WOODSTOCK INSTITUTE

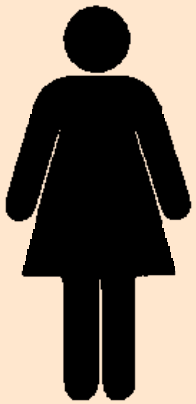
Research and Advocacy for Responsible Lending

Tom Feltner
Western Illinois University
November 9, 2006

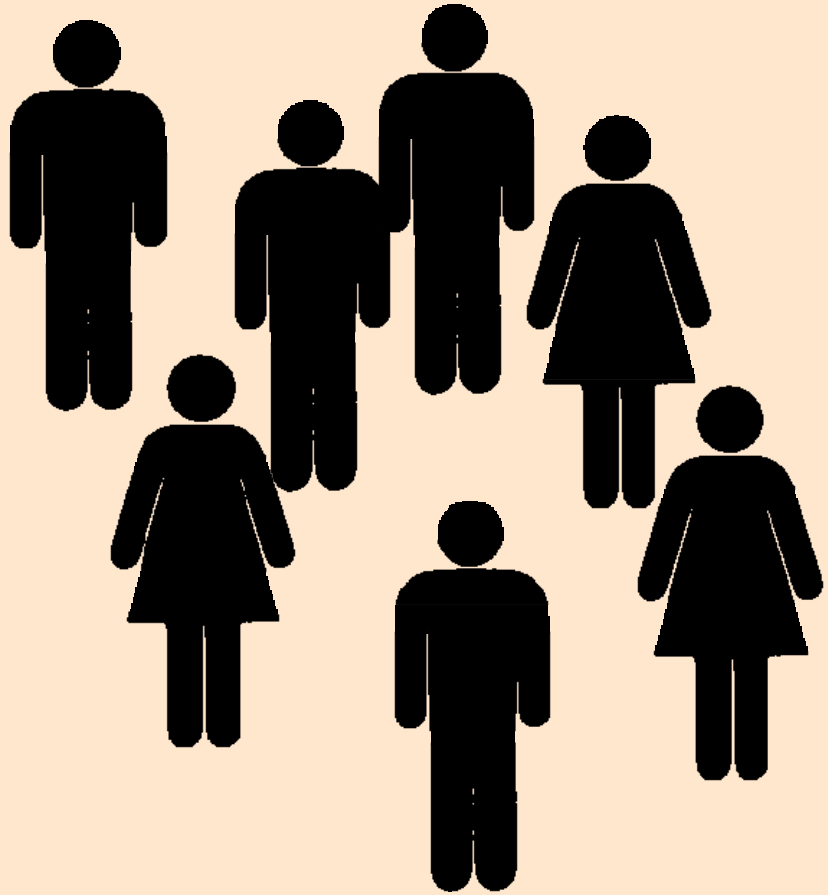
Why Research and Advocacy?

Problem: individual and community effects

Individual Effects



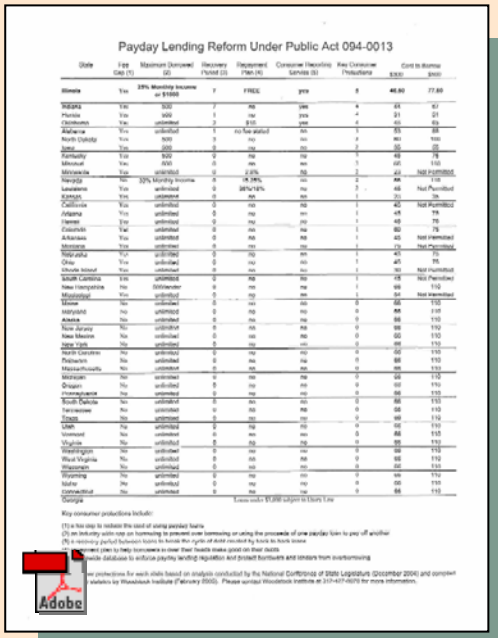
Community Effects



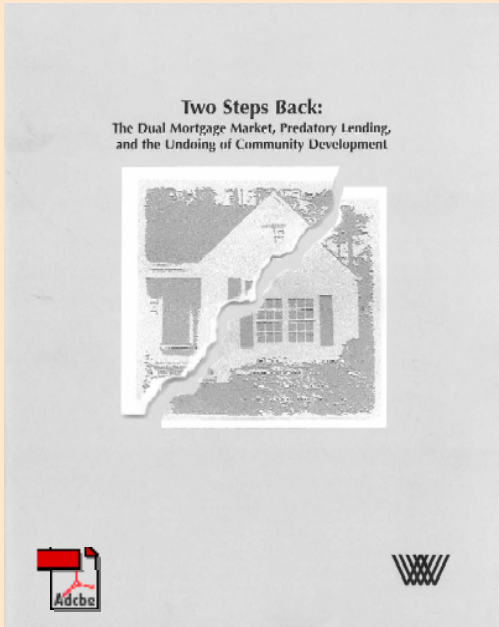
Why Research and Advocacy?

Solution: measuring community effects

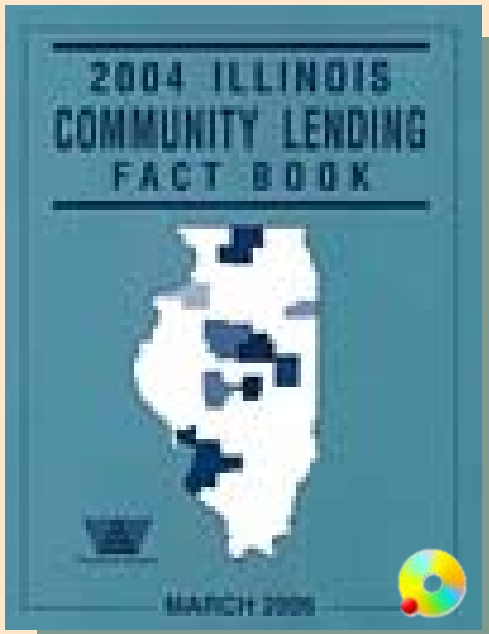
Informing communities about the financial services policy issues that impact them most



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

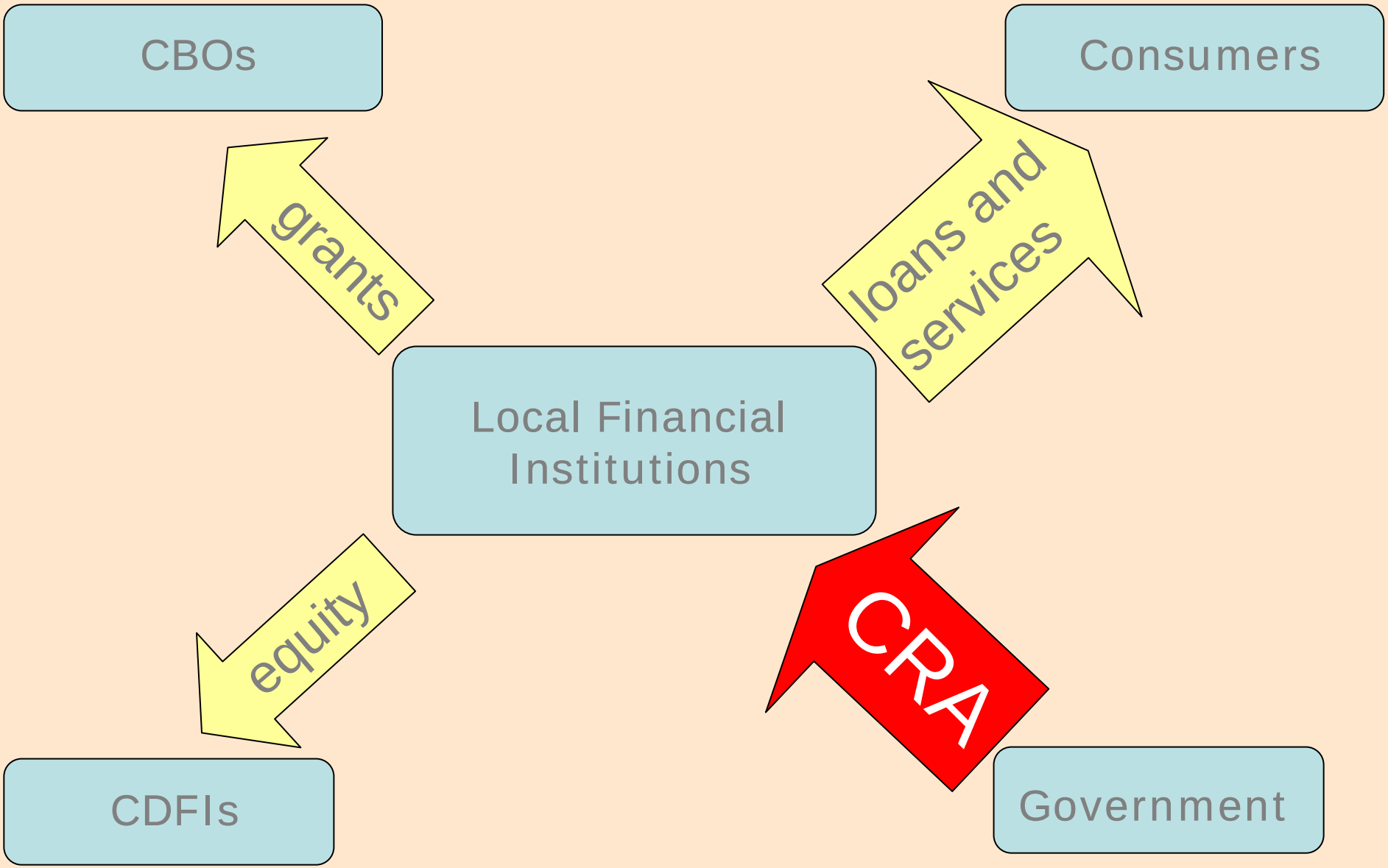


Giving communities the tools to make better, safer financial decisions



Why Research and Advocacy?

Solution: tools to support communities



COMMUNITY REINVESTMENT ACT HISTORY

1975 Home Mortgage Disclosure Act (HMDA)

1977 Community Reinvestment Act (CRA)

1977-87 Limited adherence to CRA requirements

1989 “The Color of Money” story printed

1989 CRA Exams made public

1990 New data added to HMDA

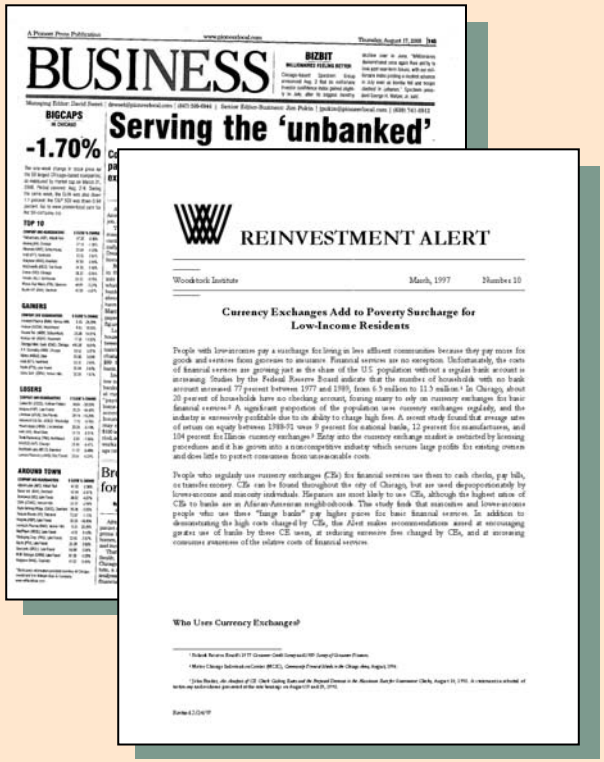
1992-96 Boston Fed analyses of CRA reports

1995 Lending, Investments, Services test added

2005 “ISB” regulations

Fair Access to Banking Services

Individual: unbanked pay more for transactions


BUSINESS

BIZBIT

BIGCAPS

-1.70%

Serving the 'unbanked'

REINVESTMENT ALERT

Woodstock Institute March, 1997 Number 10

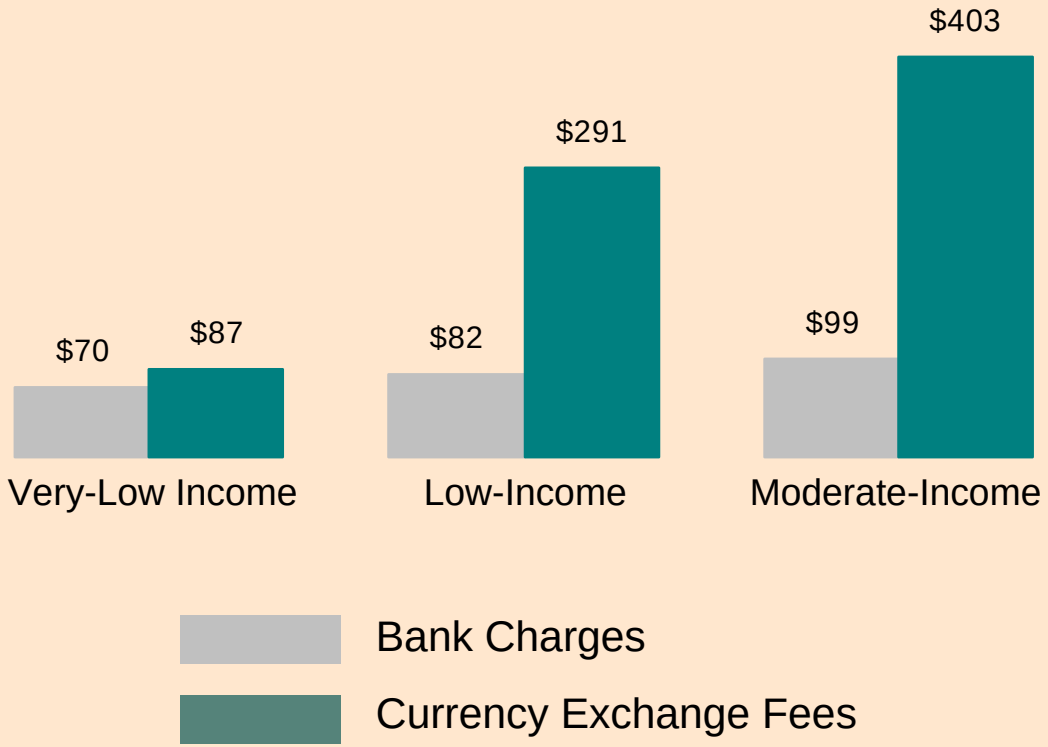
Currency Exchanges Add to Poverty Surcharge for Low-Income Residents

People with low-incomes pay a surcharge for living in less affluent communities because they pay more for goods and services from groceries to insurance. Financial services are no exception. Unfortunately, the costs of financial services are growing just as the share of the U.S. population without a regular bank account is increasing. Studies by the Federal Reserve Board indicate that the number of households with no bank account increased 77 percent between 1977 and 1989, from 6.5 million to 11.5 million.[1] In Chicago, about 20 percent of households have no checking account, forcing many to rely on currency exchanges for basic financial services.[2] A significant proportion of the population uses currency exchanges regularly, and the industry is excessively profitable due to its ability to charge high fees. A recent study found that average rates of return on equity between 1988-91 were 9 percent for national banks, 12 percent for manufacturers, and 104 percent for Illinois currency exchanges.[3] Entry into the currency exchange market is restricted by licensing procedures and it has grown into a noncompetitive industry which secures large profits for existing owners and does little to protect consumers from unreasonable costs.

People who regularly use currency exchanges (CEs) for financial services use them to cash checks, pay bills, or transfer money. CEs can be found throughout the city of Chicago, but are used disproportionately by lower-income and minority individuals. Hispanics are most likely to use CEs, although the highest rates of CEs to banks are in African-American neighborhoods. The study finds that minorities and lower-income people who use these "fringe banks" pay higher prices for basic financial services. In addition to demonstrating the high costs charged by CEs, the Alert makes recommendations aimed at encouraging greater use of banks by these CE users, at reducing excessive fees charged by CEs, and at increasing consumer awareness of the relative costs of financial services.

Who Uses Currency Exchanges?

Comparing basic transaction costs at banks and currency exchanges

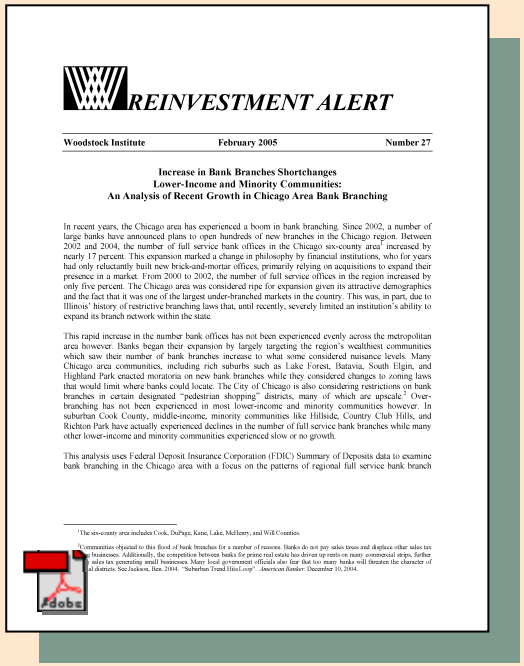


Source: Reinvestment Alert 10 – Currency Exchanges Add Poverty Surcharge to Low-Income Residents. 1997 Woodstock Institute

Fair Access to Banking Services

Community: bank branch distribution

Increase in Bank Branches Report



REINVESTMENT ALERT

Woodstock Institute | February 2005 | Number 27

Increase in Bank Branches Shortchanges Lower-Income and Minority Communities: An Analysis of Recent Growth in Chicago Area Bank Branching

In recent years, the Chicago area has experienced a boom in bank branching. Since 2002, a number of large banks have announced plans to open hundreds of new branches in the Chicago region. Between 2002 and 2004, the number of full service bank offices in the Chicago six-county area[1] increased by nearly 17 percent. This expansion marked a change in philosophy by financial institutions, who for years had only reluctantly built new brick-and-mortar offices, primarily relying on acquisitions to expand their presence in a market. From 2000 to 2002, the number of full service offices in the region increased by only five percent. The Chicago area was considered ripe for expansion given its attractive demographics and the fact that it was one of the largest under-branched markets in the country. This was, in part, due to Illinois' history of restrictive branching laws that, until recently, severely limited an institution's ability to expand its branch network within the state.

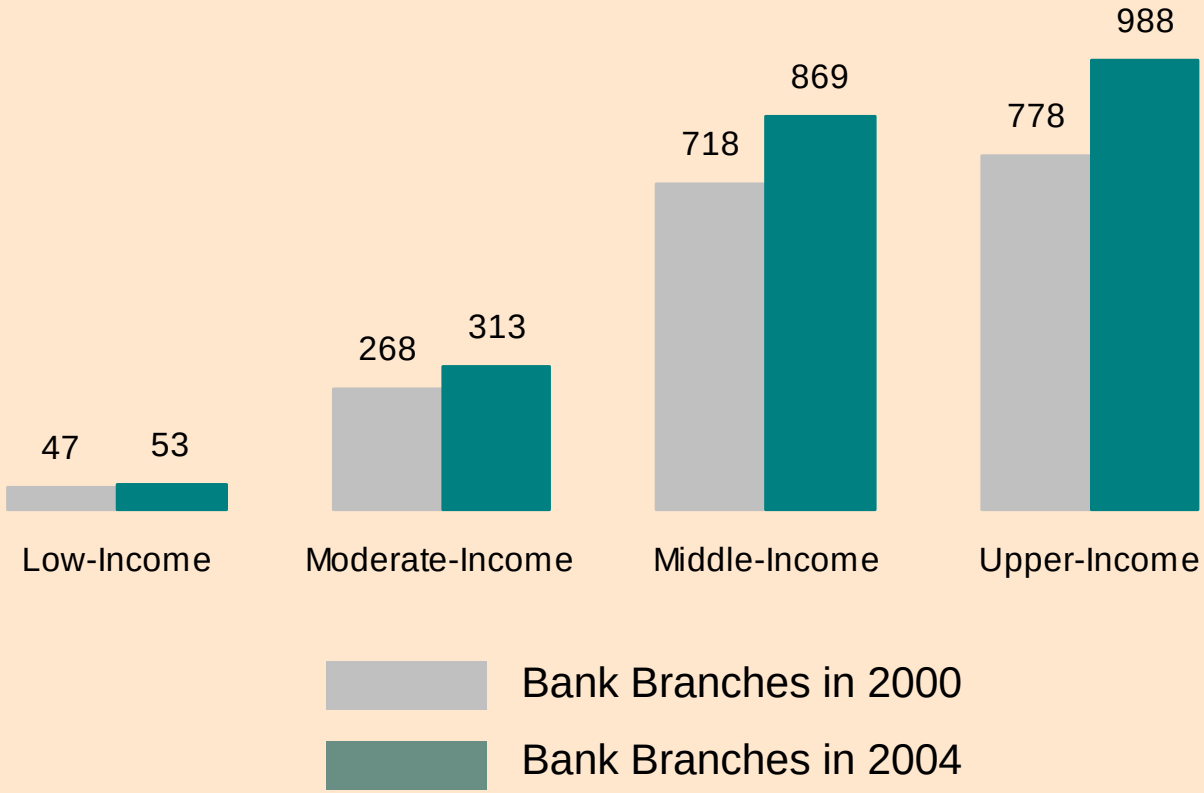
This rapid increase in the number bank offices has not been experienced evenly across the metropolitan area however. Banks began their expansion by largely targeting the region's wealthiest communities which saw their number of bank branches increase to what some considered nuisance levels. Many Chicago area communities, including rich suburbs such as Lake Forest, Batavia, South Elgin, and Highland Park enacted moratoria on new bank branches while they considered changes to zoning laws that would limit where banks could locate. The City of Chicago is also considering restrictions on bank branches in certain designated "pedestrian shopping" districts, many of which are upscale.[2] Over-branching has not been experienced in most lower-income and minority communities however. In suburban Cook County, middle-income, minority communities like Hillside, Country Club Hills, and Richton Park have actually experienced declines in the number of full service bank branches while many other lower-income and minority communities experienced slow or no growth.

This analysis uses Federal Deposit Insurance Corporation (FDIC) Summary of Deposits data to examine bank branching in the Chicago area with a focus on the patterns of regional full service bank branch

[1] The six-county area includes Cook, DuPage, Kane, Lake, McHenry, and Will Counties.

[2] Communities objected to this flood of bank branches for a number of reasons. Banks do not pay sales taxes and displace other sales tax generating businesses. Additionally, the competition between banks for prime real estate has driven up rents on many commercial strips, further displacing sales tax generating small businesses. Many local government officials also fear that too many banks will threaten the character of their retail districts. See Jackson, Ben. 2004. "Suburban Trend Hits Loop". *American Banker*. December 10, 2004.

Change in Chicago Six-County Area's Full Service Bank Offices by Income Level of Zip Code 2000-2004



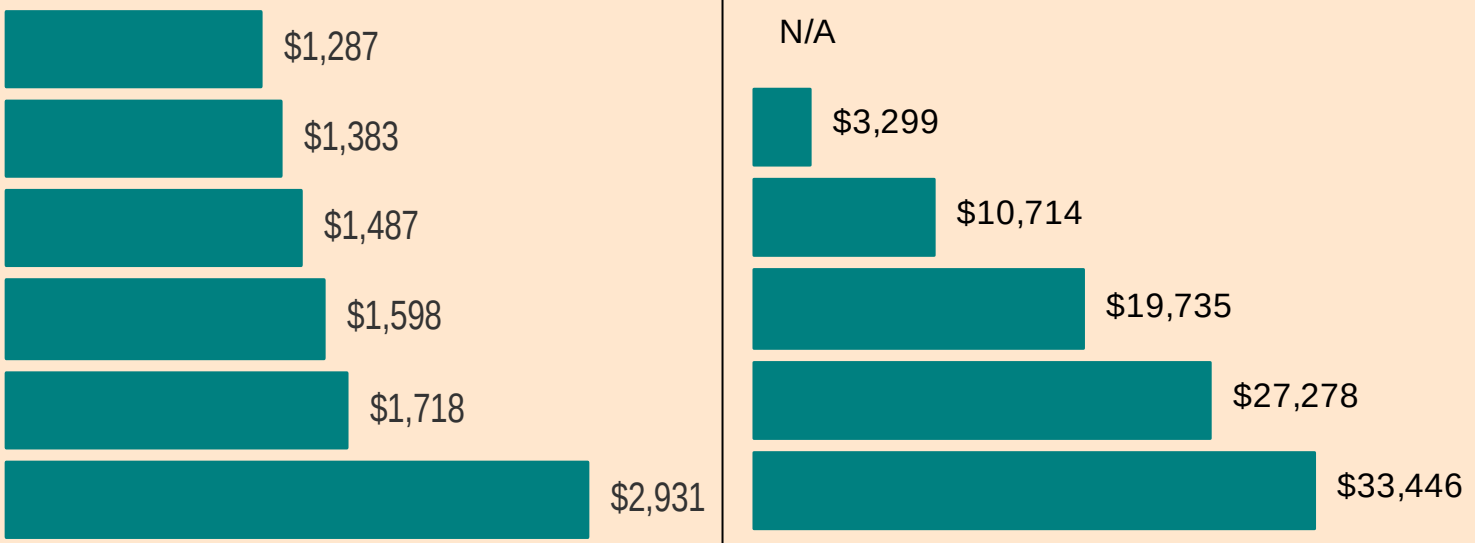
Source: Reinvestment Alert 27 - Increase in Bank Branches Shortchanges Lower-Income and Minority Communities . 2004 Woodstock Institute

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

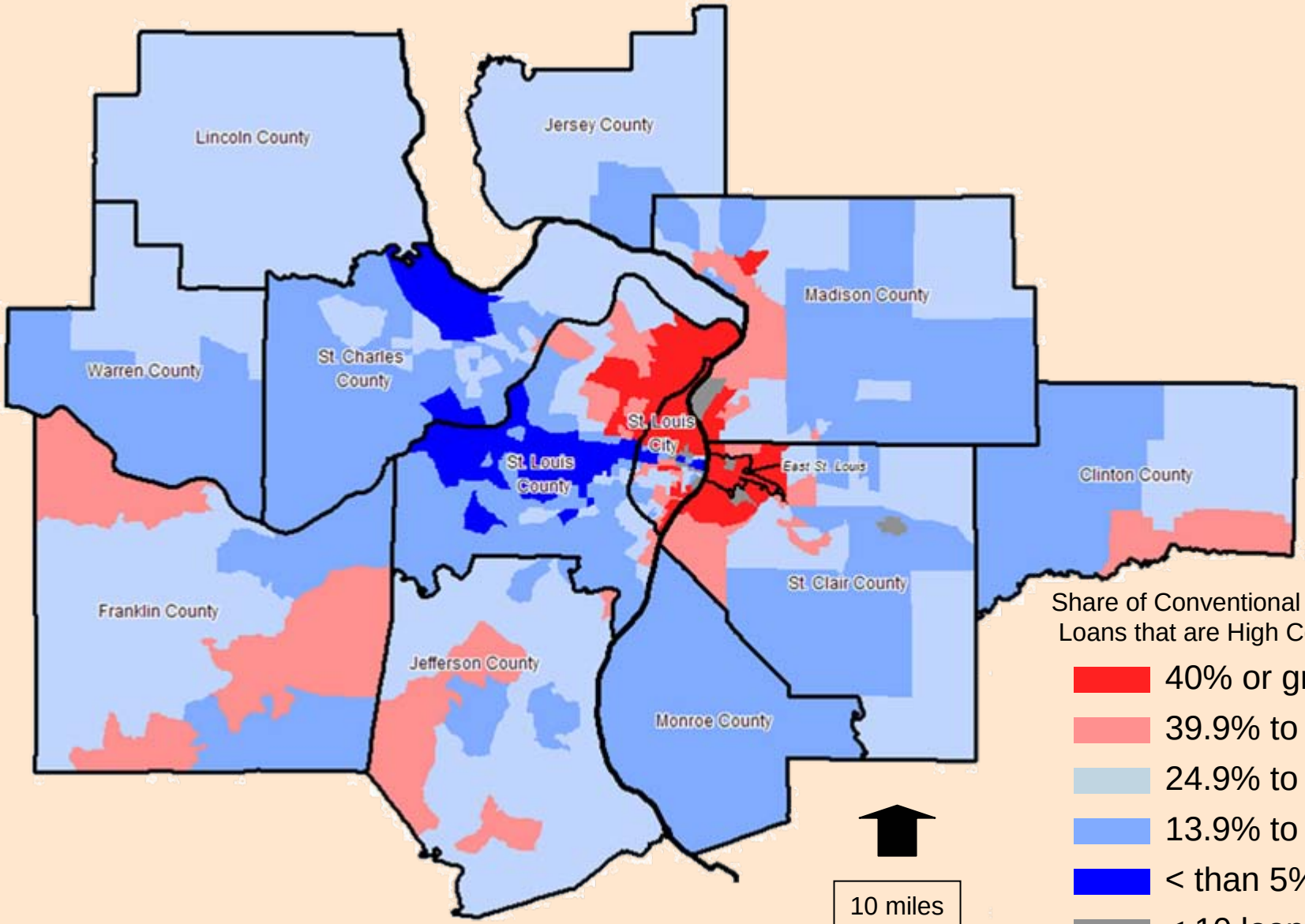
Pricing implications of interest rate changes on $100,000 30-year fixed rate mortgage

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

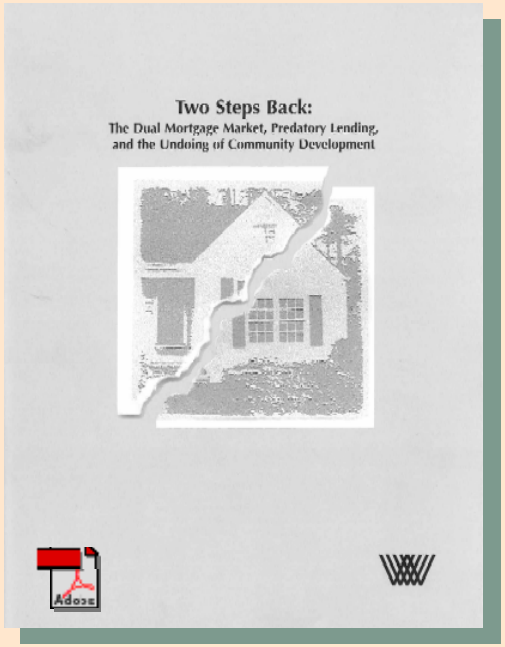
Community: distribution of subprime lending

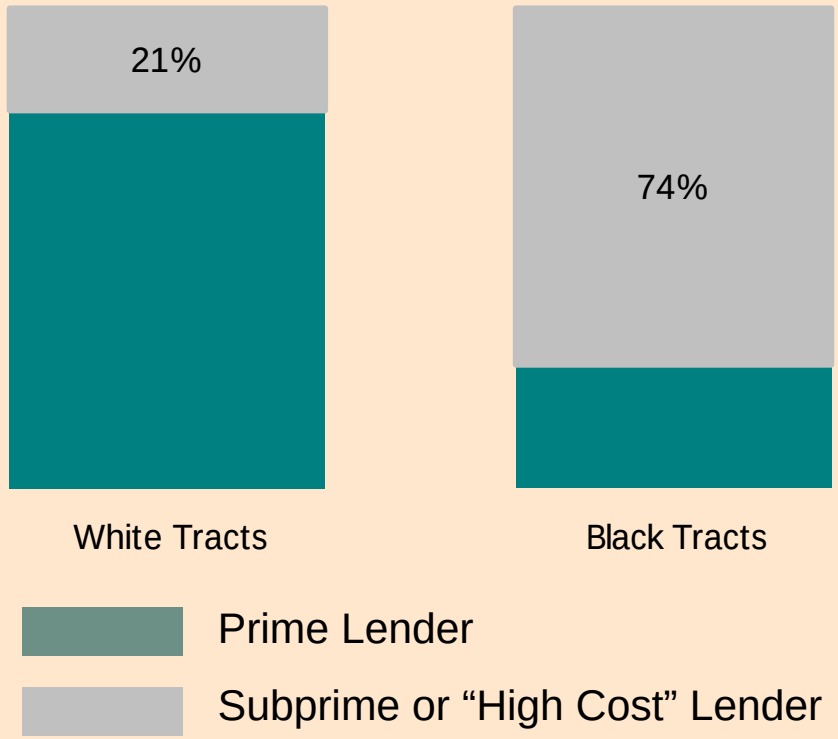


Fair Mortgage Lending

Community: Subprime lending in minority areas

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



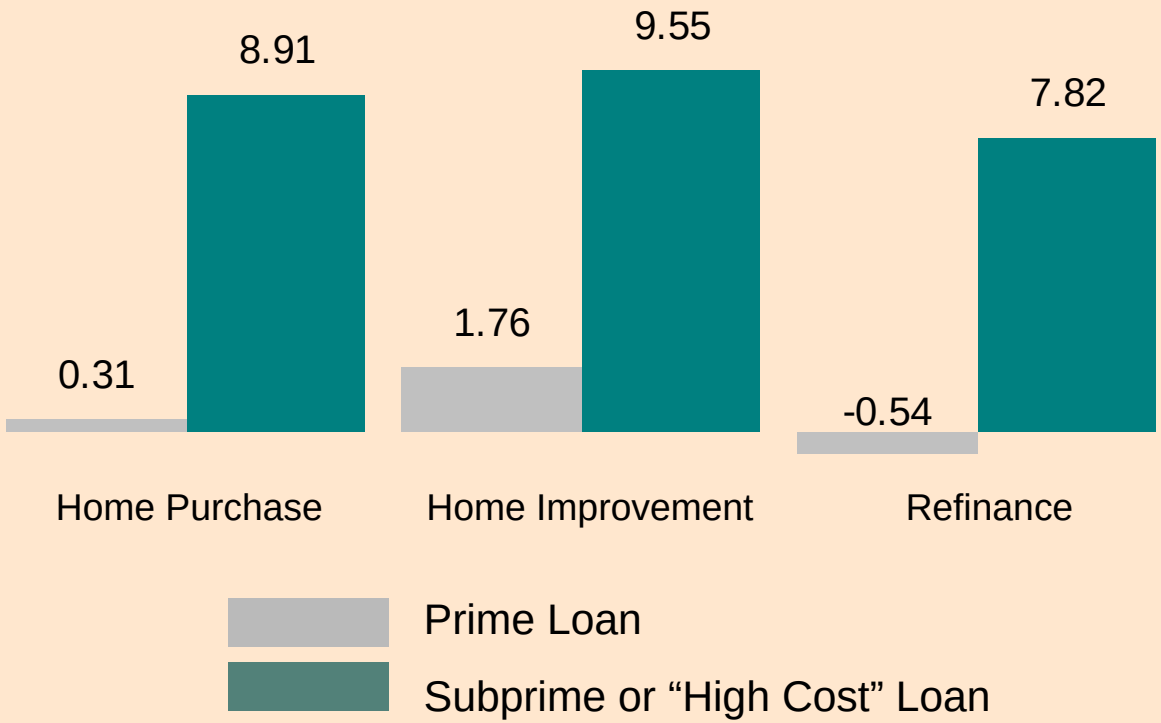


Source: Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development. 1999 Woodstock Institute

Fair Mortgage Lending

Community: Subprime effect on foreclosures

Expected Foreclosures per 100 loans by loan type



Source: Risky Business: An Economic Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures. 2004 Woodstock Institute

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.

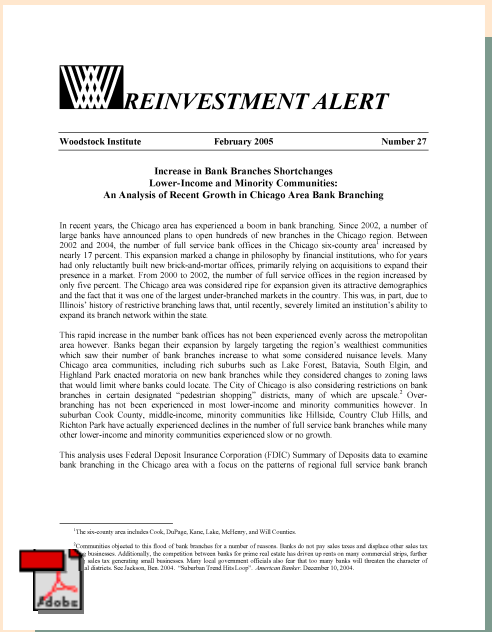
Given the $111,002 for properties in low- and moderate-income tracts, this amounts to a loss of nearly **$1,600 per foreclosure** for the average property

Source: There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values. 2005 Woodstock Institute

Fair Access to Banking Services

Solution: Advocate for equitable distribution

Increase in Bank Branches Report



REINVESTMENT ALERT

Woodstock Institute | February 2005 | Number 27

Increase in Bank Branches Shortchanges Lower-Income and Minority Communities: An Analysis of Recent Growth in Chicago Area Bank Branching

In recent years, the Chicago area has experienced a boom in bank branching. Since 2002, a number of large banks have announced plans to open hundreds of new branches in the Chicago region. Between 2002 and 2004, the number of full service bank offices in the Chicago six-county area[1] increased by nearly 17 percent. This expansion marked a change in philosophy by financial institutions, who for years had only reluctantly built new brick-and-mortar offices, primarily relying on acquisitions to expand their presence in a market. From 2000 to 2002, the number of full service offices in the region increased by only five percent. The Chicago area was considered ripe for expansion given its attractive demographics and the fact that it was one of the largest under-branched markets in the country. This was, in part, due to Illinois' history of restrictive branching laws that, until recently, severely limited an institution's ability to expand its branch network within the state.

This rapid increase in the number bank offices has not been experienced evenly across the metropolitan area however. Banks began their expansion by largely targeting the region's wealthiest communities which saw their number of bank branches increase to what some considered nuisance levels. Many Chicago area communities, including rich suburbs such as Lake Forest, Batavia, South Elgin, and Highland Park enacted moratoria on new bank branches while they considered changes to zoning laws that would limit where banks could locate. The City of Chicago is also considering restrictions on bank branches in certain designated "pedestrian shopping" districts, many of which are upscale.[2] Over-branching has not been experienced in most lower-income and minority communities however. In suburban Cook County, middle-income, minority communities like Hillside, Country Club Hills, and Richton Park have actually experienced declines in the number of full service bank branches while many other lower-income and minority communities experienced slow or no growth.

This analysis uses Federal Deposit Insurance Corporation (FDIC) Summary of Deposits data to examine bank branching in the Chicago area with a focus on the patterns of regional full service bank branch

[1] The six-county area includes Cook, DuPage, Kane, Lake, McHenry, and Will Counties.

[2] Communities objected to this flood of bank branches for a number of reasons. Banks do not pay sales taxes and displace other sales tax ... businesses. Additionally, the competition between banks for prime real estate has driven up rents on many commercial strips, further ... sales tax generating small businesses. Many local government officials also fear that too many banks will threaten the character of ... districts. See Jackson, Ben. 2004. "Suburban Trend Hits Loop". *American Banker*. December 10, 2004.

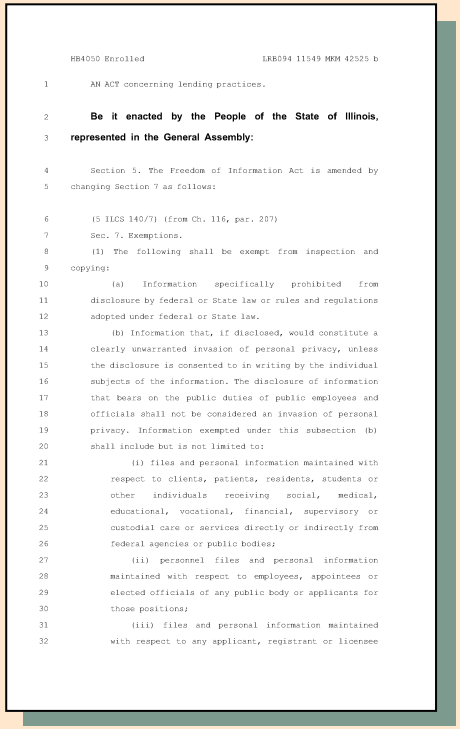
Change in Chicago Six-County Area's Full Service Bank Offices by Income Level of Zip Code 2000-2004

Source: Reinvestment Alert 27 - Increase in Bank Branches Shortchanges Lower-Income and Minority Communities . 2004 Woodstock Institute

Fair Mortgage Lending

Solution: Financial counseling pilot program

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



HB4050 Enrolled LRB094 11549 MKM 42525 b

AN ACT concerning lending practices.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The Freedom of Information Act is amended by changing Section 7 as follows:

(5 ILCS 140/7) (from Ch. 116, par. 207)

Sec. 7. Exemptions.

(1) The following shall be exempt from inspection and copying:

(a) Information specifically prohibited from disclosure by federal or State law or rules and regulations adopted under federal or State law.

(b) Information that, if disclosed, would constitute a clearly unwarranted invasion of personal privacy, unless the disclosure is consented to in writing by the individual subjects of the information. The disclosure of information that bears on the public duties of public employees and officials shall not be considered an invasion of personal privacy. Information exempted under this subsection (b) shall include but is not limited to:

(i) files and personal information maintained with respect to clients, patients, residents, students or other individuals receiving social, medical, educational, vocational, financial, supervisory or custodial care or services directly or indirectly from federal agencies or public bodies;

(ii) personnel files and personal information maintained with respect to employees, appointees or elected officials of any public body or applicants for those positions;

(iii) files and personal information maintained with respect to any applicant, registrant or licensee

Pilot program operating in 10 ZIP codes on the Southwest side of Chicago

Requires credit counseling for borrowers with fair or low credit scores who are taking out loans with potentially predatory features:

- Property financed in the last 12 months
- Mortgage has an interest only feature
- ARM with an initial fixed period of less than 3 years
- No income documentation

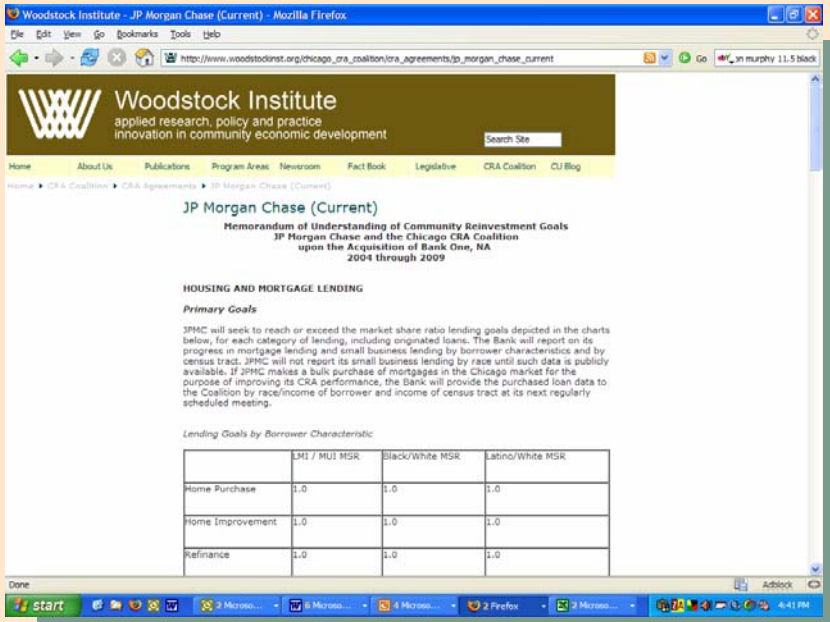
Requires that everyone receive credit counseling if the loan contains:

- Prepayment penalty
- Negative amortization
- Points and fees exceed 5 percent of the principal

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



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

Source: There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values. 2005 Woodstock Institute

Woodstock Institute

1970s CRA Coalition Founded

1980s First Chicago CRA Agreement

1997 Established Steering Commitee 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

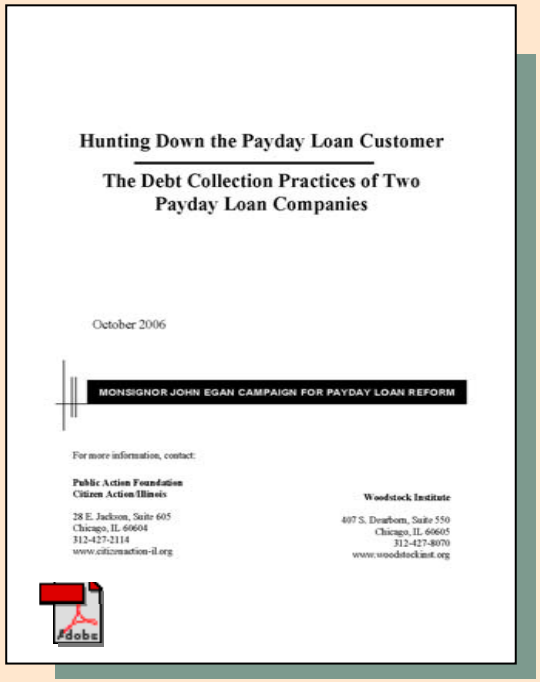
Better banking policy and practice for stronger Illinois communities

TIMELINE

Fair Pricing for Consumer Credit

Individual: interest only payments are common

Refinancing or "rollovers" occur when borrowers can only make interest payments



Hunting Down the Payday Loan Customer

The Debt Collection Practices of Two Payday Loan Companies

October 2006

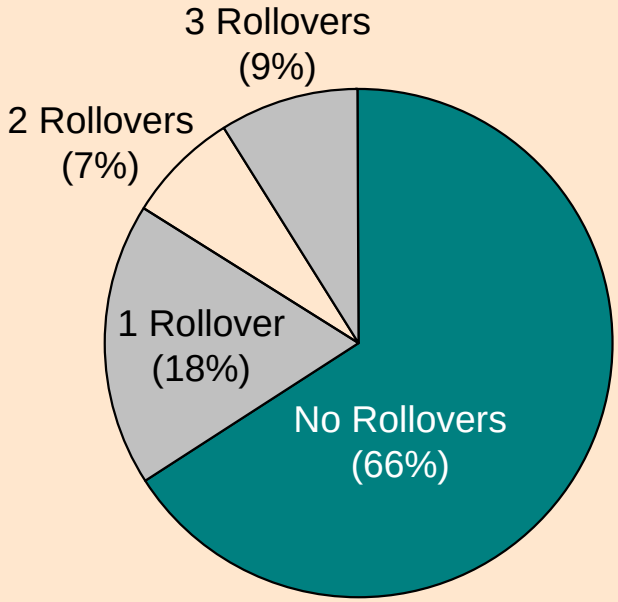
MONSIGNOR JOHN EGAN CAMPAIGN FOR PAYDAY LOAN REFORM

For more information, contact:

Public Action Foundation
Citizen Action/Illinois
28 E. Jackson, Suite 605
Chicago, IL 60604
312-427-2114
www.citizenaction-il.org

Woodstock Institute
407 S. Dearborn, Suite 550
Chicago, IL 60605
312-427-8070
www.woodstockinst.org

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

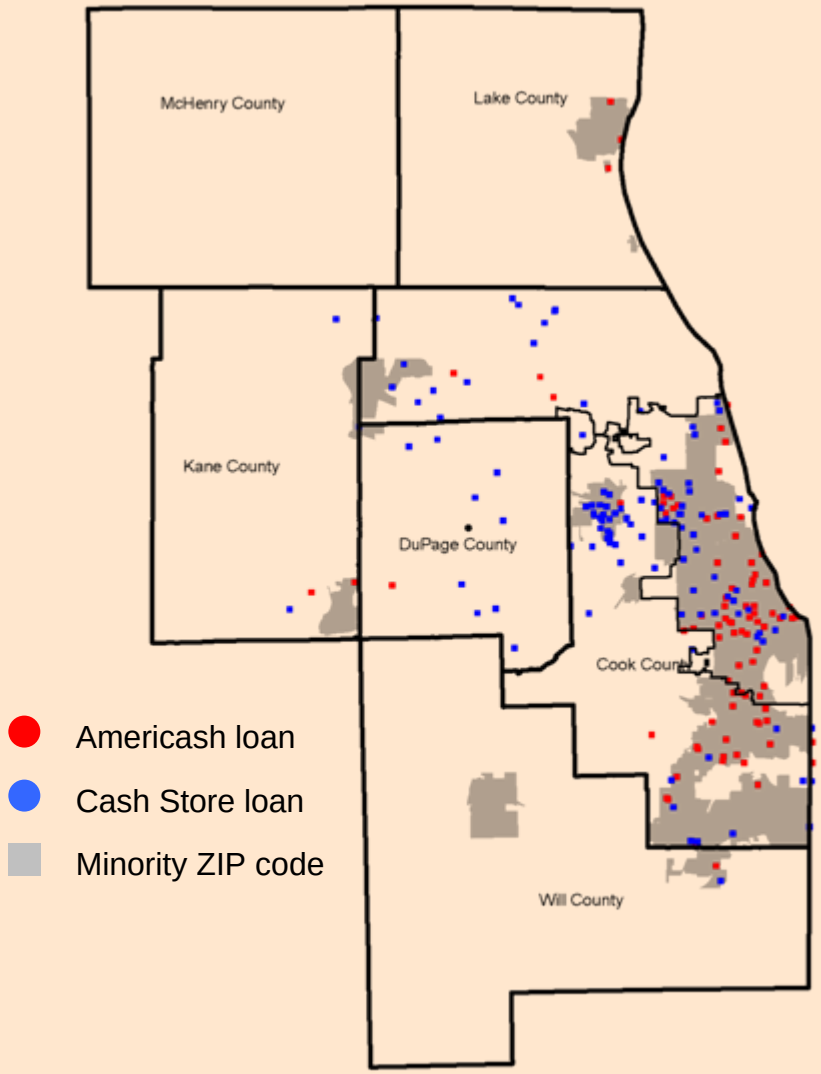


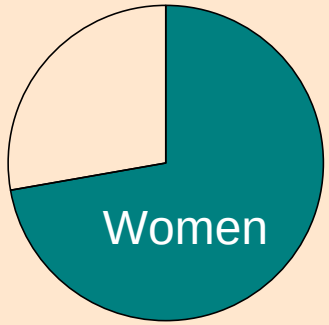
Source: Hunting Down the Payday Loan Customer: The Debt Collection Practices of Two Payday Loan Companies. Monsignor John Egan Campaign for Payday Loan Reform. 2006.

Fair Pricing for Consumer Credit

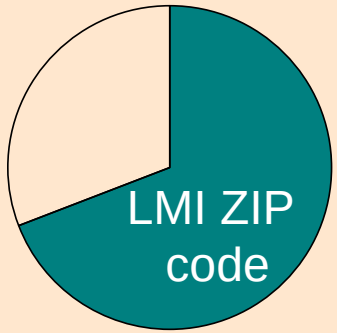
Community: where are defaults occurring?

Distribution and summary of payday loan defaults in 2005-2006

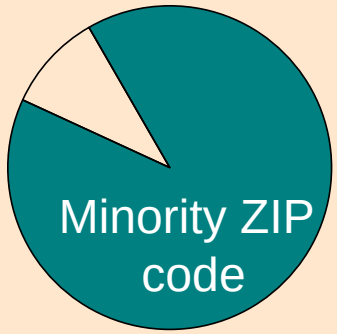




72% of defaults were female borrowers



70% of defaults were in LMI communities



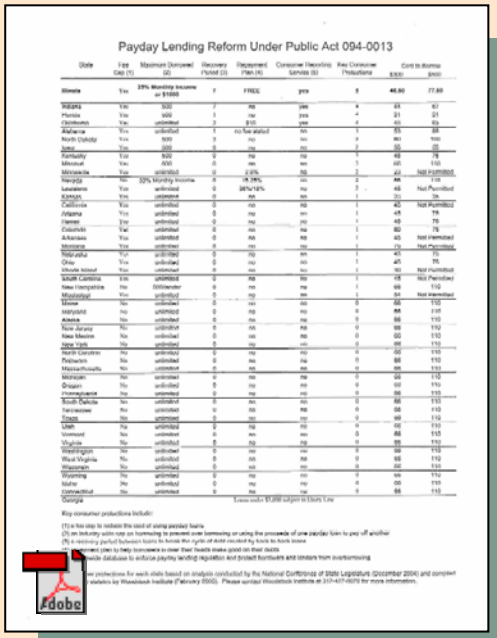
90% of defaults were in minority communities

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

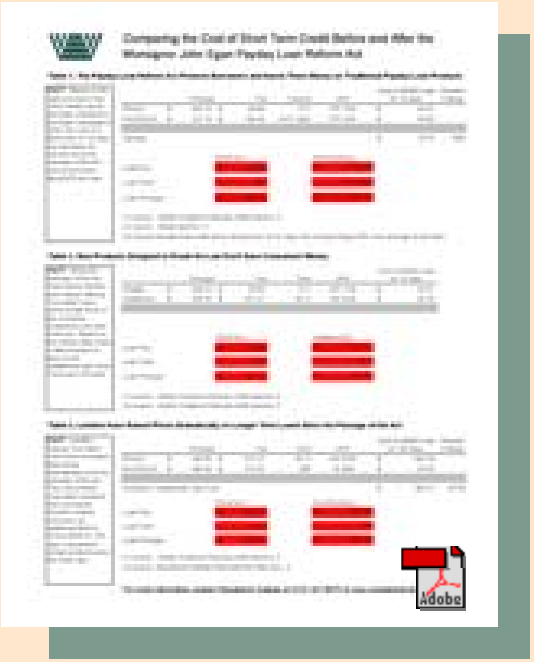


Payday Lending Reform Under Public Act 094-0013

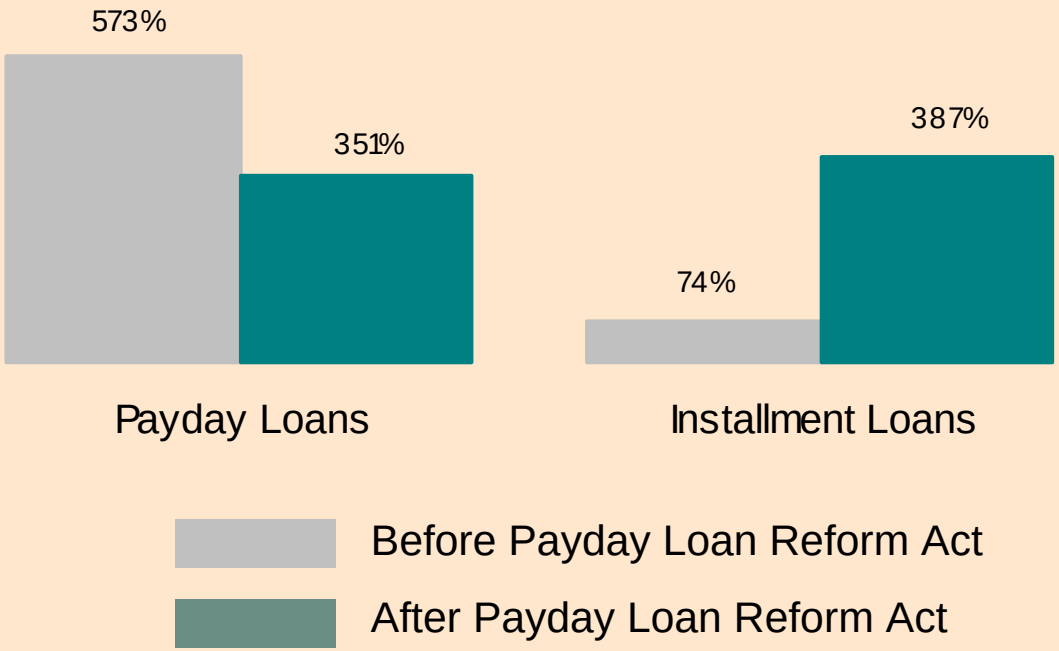
Source: Payday Lending Under the Illinois Payday Loan Reform Act. 2005 Woodstock Institute

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

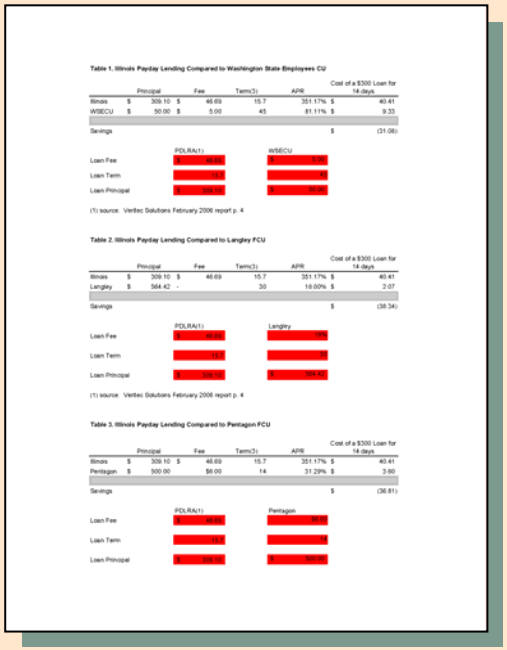


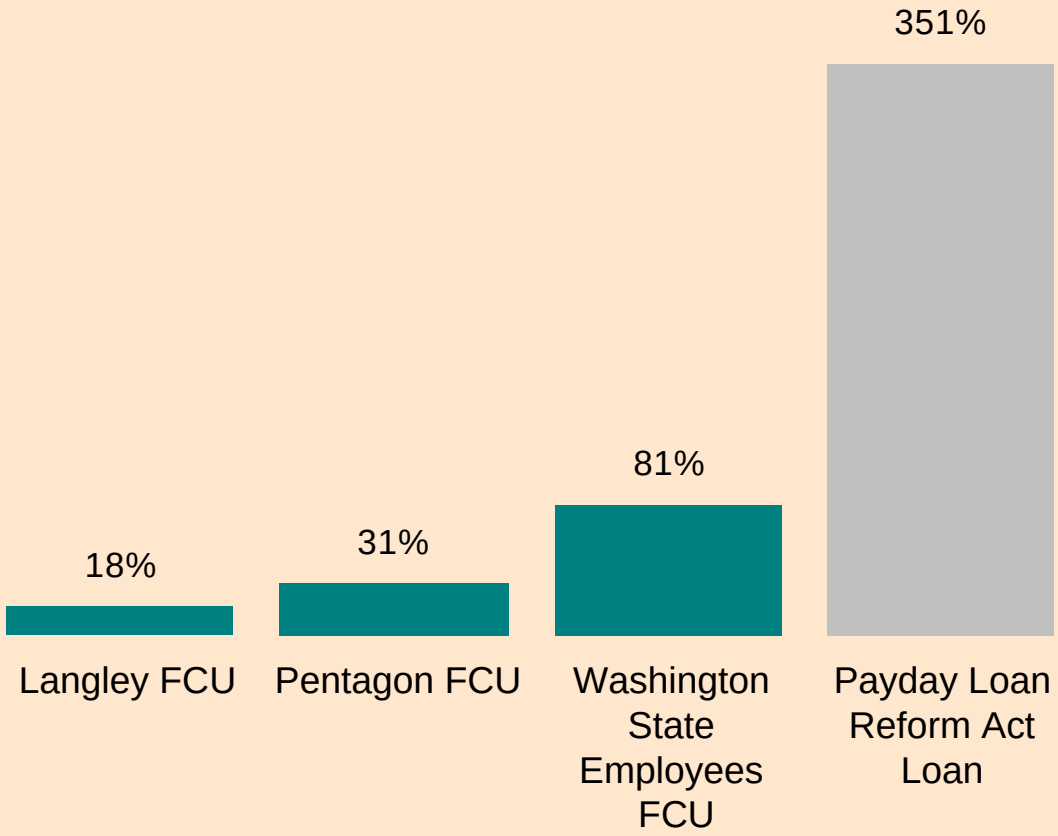
Source: Comparing the Cost of Credit Before and After the Monsignor John Egan Payday Loan Reform Act. 2006 Woodstock Institute

Fair Pricing for Consumer Credit

Solution: promoting affordable alternatives

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



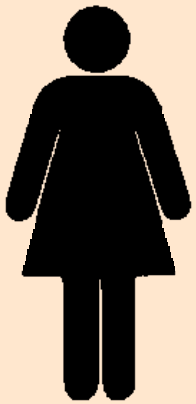


Source: Woodstock Institute calculations. May 2006. For more information on credit union payday loan alternatives See the *Building Community Assets Blog* at www.woodstockinst.org/blog.

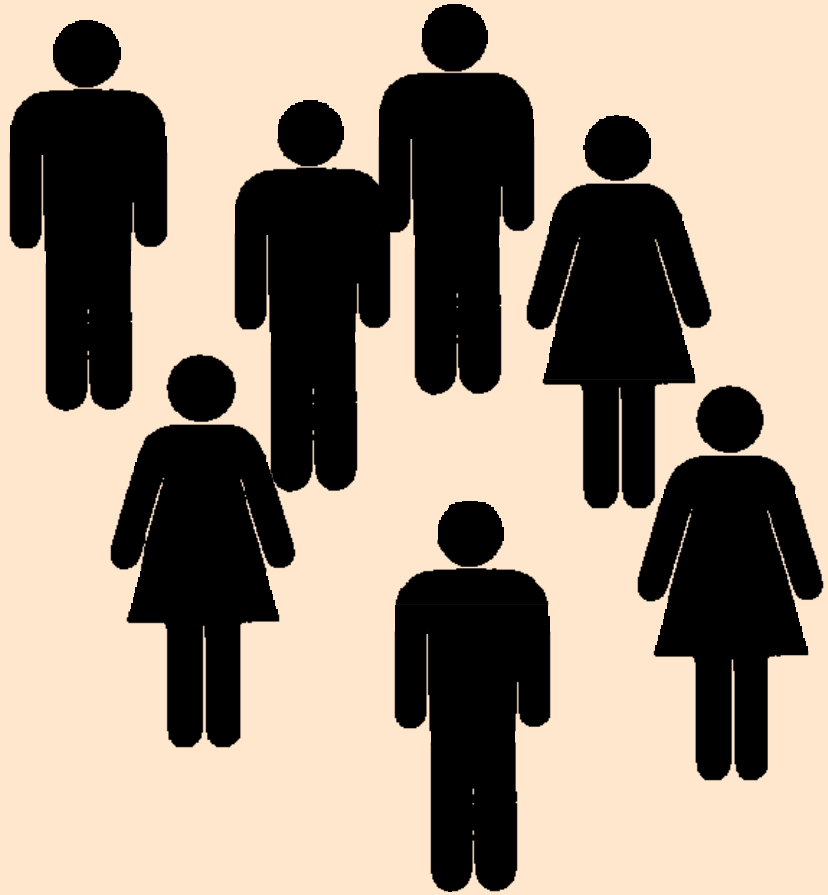
Why Research and Advocacy?

Problem: individual and community effects

Individual Effects



Community Effects



WOODSTOCK INSTITUTE

Research and Advocacy for Responsible Lending

Tom Feltner
Western Illinois University
November 9, 2006