



*Advancing Economic Security
and Community Prosperity*

ANNUAL REPORT 2016-2017

ADVOCATING FOR EQUITY





OUR MISSION

Create a just financial system in which lower-wealth persons and communities and people and communities of color can achieve economic security and community prosperity.



Letter from the President

In this annual report, we focus on some of our biggest victories—major Community Reinvestment Act (CRA) agreements with several banks, and a final Consumer Financial Protection Bureau (Consumer Bureau) prepaid card rule—and on our ground-breaking series of research reports documenting declines and patterns of disparity in bank lending to small businesses and the rise of financial technology firm “fintech” lending.

The period between 2016 and 2017 marked the beginning of a significant shift in the financial services landscape with the election of Donald Trump and changes in leadership at federal regulatory agencies. While Woodstock Institute and its allies were able to preserve some of the progress we made in recent years, much of that progress is being reversed.

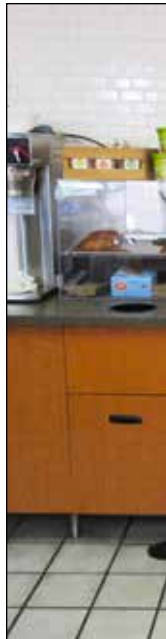
Beginning in 2014 and continuing through this period, several foundations changed their leadership and funding priorities, causing major shocks to our budget and staff. Fortunately, we weathered those storms and rebuilt over time. Even during the tumult and transitions, Woodstock continued to advance equity, economic security, and community prosperity through our research, policy advocacy, coalition building, and technical assistance. We worked with and on behalf of lower-wealth people, communities of color, and other marginalized populations, so that everyone can safely and affordably borrow, save, and build wealth, and every community can thrive.

During this period of political, philanthropic, and organizational upheaval, Woodstock continued to work with local and national allies, policymakers, and financial institutions to improve opportunities for lower-wealth people, communities of color, and other marginalized populations in an effort to achieve financial security and community prosperity.

A handwritten signature in cursive script that reads 'Dory Rand'.

Dory Rand *President*

Research Meets Advocacy: Supporting Small Businesses

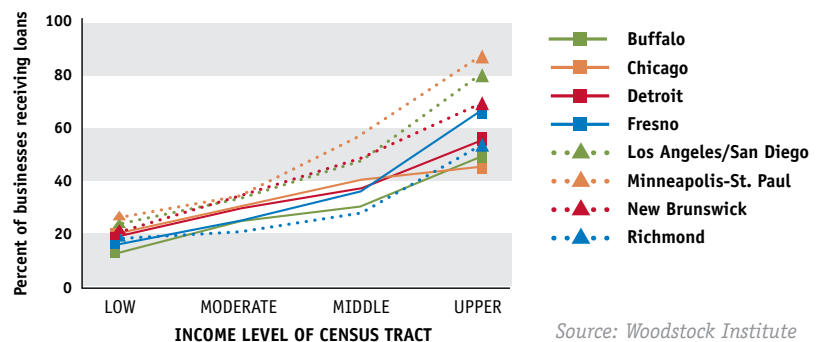


Woodstock Institute – in collaboration with our partners California Reinvestment Coalition, Main Street Alliance, and People's Action Institute – launched a campaign in 2016 to cast light on access to small business lending in low- and moderate-income (LMI) communities and communities of color.

This work is vitally important because small businesses create jobs, generate tax revenue, and provide access to goods and services for communities. Entrepreneurship can also serve as a pathway for individuals who are struggling to escape poverty or who face barriers in securing traditional employment due to a criminal record or lack of formal education.

Woodstock released four research reports entitled *Patterns of Disparity* in 2017 covering eight regions – Chicago; Los Angeles-San Diego; Buffalo; New Brunswick, NJ; Detroit; Richmond; Minneapolis-St. Paul; and Fresno County, CA. Each report details the disparity in access to small business loans from banks for entrepreneurs in LMI communities and communities of color. With the help of our partners, we employed an effective media strategy and earned substantial coverage. The media campaign featured a telephonic press briefing that included the author of the report,

Average Percentage of Businesses Receiving CRA-reported Loans Under \$100,000 in Eight Regions by Income Level of the Census Tract



Source: Woodstock Institute

Spencer Cowan, Woodstock's former Senior Vice President of Research and current Executive Research Consultant, and the live testimony of a small business owner of color and/or a small business owner in an LMI community. The briefings and reports garnered

Woodstock was actively involved in the development of a “Borrower’s Bill of Rights” (BBOR) to establish best practices for small business lenders.



many media hits—including coverage in such national outlets as *The Chicago Tribune*, *American Banker*, *Los Angeles Times*, *The Guardian*, *Huffington Post*, and *USA Today*. The reports have also been cited by other researchers studying the issue.

The *Patterns of Disparity* reports received considerable attention from policymakers, including the Consumer Financial Protection Bureau (Consumer Bureau), which attended the telephonic briefings on the report and requested two separate briefings on Woodstock’s research methodology. We used these reports to advocate with the Consumer Bureau to issue strong rules for robust data collection on small business lending by financial institutions and financial technology (fintech) firms.

We also used these reports to advance policies to protect small business borrowers. A prime example of this involved small business lending by fintechs. Fintechs have been filling the void left by banks that significantly curbed small business lending since before the Great Recession of 2008. The most obvious differences between a fintech and a traditional lender are that fintechs operate almost exclusively online and are essentially unregulated. According to the California Department of Business Oversight, from 2010-2014, the total dollar amount of consumer and small business transactions in the U.S. by 13 fintechs climbed from \$1.99 billion to \$15.91 billion—a 700 percent increase. Corresponding to this trend, Woodstock began to hear reports of fintech loans with predatory terms, including triple-digit interest rates. These reports mirrored consumer stories about payday loan abuses, including the inescapable cycle of debt cause by unaffordable loans. Woodstock published a fact sheet in 2016 detailing the terms of 13 fintech loans to small businesses. The terms reflected substantial “junk fees” (fees not directly associated with the service provided and/or for unnecessary services) on some of the loans, and seven of the loans carried triple-digit interest rates – the highest being a whopping 324 percent!

Armed with this data, Woodstock worked closely with Illinois Senator Jacquelyn Collins and Chicago Treasurer Kurt Summers as well as our allies Accion Chicago and

Small Business Majority on legislation to establish a statewide regulatory framework for fintech lenders, which would, among other things, require them to assess a borrower’s ability to repay the loan. “Ability-to-repay” means the borrower can repay the loan in full when due and still meet basic operating expenses and major financial obligations. As often happens when trying to enact major consumer protections, the legislation triggered a torrent of opposition from the industry, including both mainstream financial institutions and major fintechs such as OnDeck Capital. Senator Collins passed the bill out of the Illinois Senate Financial Institutions Committee, but we have not been able to advance the policy further yet.

700%

INCREASE IN THE DOLLAR AMOUNT
OF CONSUMER AND SMALL BUSINESS
TRANSACTIONS IN THE U.S. BY 13 FINTECHS

Source: California Department of Business Oversight

In the absence of a sufficient regulatory framework to curb some of the abuses in the fintech space, Woodstock was actively involved in the development of a “Borrower’s Bill of Rights” (BBOR) to establish best practices for small business lenders. The Responsible Business Lending Coalition (RBLC), a group comprised of Community Development Financial Institutions, fintechs, and others, released the first version of the BBOR in 2015. The BBOR included many positive elements, including the right to transparent pricing and terms and the right to non-abusive products. From the standpoint of Woodstock and the partners in our collaborative, the BBOR was not strong enough, and we provided the RBLC with a series of recommendations. In 2017, the RBLC released a new and improved BBOR 2.0, which adopted the collaborative’s recommendations on several fronts, including the requirement of all-in APR disclosure. At that point, we decided that the standards were strong enough to warrant our formal endorsement.

National Victories: Prepaid Card Protections



Payment methods are becoming increasingly diverse, including person-to-person payment systems such as Venmo, Zelle, and PayPal and cryptocurrencies such as bitcoin.

Alternative payment methods sometimes fall into regulatory limbo, which can open the door to fraudulent and abusive practices and which, correspondingly, require policymakers and advocates to swing into action. Prepaid and stored value cards began to become mainstream in 1996 when Congress mandated that food stamps be delivered electronically via stored value cards. As of 2016, government agencies disbursed \$146 billion through prepaid cards.¹

Prepaid cards come with a variety of advantages as compared to cash or checks. Cash carries a high risk of theft or loss. Checks are susceptible to fraud. Also, getting cash from a check can be costly for consumers who lack a bank account and rely on expensive check-cashers. Prepaid cards can be canceled if lost or stolen, and getting cash from a prepaid card is typically much less expensive than cashing a check at a

\$146 billion

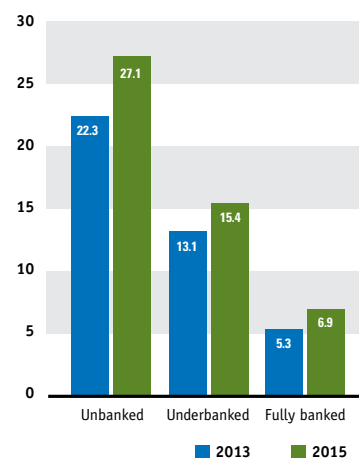
AS OF 2016, GOVERNMENT
AGENCY DISBURSEMENTS
THROUGH PREPAID CARDS

21%

OF ILLINOIS HOUSEHOLDS ARE
UNBANKED OR UNDERBANKED,
REPRESENTING A LARGE NUMBER OF
HOUSEHOLDS WHO MAY BE FORCED
TO RELY ON A PREPAID CARD

Source: Woodstock Institute

Prepaid Card Use in Past
12 Months by Banking Status
and Year (percent)



Source: FDIC

Before 2017, Congress had used the Congressional Review Act only once. That changed dramatically in 2017 as the Trump Administration began to use it frequently to undo the work of the prior administration.



check-casher. Prepaid cards, however, have their own set of risks and potential abuses. Insurers often charge a variety of fees for things such as reloading funds, declined transactions, balance inquiries, inactivity, ATM withdrawals, and customer service calls. Some prepaid cards come with overdraft “protection” and hit consumers with abusive overdraft fees. Finally, fraudsters have engineered ways to steal a consumer’s funds from prepaid cards.

Against this backdrop, the Consumer Bureau proposed a strong prepaid card rule in 2014 aimed at addressing many of the issues in the prepaid card market. The rule required better disclosure of fees and established protections from fraud, unauthorized charges, and errors. In terms of overdraft “protection,” Woodstock’s position is that overdraft on prepaid cards should be banned entirely, as it goes against the fundamental purpose of prepaid cards, which is that one spends only money that is already there. Overdraft imposes significant harm on lower-income consumers. While the Consumer Bureau’s proposed rule did not ban the practice of offering overdraft on prepaid cards, it required prepaid card companies that offer overdraft to comply with credit card laws, including ability-to-repay requirements and limits on fees in the first year.

Woodstock submitted a formal comment letter that broadly supported the proposed rule while also offering specific suggestions on how the rule could be strengthened. For example, we urged the Consumer Bureau to ban overdraft on these products. The Consumer Bureau issued a final rule in 2016 that was generally the same as the proposed rule. The presidential election was shortly thereafter, and by 2017 we had a majority in Congress and President who were generally opposed to the Consumer Bureau’s work and even its existence. The prepaid card rule, along with a whole host of consumer protections that had been established by federal agencies, were on the chopping block in the form of repeal attempts under the Congressional Review Act. The Act is a 1996 law that gives Congress the power to repeal agency rules and

to prohibit the agency from similar rule-making in the future. Before 2017, Congress had used the Congressional Review Act only once. That changed dramatically in 2017 as the Trump Administration began to use it frequently to undo the work of the prior administration.

Woodstock and our prepaid card allies buckled down for a difficult fight to protect the rule against resolutions to repeal in the U.S. House and Senate. The only corporate giant backing the repeal effort was a company called Netspend, the nation’s largest provider of prepaid cards. Netspend’s prepaid cards, unlike most prepaid cards, carried overdraft “protection,” so the prepaid card rule’s provision on overdraft threatened the company’s revenue from overdraft fees.

Along with our national allies, such as Americans for Financial Reform, National Consumer Law Center, and Consumer Federation of America, we educated policy-makers on the details and potential scope of the rule. With respect to Illinois’ U.S. Senators and Members of Congress, we informed them of the significant protections provided by the new rule and pointed to the fact that 21 percent of Illinois households are unbanked or underbanked, representing a large number of households who may be forced to rely on a prepaid card. By May 2017, it became apparent that the repeal backers did not have the votes necessary in the Senate to pass a repeal resolution. This represented a major victory, considering that the current majority in Congress is generally hostile to everything the Consumer Bureau accomplished in its first five years.

The implementation date for the prepaid card rule is April 1, 2019. Although the current administration is trying to undo much of the Consumer Bureau’s work, we are hopeful the prepaid card will remain largely intact and proceed to be implemented as scheduled.

¹ Report to the Congress on Government-Administered, General-Use Prepaid Cards. July 2017. Board of Governors of the Federal Reserve System. <https://www.federalreserve.gov/publications/files/government-prepaid-report-201707.pdf>

The Community Reinvestment Act: Going Strong at 40!



Woodstock Institute and our allies celebrated the 40th anniversary of the Community Reinvestment Act (CRA) in 2017.

Developed as a tool to stop redlining, CRA has been—and continues to be—vital in our efforts to combat systems of disinvestment that prey on vulnerable populations. CRA imposes an affirmative obligation on financial institutions with Federal Deposit Insurance Corporation (FDIC) insurance to serve the financial and credit needs of low- and moderate-income (LMI) people and communities, consistent with safe and sound banking practices.

During 2016 and 2017, Woodstock and our allies successfully used CRA to hold banks accountable for meeting community needs. In collaboration with the National Community Reinvestment Coalition (NCRC) and its members, Woodstock helped to negotiate a five-year, \$16.1 billion CRA agreement with The Huntington National Bank in connection with Huntington's acquisition of First Merit Bank. Huntington President and CEO Steve Steinour and senior staff attended the community meeting hosted by the Chicago Urban League.

\$16 billion

WOODSTOCK HELPED NEGOTIATE A FIVE-YEAR CRA AGREEMENT WITH THE HUNTINGTON NATIONAL BANK, IN COLLABORATION WITH NCRC AND ITS MEMBERS.

\$30 billion

WOODSTOCK, NCRC, AND ALLIES ACROSS 10 STATES NEGOTIATED A FIVE-YEAR CRA AGREEMENT WITH FIFTH THIRD.

\$3 billion

WOODSTOCK AND SLEHCRA NEGOTIATED A THREE-YEAR CRA AGREEMENT WITH CIBC.

Source: Woodstock Institute

We will continue to work with NCRC and allies to strengthen and preserve CRA as a strong tool for advancing economic security and community prosperity.



Our success negotiating the Huntington and other CRA agreements inspired Woodstock Treasurer and Fifth Third Bank executive Byna Elliott to approach Woodstock about developing a similar CRA plan after the bank received a “Needs to Improve” rating on its CRA performance. As a result, Woodstock, NCRC, and allies across 10 states negotiated a five-year, \$30 billion CRA agreement with Fifth Third.

More locally, Woodstock and NCRC ally, the St. Louis Equal Housing and Community Reinvestment Alliance (SLECRA), led negotiations on a three-year, \$3 billion CRA agreement with CIBC (a Canadian Bank) in connection with its acquisition of The PrivateBank.

In each CRA agreement, the banks made specific, measurable commitments, to:

- Increase mortgage and small business lending;
- Expand community development lending, investments, and philanthropy;
- Open branches in underserved LMI areas; and,
- Establish community advisory councils who meet regularly to monitor and report back on progress made under the agreements.

Each of the banks is meeting or exceeding its commitments, and LMI people and communities continue to benefit from expanded lending, investments, and retail banking services (including six new LMI branches in the Chicago area, two from each of the three banks).

To keep up with a rapidly changing economy, some banks changed their business models. As they began to close branches, Woodstock investigated situations in which closings in LMI areas reduced convenient access to banking services. In some cases, Woodstock contacted banks and regulators and/or submitted comments in opposition to the closings.

Many members of the financial services industry, as well as new leadership at the agencies, have called for changes to CRA. Some banks claim that compliance with CRA is burdensome, even as they enjoy significant tax breaks and increasing profits. While Woodstock agrees that some CRA modernization is needed to address changes in the financial system that did not exist the last time CRA was significantly updated in 1995, we are concerned that some of the proposed changes could result in deregulation or weakening of CRA. We will continue to work with NCRC and allies to strengthen and preserve CRA as a strong tool for advancing economic security and community prosperity.

Community Investment Awards Reception

Each year, Woodstock Institute hosts the Community Investment Awards Reception at which we, along with our friends from nonprofits, financial institutions, academia, government, and beyond, honor exemplary work to advance community development and prosperity both in Chicago and across the country.

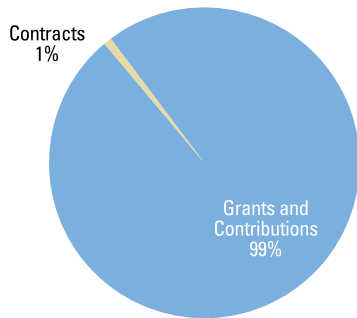
In 2016, we hosted the event at the Stony Island Arts Bank, which was filled with live music and artwork from the Rebuild Foundation. We honored Accion Chicago for providing fair and reasonable

financing options to small businesses. Its leadership on small business policy issues helps both the small businesses and the communities they serve.

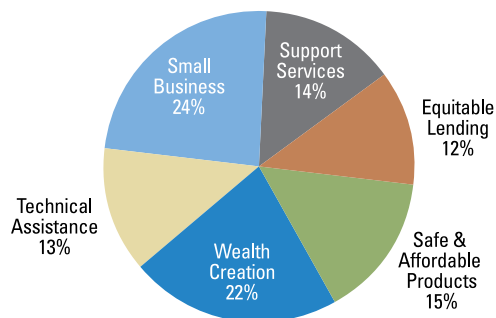
In 2017, we celebrated the 40th anniversary of the CRA, and recognized National Community Reinvestment Coalition for its excellent CRA work, including negotiation of three major CRA plans with banks in 2016. These plans are bringing billions of dollars in lending, investments, and retail financial services to underserved low- and moderate-income communities.

INCOME, EXPENSES, AND FUNDING SOURCES

INCOME



EXPENSES



Funding Sources for Year 2017

Foundations, Nonprofits & Government

Elizabeth Morse Genius Charitable Trust
Ford Foundation
Illinois Attorney General Office
Northwest Side Housing Center
Polk Bros Foundation
Surdna Foundation
The Big Cat Foundation
The Chicago Community Trust
The Harris Family Foundation
The Leadership Conference on Civil and Human Rights
The Retirement Research Foundation
The Richard H. Driehaus Foundation
Woods Fund of Chicago

Corporate

Bank of America
Capital One
Citi
Fifth Third Bank
First Midwest Bank
The Huntington National Bank
JPMorgan Chase
Marquette Bank
Northern Trust
The PrivateBank / CIBC
U.S. Bank
Union Bank Foundation
VantageScore Solutions, LLC
Wintrust Bank

Individual Donors

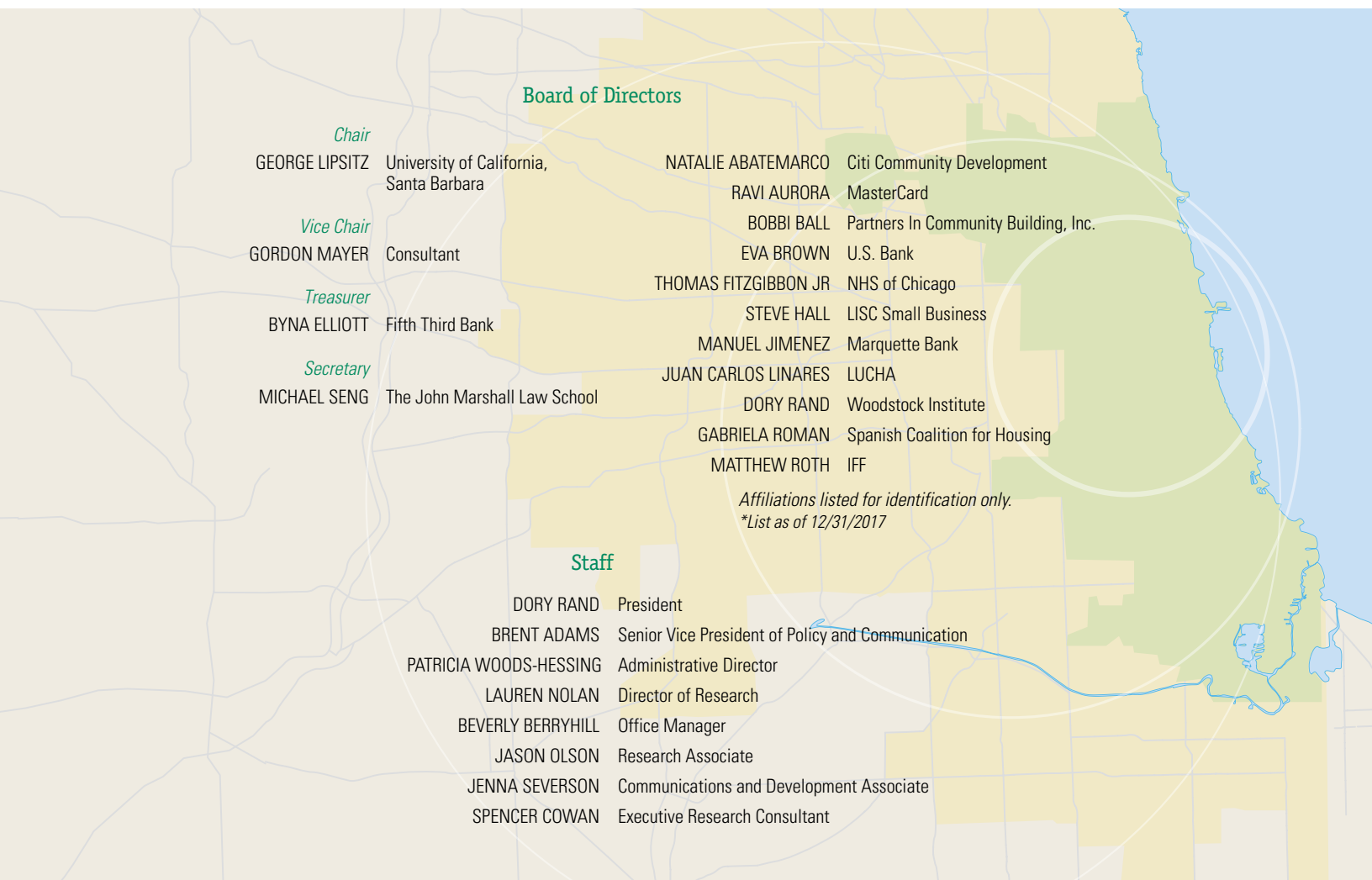
Natalie Abatemarco
Barbara Adams
Ravi Aurora
Bobbi Ball
William & Irene Beck
Curtis Black
Eva Brown
Spencer Cowan
Cheryl Devall
Bryna Elliott
Tommy FitzGibbon, Jr.
Steve Hall
Juan Carlos Linares
George Lipsitz
Gordon Mayer
Dory Rand
Mary Fran Riley
Gabriela Roman
Matthew Roth
Michael Seng
Gregory Squires
Edward & Ana Williams
The Lars Peter Hansen & Grace R. Tsiang Fund

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ending December 31, 2017

	UNDESIGNATED	2017 UNRESTRICTED BOARD DESIGNATED RESERVE FUND	TOTAL	TEMPORARILY RESTRICTED	TOTAL
Revenue and other support					
Grants and contributions	\$ 458,976	—	\$ 458,976	\$ 265,154	\$ 24,130
Contracts	—	—	—	13,046	13,046
Net assets released from restriction:					
Grants & contributions	\$ 495,122	—	\$ 495,122	(495,122)	—
Contracts	13,046	—	13,046	(13,046)	—
Interest and Dividend Income	1,678	—	1,678	—	1,678
Other Income	17	—	17	—	17
Total Support and Revenue and Assets Released from Restrictions	968,839	—	968,839	(229,968)	738,871
Expenses					
Program services	816,849	—	\$ 816,849	—	\$ 816,849
Administrative costs	128,378	—	128,378	—	128,378
Total expenses	945,227	—	945,227	—	945,227
Change in net assets	23,612	—	23,612	(229,968)	(206,356)
Net assets at beginning of year	201,721	210,000	411,721	350,643	762,364
Net assets, end of year	\$ 225,333	210,000	435,333	120,675	556,008

This statement is an excerpt from Woodstock Institute's annual financial statements. For a complete copy of those financial statements, please contact Woodstock Institute..



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Santa Barbara

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NATALIE ABATEMARCO Citi Community Development
RAVI AURORA MasterCard
BOBBI BALL Partners In Community Building, Inc.
EVA BROWN U.S. Bank
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MANUEL JIMENEZ Marquette Bank
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MATTHEW ROTH IFF

*Affiliations listed for identification only.
List as of 12/31/2017

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BRENT ADAMS Senior Vice President of Policy and Communication
PATRICIA WOODS-HESSING Administrative Director
LAUREN NOLAN Director of Research
BEVERLY BERRYHILL Office Manager
JASON OLSON Research Associate
JENNA SEVERSON Communications and Development Associate
SPENCER COWAN Executive Research Consultant

OUR VISION

A just society in which everyone has an equal opportunity to achieve economic security and community prosperity and a just financial system in which everyone—including lower-wealth persons and communities, and people and communities of color—can safely and sustainably borrow, save, and build wealth.



WOODSTOCK
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