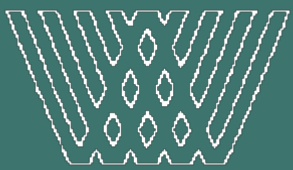




WOODSTOCK INSTITUTE

Research and Advocacy for
Responsible Lending

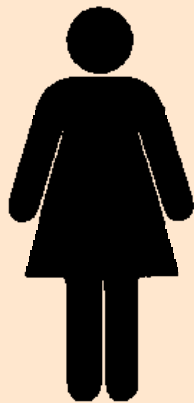
Tom Feltner
Western Illinois University
November 9, 2006



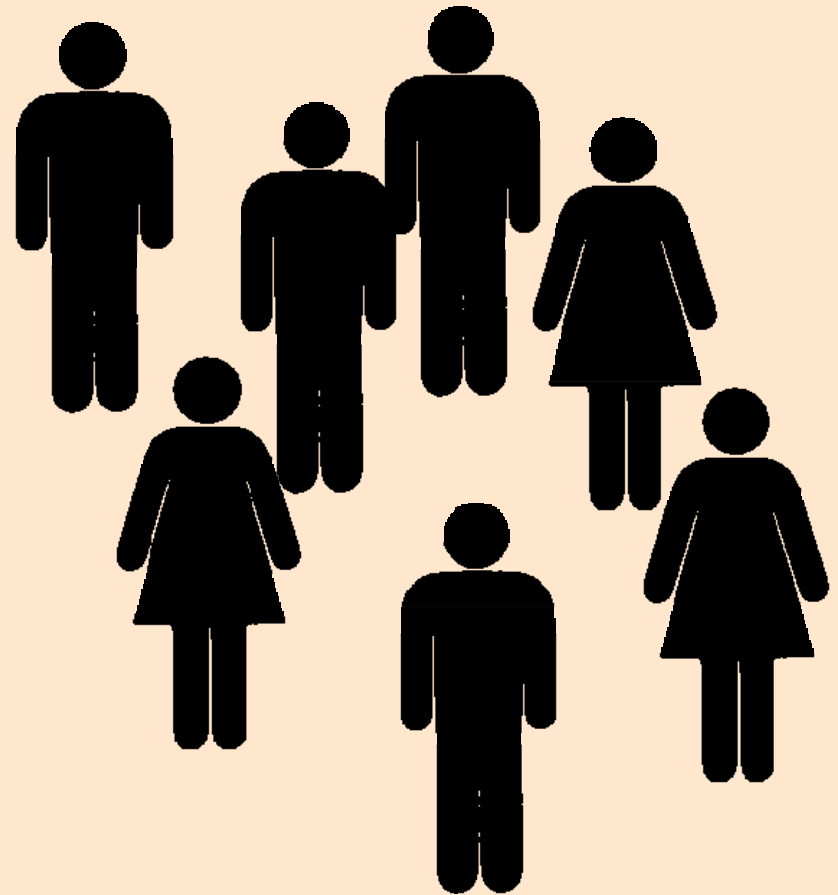
Why Research and Advocacy?

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

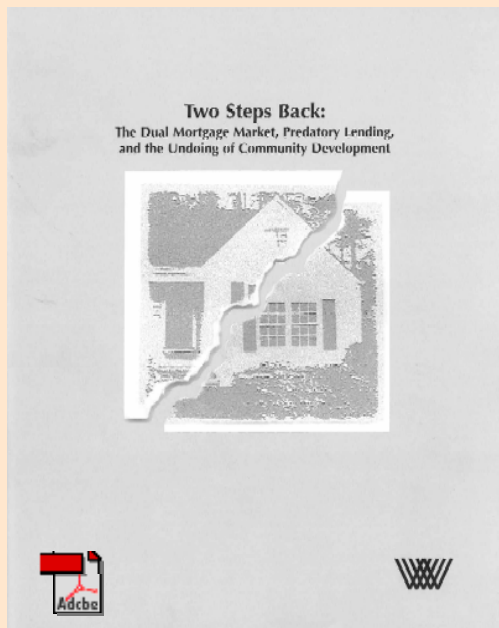
Payday Lending Reform Under Public Act 094-0013

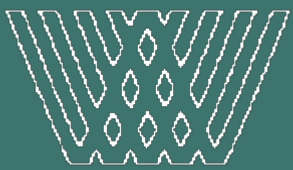
State	Yes	25% Maximum Annual Interest Rate	Maximum (Annual) Fee (\$1000)	Recovery Period (Days)	Debtors' Exemption (\$100,000)	Consumer Reporting Services (S)	Has Consumer Protections	Card to Monitor
Alabama	Yes	25%	500	7	NO	NO	4	41
Alaska	Yes	NO	1	NO	NO	4	4	21
Arizona	Yes	unlimited	2	NO	NO	2	NO	NO
Arkansas	Yes	unlimited	1	NO	NO	NO	2	NO
California	Yes	NO	NO	NO	NO	NO	NO	NO
Colorado	Yes	NO	NO	NO	NO	NO	NO	NO
Connecticut	Yes	NO	NO	NO	NO	NO	NO	NO
Delaware	Yes	NO	NO	NO	NO	NO	NO	NO
District of Columbia	Yes	NO	NO	NO	NO	NO	NO	NO
Florida	Yes	NO	NO	NO	NO	NO	NO	NO
Georgia	Yes	NO	NO	NO	NO	NO	NO	NO
Hawaii	Yes	NO	NO	NO	NO	NO	NO	NO
Idaho	Yes	NO	NO	NO	NO	NO	NO	NO
Illinois	Yes	NO	NO	NO	NO	NO	NO	NO
Indiana	Yes	NO	NO	NO	NO	NO	NO	NO
Iowa	Yes	NO	NO	NO	NO	NO	NO	NO
Kansas	Yes	NO	NO	NO	NO	NO	NO	NO
Kentucky	Yes	NO	NO	NO	NO	NO	NO	NO
Louisiana	Yes	NO	NO	NO	NO	NO	NO	NO
Maine	Yes	NO	NO	NO	NO	NO	NO	NO
Maryland	Yes	NO	NO	NO	NO	NO	NO	NO
Massachusetts	Yes	NO	NO	NO	NO	NO	NO	NO
Michigan	Yes	NO	NO	NO	NO	NO	NO	NO
Minnesota	Yes	NO	NO	NO	NO	NO	NO	NO
Mississippi	Yes	NO	NO	NO	NO	NO	NO	NO
Missouri	Yes	NO	NO	NO	NO	NO	NO	NO
Montana	Yes	NO	NO	NO	NO	NO	NO	NO
Nebraska	Yes	NO	NO	NO	NO	NO	NO	NO
Nevada	Yes	NO	NO	NO	NO	NO	NO	NO
New Hampshire	Yes	NO	NO	NO	NO	NO	NO	NO
New Jersey	Yes	NO	NO	NO	NO	NO	NO	NO
New Mexico	Yes	NO	NO	NO	NO	NO	NO	NO
New York	Yes	NO	NO	NO	NO	NO	NO	NO
North Carolina	Yes	NO	NO	NO	NO	NO	NO	NO
North Dakota	Yes	NO	NO	NO	NO	NO	NO	NO
Ohio	Yes	NO	NO	NO	NO	NO	NO	NO
Oklahoma	Yes	NO	NO	NO	NO	NO	NO	NO
Oregon	Yes	NO	NO	NO	NO	NO	NO	NO
Rhode Island	Yes	NO	NO	NO	NO	NO	NO	NO
South Carolina	Yes	NO	NO	NO	NO	NO	NO	NO
South Dakota	Yes	NO	NO	NO	NO	NO	NO	NO
Tennessee	Yes	NO	NO	NO	NO	NO	NO	NO
Texas	Yes	NO	NO	NO	NO	NO	NO	NO
Utah	Yes	NO	NO	NO	NO	NO	NO	NO
Vermont	Yes	NO	NO	NO	NO	NO	NO	NO
Virginia	Yes	NO	NO	NO	NO	NO	NO	NO
Washington	Yes	NO	NO	NO	NO	NO	NO	NO
West Virginia	Yes	NO	NO	NO	NO	NO	NO	NO
Wisconsin	Yes	NO	NO	NO	NO	NO	NO	NO
Wyoming	Yes	NO	NO	NO	NO	NO	NO	NO
Unlabeled	Yes	NO	NO	NO	NO	NO	NO	NO
Unlabeled	Yes	NO	NO	NO	NO	NO	NO	NO
Unlabeled	Yes	NO	NO	NO	NO	NO	NO	NO

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
- (3) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (4) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (5) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (6) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (7) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (8) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (9) a requirement for payday lenders to provide a copy of the loan agreement to the borrower
- (10) a requirement for payday lenders to provide a copy of the loan agreement to the borrower

See projections for each state based on analysis conducted by the National Conference of State Legislatures (December 2004) and compiled within by Thinkbank Institute (February 2005). Please contact Thinkbank Institute at 301-417-1070 for more information.





Why Research and Advocacy?

Solution: tools to support communities

CBOs

Consumers

grants

loans and
services

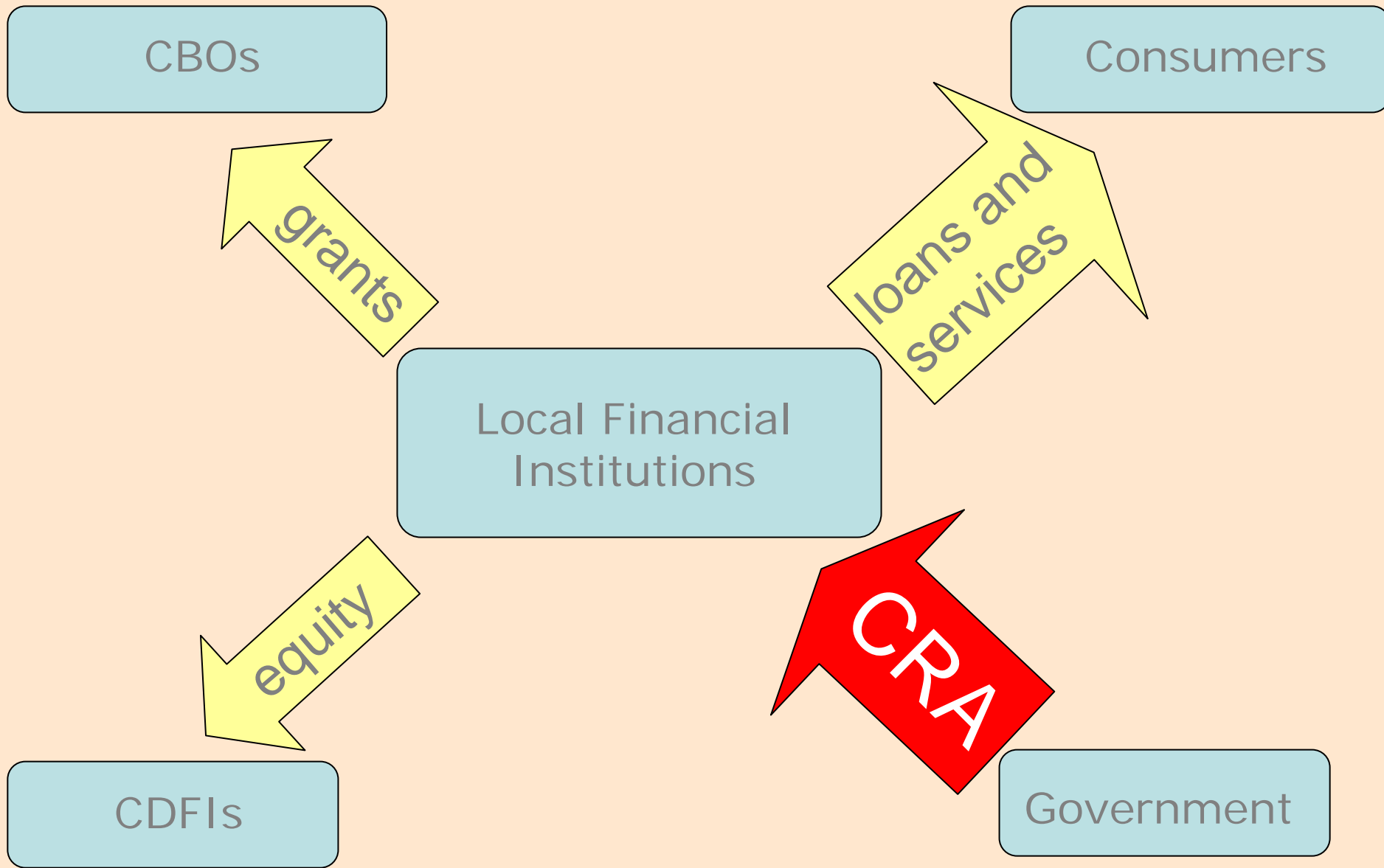
Local Financial
Institutions

equity

CRA

CDFIs

Government

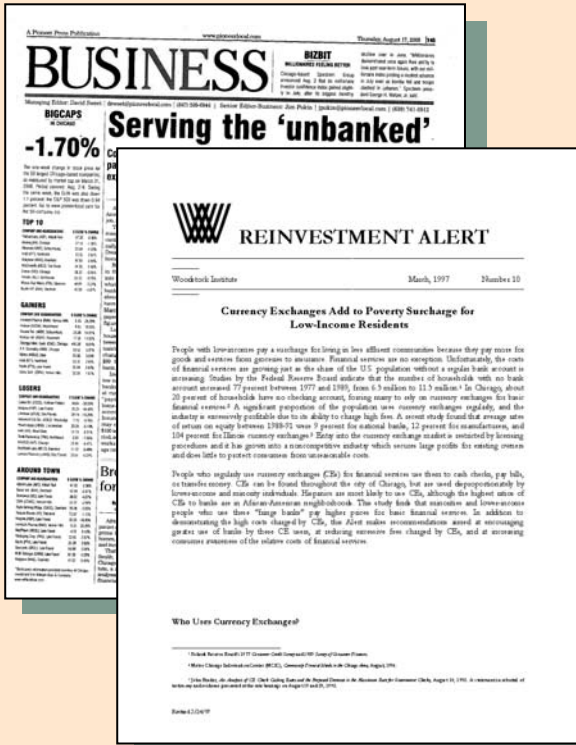


1975	Home Mortgage Disclosure Act (HMDA)
1977	Community Reinvestment Act (CRA)
1977-87	Limited adherence to CRA requirements
1989	"The Color of Money" story printed
1989	CRA Exams made public
1990	New data added to HMDA
1992-96	Boston Fed analyses of CRA reports
1995	Lending, Investments, Services test added
2005	"ISB" regulations

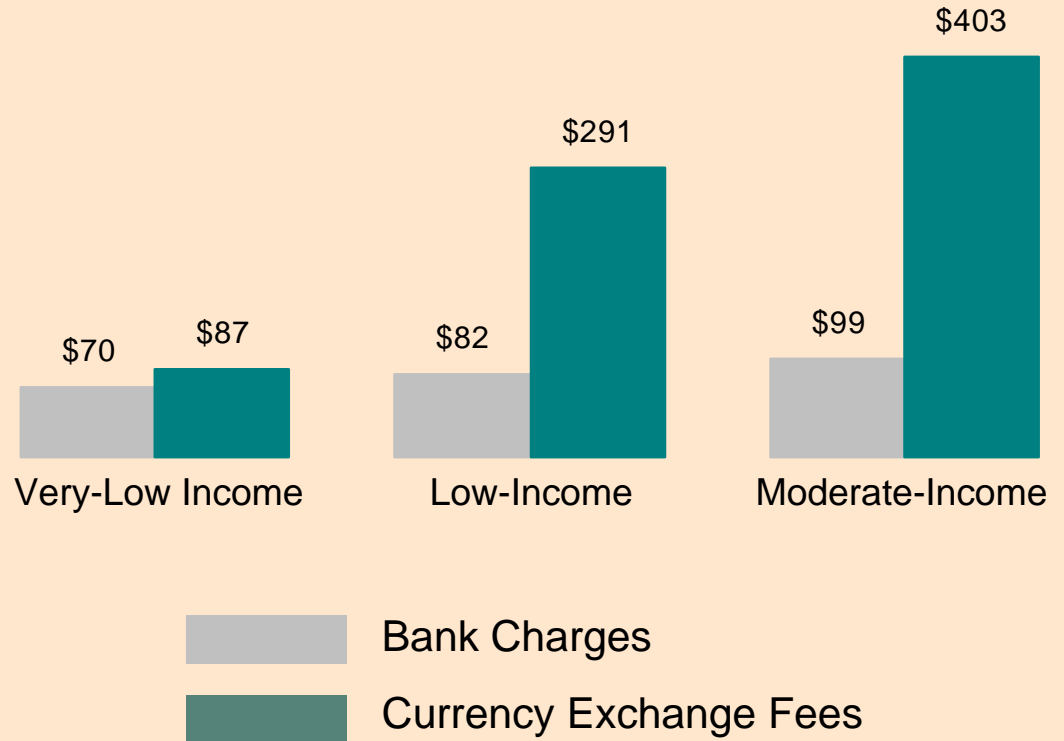
COMMUNITY
REINVESTMENT
ACT HISTORY

Fair Access to Banking Services

Individual: unbanked pay more for transactions



Comparing basic transaction costs at banks and currency exchanges

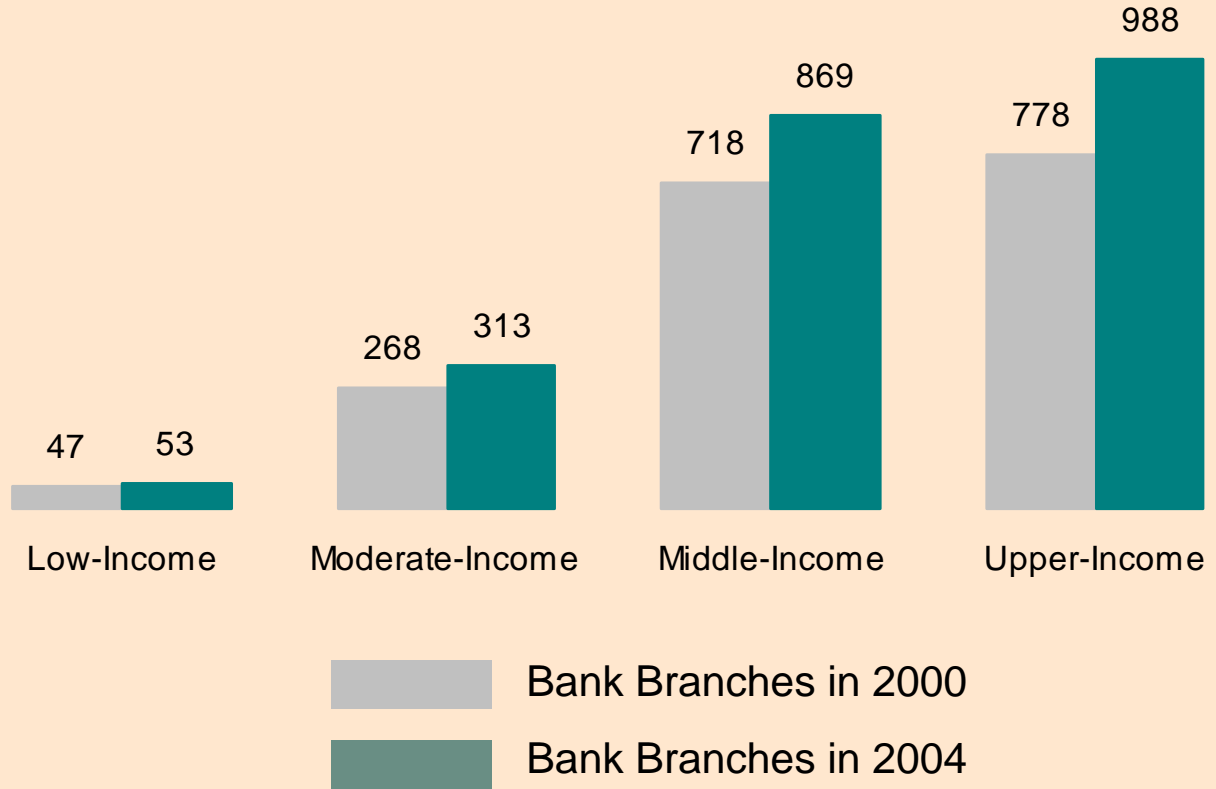
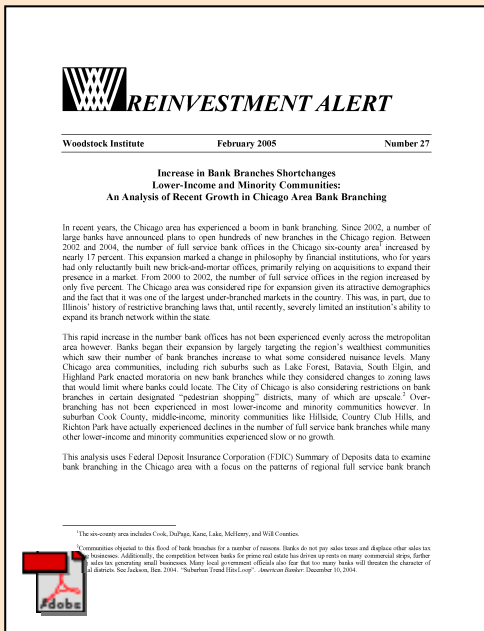


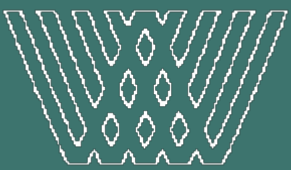
Fair Access to Banking Services

Community: bank branch distribution

Increase in Bank Branches Report

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





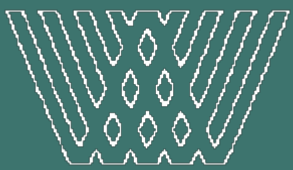
Fair Mortgage Lending

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).



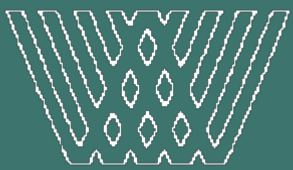
Fair Mortgage Lending

Individual: implications of inappropriate pricing

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

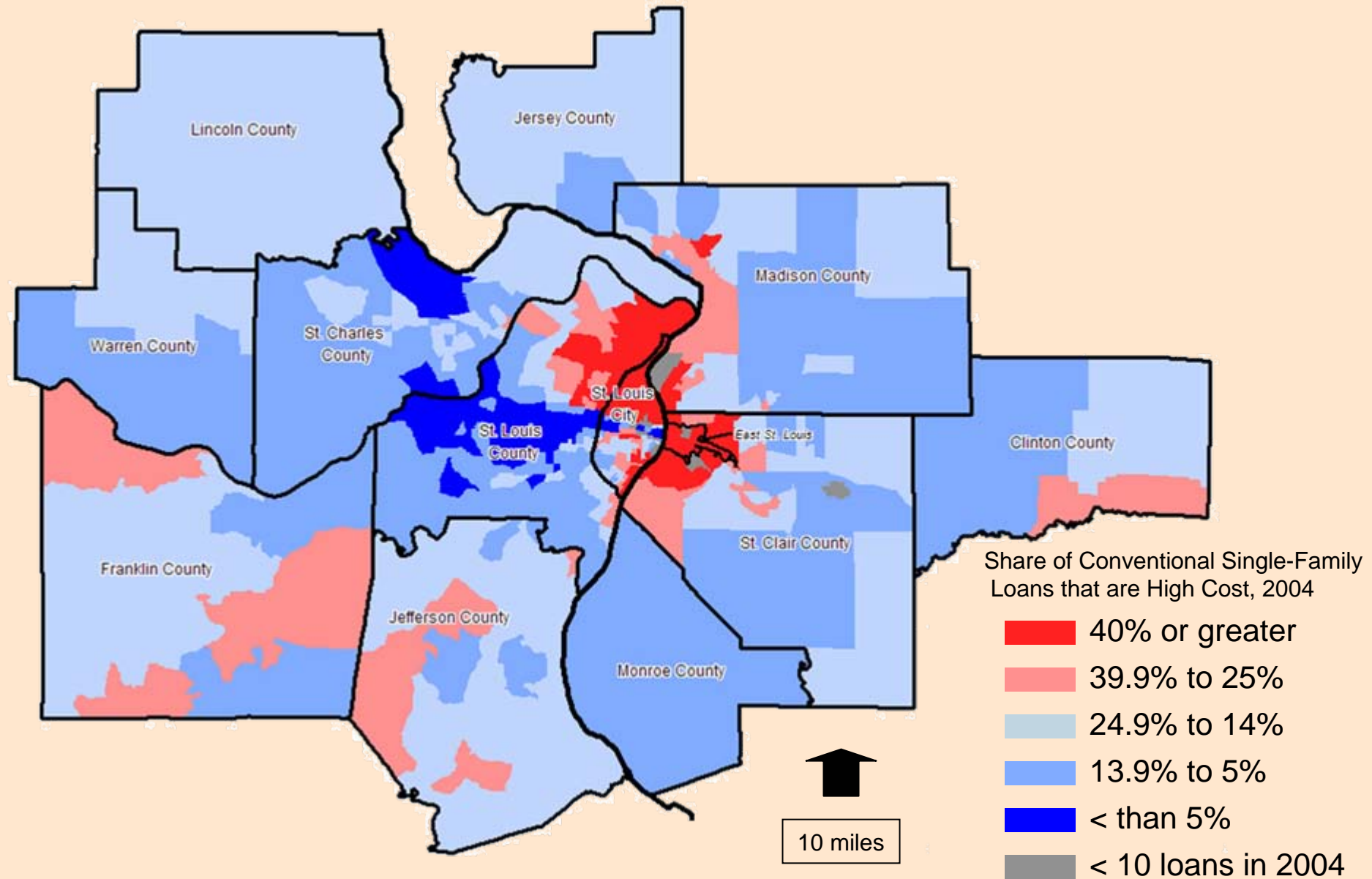
Rate	Monthly Payment	Interest paid over life of the loan
5%	\$537	\$93,256
7%	\$665	\$139,509
10%	\$878	\$215,926

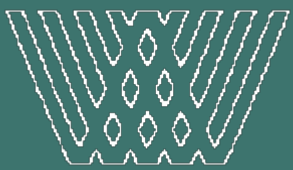
Source: Woodstock Institute calculations



Fair Mortgage Lending

Community: distribution of subprime lending

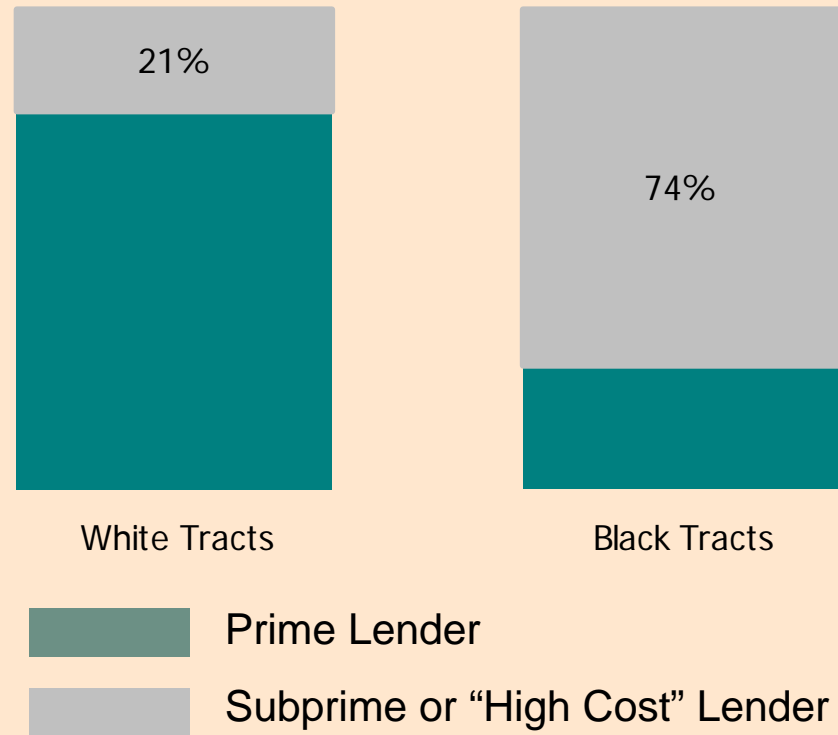
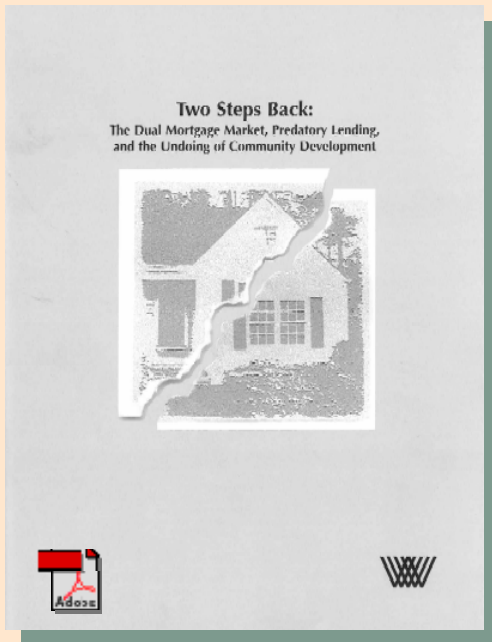


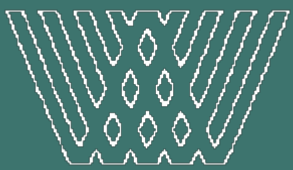


Fair Mortgage Lending

Community: Subprime lending in minority areas

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

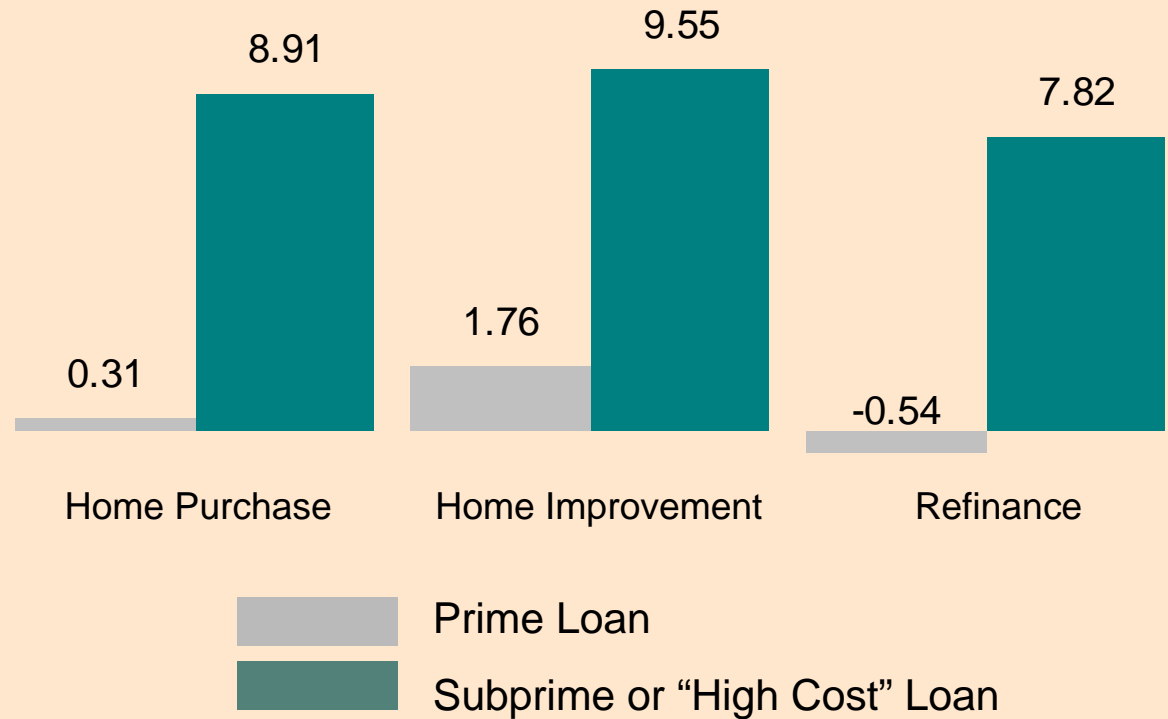


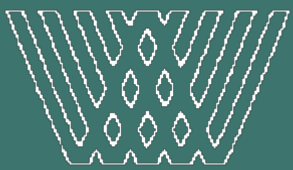


Fair Mortgage Lending

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 Access to Banking Services

Solution: Advocate for equitable distribution

Increase in Bank Branches Report

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



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 area¹ 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.

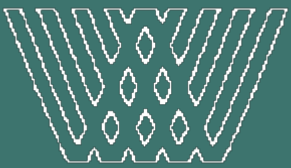
This rapid increase in the number bank offices has not been experienced evenly across the metropolitan area however. Banks began their expansion by largely targeting the region's wealthiest communities which saw their number of bank branches increase to what some considered nuisance levels. Many Chicago 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

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

²Communities objected to this level 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 reducing sales tax generating small businesses. Many local government officials also fear that too many banks will increase the character of the district. See Jackson, Ben. 2004. "Suburban Trend Hits Local." *American Banker*, December 15, 2004.





Fair Mortgage Lending

Solution: Financial counseling pilot program

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

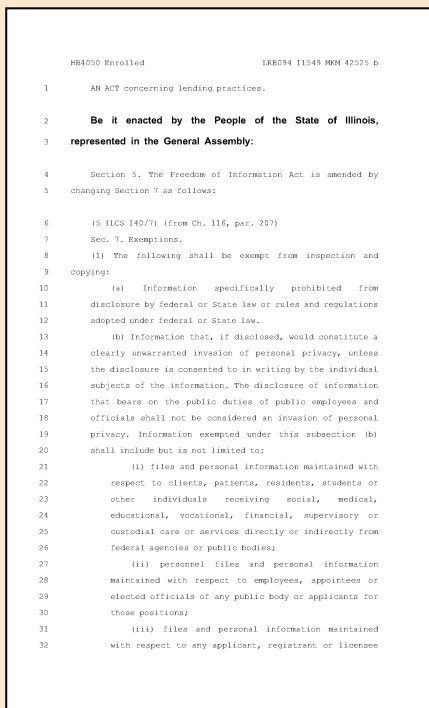
Pilot program operating in 10 ZIP codes on the Southwest side of Chicago

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

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. JPMc will not report its small business lending by race until such data is publicly available. If JPMc 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

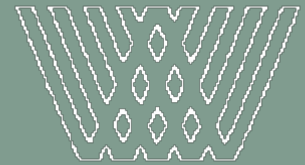
Market share analysis for mortgage lending to lower-income and minority borrowers and communities

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



Woodstock
Institute

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

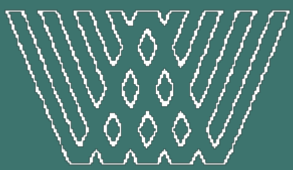
2006

Working regionally

CRA COALITION

Better banking policy and practice
for stronger Illinois communities

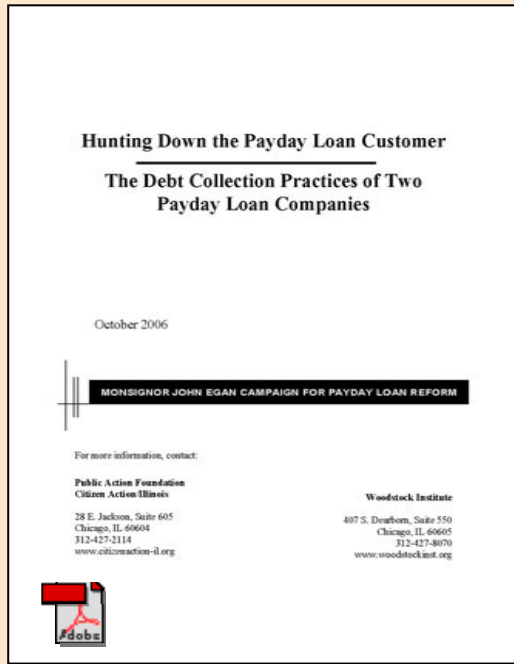
TIMELINE



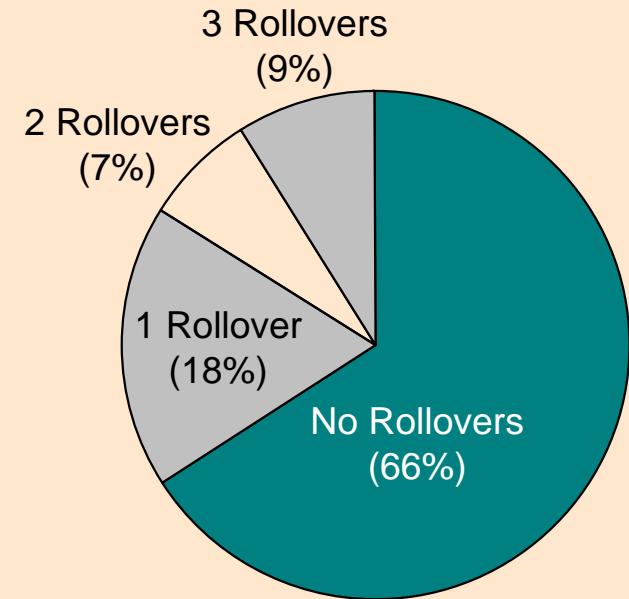
Fair Pricing for Consumer Credit

Individual: interest only payments are common

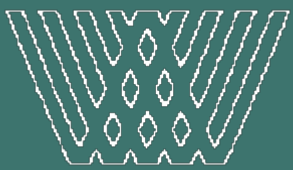
Refinancing or “rollovers” occur when borrowers can only make interest payments



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



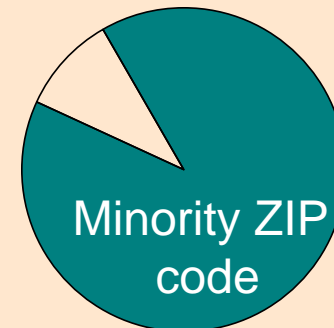
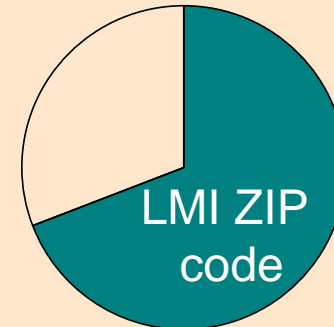
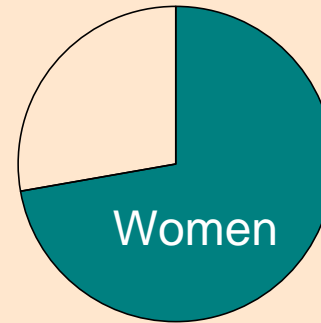
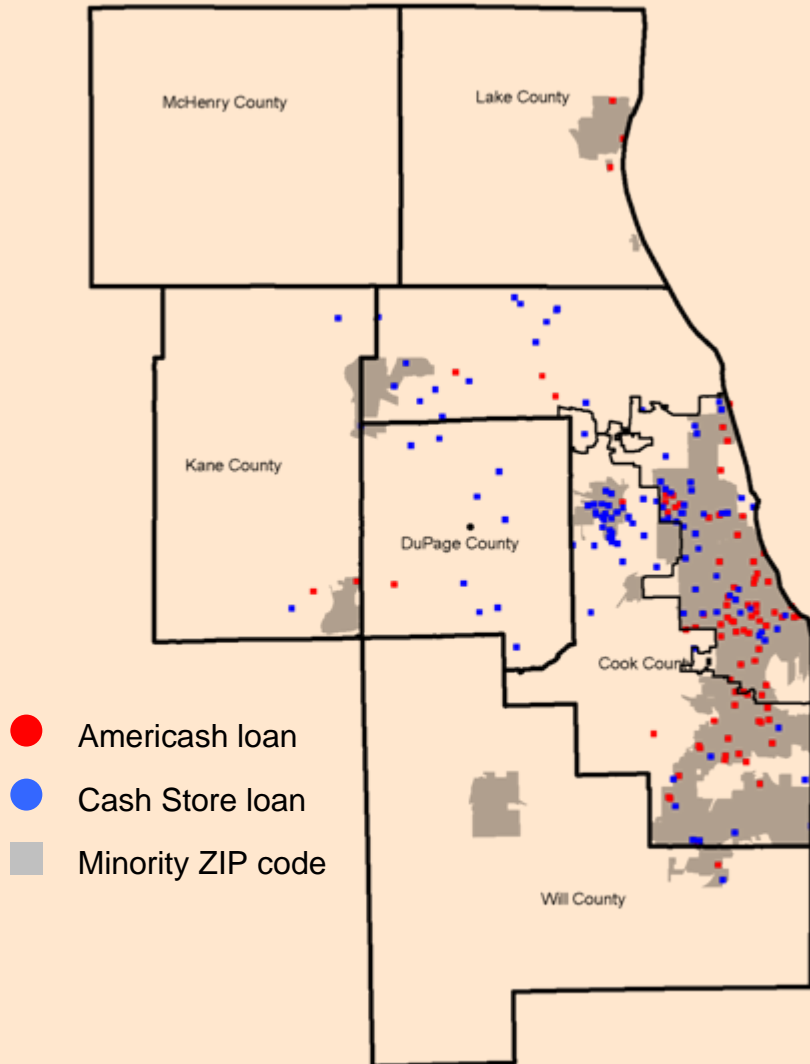
Source: Hunting Down the Payday Loan Customer: The Debt Collection Practices of Two Payday Loan Companies. Monsignor John Egan Campaign for Payday Loan Reform. 2006.



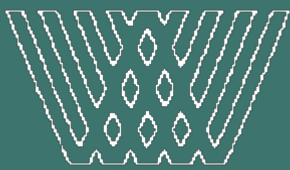
Fair Pricing for Consumer Credit

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

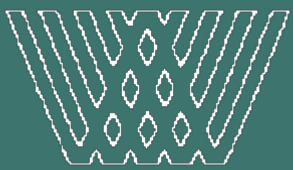
State	Reg. (1)	Maximum (2)	Recovery (3)	Exemption (4)	Consumer (5)	Fee (6)	Service (7)	Card to (8)	State (9)
Illinois	Yes	\$500	0	None	Yes	15%	None	None	17.80
Alabama	Yes	\$500	0	None	Yes	15%	None	None	17.80
Alaska	Yes	\$500	0	None	Yes	15%	None	None	17.80
Arizona	Yes	\$500	0	None	Yes	15%	None	None	17.80
Arkansas	Yes	\$500	0	None	Yes	15%	None	None	17.80
California	Yes	\$300	0	None	Yes	15%	None	None	17.80
Colorado	Yes	\$500	0	None	Yes	15%	None	None	17.80
Connecticut	Yes	\$500	0	None	Yes	15%	None	None	17.80
Delaware	Yes	\$500	0	None	Yes	15%	None	None	17.80
District of Columbia	Yes	\$500	0	None	Yes	15%	None	None	17.80
Florida	Yes	\$500	0	None	Yes	15%	None	None	17.80
Georgia	Yes	\$500	0	None	Yes	15%	None	None	17.80
Hawaii	Yes	\$500	0	None	Yes	15%	None	None	17.80
Idaho	Yes	\$500	0	None	Yes	15%	None	None	17.80
Indiana	Yes	\$500	0	None	Yes	15%	None	None	17.80
Iowa	Yes	\$500	0	None	Yes	15%	None	None	17.80
Kansas	Yes	\$500	0	None	Yes	15%	None	None	17.80
Kentucky	Yes	\$500	0	None	Yes	15%	None	None	17.80
Louisiana	Yes	\$500	0	None	Yes	15%	None	None	17.80
Maine	Yes	\$500	0	None	Yes	15%	None	None	17.80
Maryland	Yes	\$500	0	None	Yes	15%	None	None	17.80
Massachusetts	Yes	\$500	0	None	Yes	15%	None	None	17.80
Michigan	Yes	\$500	0	None	Yes	15%	None	None	17.80
Minnesota	Yes	\$500	0	None	Yes	15%	None	None	17.80
Mississippi	Yes	\$500	0	None	Yes	15%	None	None	17.80
Missouri	Yes	\$500	0	None	Yes	15%	None	None	17.80
Montana	Yes	\$500	0	None	Yes	15%	None	None	17.80
Nebraska	Yes	\$500	0	None	Yes	15%	None	None	17.80
Nevada	Yes	\$500	0	None	Yes	15%	None	None	17.80
New Hampshire	Yes	\$500	0	None	Yes	15%	None	None	17.80
New Jersey	Yes	\$500	0	None	Yes	15%	None	None	17.80
New Mexico	Yes	\$500	0	None	Yes	15%	None	None	17.80
New York	Yes	\$500	0	None	Yes	15%	None	None	17.80
North Carolina	Yes	\$500	0	None	Yes	15%	None	None	17.80
North Dakota	Yes	\$500	0	None	Yes	15%	None	None	17.80
Ohio	Yes	\$500	0	None	Yes	15%	None	None	17.80
Oklahoma	Yes	\$500	0	None	Yes	15%	None	None	17.80
Oregon	Yes	\$500	0	None	Yes	15%	None	None	17.80
Pennsylvania	Yes	\$500	0	None	Yes	15%	None	None	17.80
Rhode Island	Yes	\$500	0	None	Yes	15%	None	None	17.80
South Carolina	Yes	\$500	0	None	Yes	15%	None	None	17.80
South Dakota	Yes	\$500	0	None	Yes	15%	None	None	17.80
Tennessee	Yes	\$500	0	None	Yes	15%	None	None	17.80
Texas	Yes	\$500	0	None	Yes	15%	None	None	17.80
Utah	Yes	\$500	0	None	Yes	15%	None	None	17.80
Vermont	Yes	\$500	0	None	Yes	15%	None	None	17.80
Virginia	Yes	\$500	0	None	Yes	15%	None	None	17.80
Washington	Yes	\$500	0	None	Yes	15%	None	None	17.80
West Virginia	Yes	\$500	0	None	Yes	15%	None	None	17.80
Wisconsin	Yes	\$500	0	None	Yes	15%	None	None	17.80
Wyoming	Yes	\$500	0	None	Yes	15%	None	None	17.80
Unlabeled	Yes	\$500	0	None	Yes	15%	None	None	17.80

Key consumer protections include:

- (1) a fee cap to reduce the cost of using payday loans
- (2) an industry-wide ban on borrowing by prepaid card borrowing on using the proceeds of one payday loan to pay off another
- (3) a necessary payday business license to ensure the right of state consumers to have to bank issues
- (4) a ban on late fees to ensure that late fees are not used as a debt trap
- (5) a ban on debit to ensure payday lending regulation and prevent borrowers and lenders from overborrowing

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.

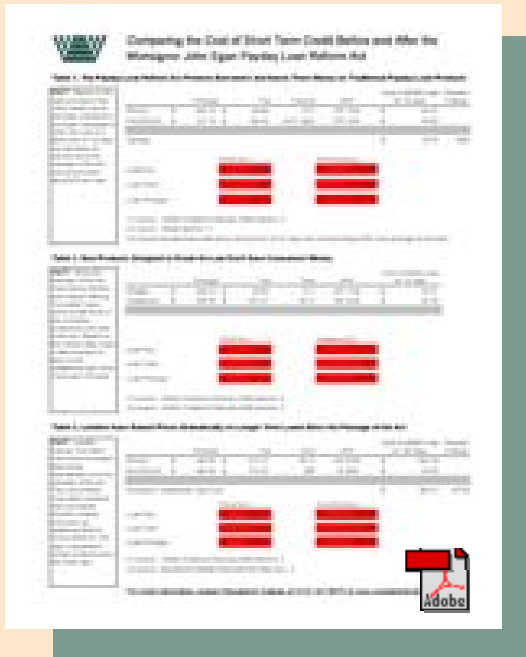
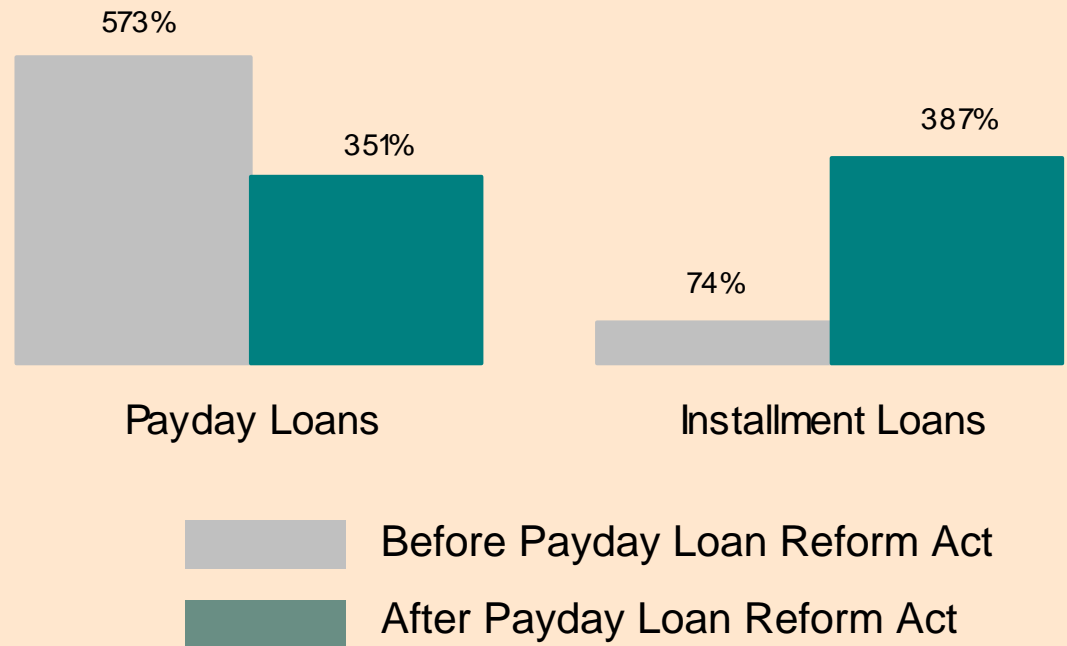


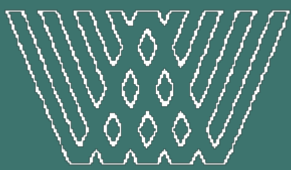


Fair Pricing for Consumer Credit

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
WSECUCU	\$ 50.00	\$ 5.00	45	81.11%	\$ 9.33
Savings					\$ (31.08)

Loan Fee: WSECUCU \$ 5.00, Illinois \$ 40.00
 Loan Term: WSECUCU 45, Illinois 15.7
 Loan Principal: WSECUCU \$ 50.00, Illinois \$ 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	\$ 564.42	-	30	18.00%	\$ 2.07
Savings					\$ (38.34)

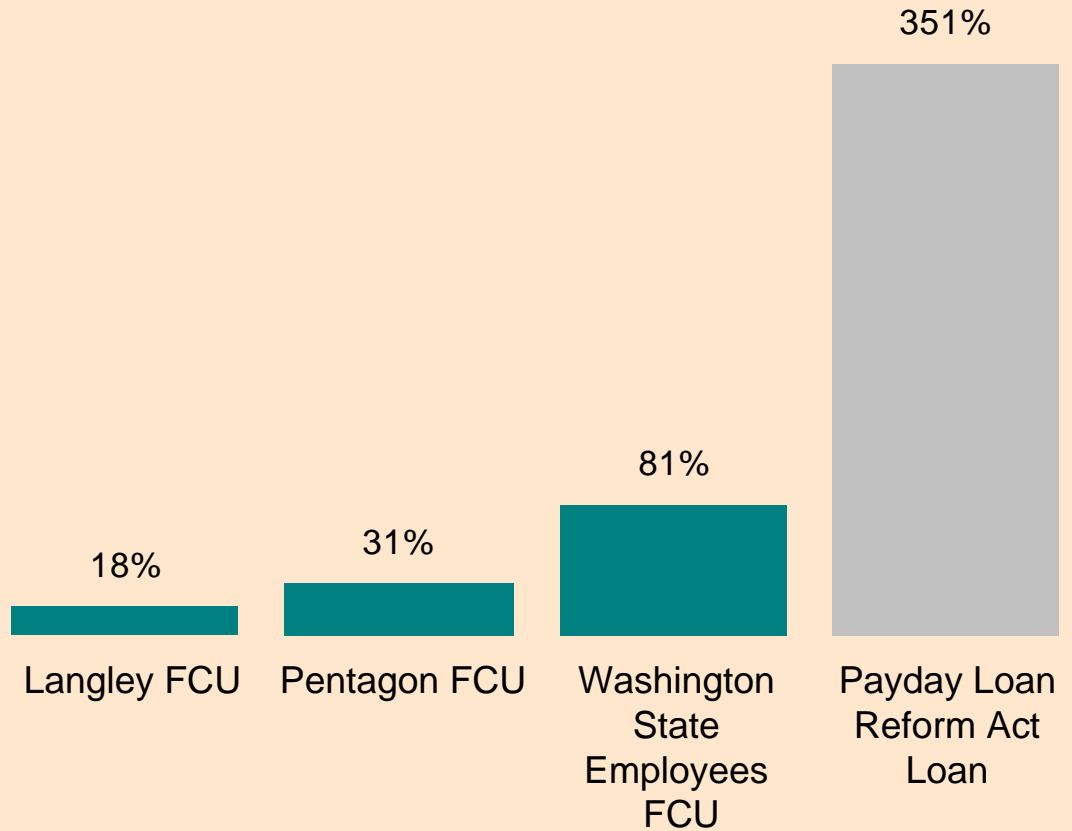
Loan Fee: Langley \$ 0.00, Illinois \$ 40.00
 Loan Term: Langley 30, Illinois 15.7
 Loan Principal: Langley \$ 564.42, Illinois \$ 300.00

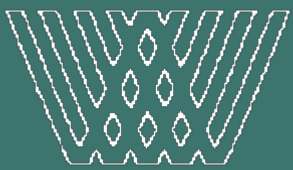
(1) source: Veritas Solutions February 2006 report p. 4

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

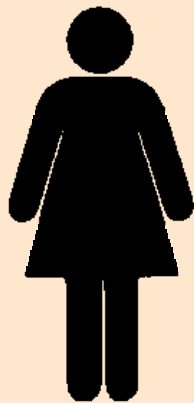




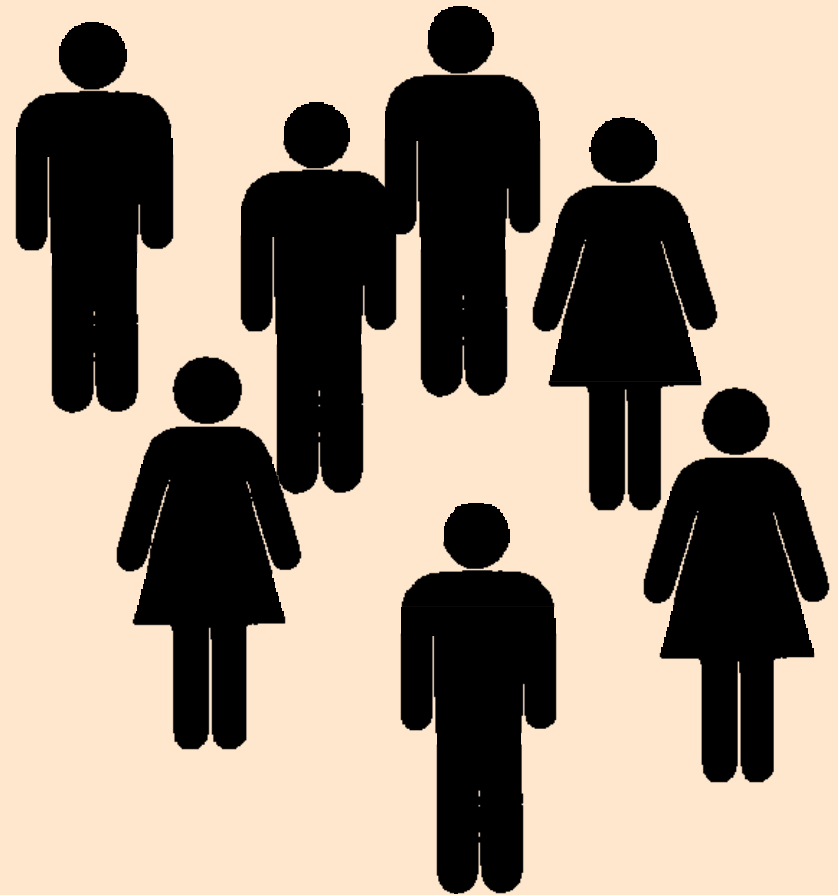
Why Research and Advocacy?

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