to lower cost, prime loans for minority borrowers and communities. In the region:

- Over 64 percent of the home purchase loans to African American borrowers were high cost. This is more than 4 times the percentage to white borrowers, 15.3 percent.

- Nearly 49 percent of the home purchase loans to Hispanic borrowers were high cost, over three times greater than the percentage to whites.

- This disparity in access to low cost credit is greatest at the highest income levels. African American borrowers earning double the area median income are over five times more likely to receive a high cost loan than a white borrower at the same income level and in fact are more than twice as likely to receive a high coast mortgage as a white borrower earning half the area median income.

- Additionally, middle income communities that are greater than 80 percent minority have the highest levels of high cost lending. In the HB 4050 Pilot Area, nearly 57 percent of the conventional single family mortgages were high cost. This is compared to 38 percent across the city and 32 percent across Cook County.

Concerns about concentrated subprime lending remain tied directly to the wave of foreclosures that have continued to plagued cities, and in particular minority neighborhoods, since the late 1990s. In the Chicago region, foreclosures have been a staggering problem and have long been leading housing issue for local government and area community development organizations. Analysis shows:

- In the Chicago region, foreclosures more than tripled between 1995 and 2002. This increase in foreclosures was concentrated in communities that are greater than 90 percent minority which accounted for 40 percent of the increase in conventional foreclosure starts in this period, but only 9 percent of the area's housing stock.

- Foreclosures continue to be a problem. Although there were slight decreases in foreclosures in 2003 and 2004, the city of Chicago 2005 saw an increase in foreclosure starts:

    - Pilot area: 6.5 percent increase
    - Chicago: 5.8 percent increase
    - Cook County: 4.2 percent increase

- Foreclosure rates in minority communities remain extremely high. In 2005:
    - Pilot area: 20.4 foreclosures per 1000 mortgageable properties
    - Chicago: 13.5 foreclosures per 1,000 mortgageable properties
    - Cook: 10.2 foreclosures per 1,000 mortgageable properties

Woodstock Institute research has show the primary driver of rising foreclosure rates has been increased levels of high cost subprime lending. Woodstock Institute research has also shown that foreclosures have a significant impact on local economic development in lower income communities through suppressing neighborhood property values and leading to increased levels of violent crime.

It is clear to us that there continues to be a major foreclosure problem in the Chicago region that has been largely concentrated in highly minority communities and fueled by high levels of subprime lending in these neighborhoods. These foreclosures continue to have a devastating impact on neighborhoods and cities

The state of Illinois has been very active fighting predatory lending. In 2004 the state enacted the High Risk Home Loan Act to place additional protections on loans with high APRs or high fees. Although the law places significant protections on these higher risk loans, what quickly became apparent was that the ever adaptive mortgage lending industry could easily evade these protections by pricing loans below the triggers. Suddenly, adjustable rate loans with very low initial APRs that adjust rapidly after a few years became the most common type of abusive loan. The monthly costs of these loans are kept very low through teaser rates, interest only payments, or the possibility of negative amortization. The true long term cost to the borrower, or even the fact that the loan is adjustable rate, is often concealed from the borrower.

The Predatory Lending Pilot Program (HB 4050) changes the nature of mortgage regulation. It does not place easily evaded protections on specific types of loans. Rather the bill targets loans through mortgage brokers to vulnerable borrowers with a history of trouble managing credit or who are seeking loans with features shown to be highly risky. The bill requires that these borrower get a review of the mortgage documents and advice from a certified housing counseling agency prior to closing on the loan. This counseling session helps ensure that no fraud is taking place and that borrowers fully understand the nature and costs of their loans. In the end, the borrower has the choice to go forward with the mortgage or look for a more suitable loan. This legislation does not restrict choice by limiting any specific mortgage products. It adds a layer of regulation to the mortgage broker industry, historically the source of much abuse in the industry. The legislation also is less vulnerable to the evolving mortgage industry because it does not target specific loan terms, but rather seeks to inform vulnerable consumers about the costs of the and their range of mortgage options.