



Woodstock Fights to Improve CRA

Under the Clinton Administration in 1995, significant improvements were made to Community Reinvestment Act (CRA) regulations that made them more effective and outcome-based. At that time, regulators agreed to revisit these changes in 2002.

In July 2001, the regulators issued an Advanced Notice of Proposed Rulemaking (ANPR) that laid out several questions about CRA and its implementation. The public comment period for the ANPR ended in October and the agencies are now in the reviewing process. Woodstock Institute wrote very detailed comments and distributed sample letters to nonprofits locally and nationally. This process is vital to the CRA movement, as many financial institutions attempt to scale back some of the crucial improvements of 1995.

Woodstock highlighted several issues relating to the regulation itself as well as the CRA examination process:

- The importance of maintaining emphasis on quantitative measures in exams so that CRA continues to be

—Continued on page 2

Inside:

Changes in Small Business Lending Affect Lower-Income Communities 2

Institute Protests MidAmerica-Mid-Town Bank Merger 3

Woodstock Congratulates CCLF on 10-year Benchmark 4



A participant in the anti-predatory lending training cosponsored by Woodstock Institute addresses the audience.

Learning How to Hold Predators' Feet to Fire

On September 21, the Institute, together with a number of other Illinois nonprofits, sponsored a half-day seminar on the new Illinois Predatory Mortgage Lending Regulations, which went into effect in May and are among the toughest in the country.

The focus of the workshop was to explain how the regulations work, how to determine whether a loan is predatory under the regulations, and what to do if a predatory loan is detected. The audience included more than 85 housing counselors, representatives of community development agencies, local government officials, and consumer advocates. The

main presenter was Brenda Grauer of the Legal Assistance Foundation of Metropolitan Chicago, with help from Woodstock Institute staff and Neighborhood Housing Services of Chicago.

Other sponsors included the Chicago Lawyers Committee for Civil Rights Under Law, the Southwest Organizing Project, AARP and LaSalle Bank. Regulations cannot be truly effective in less they are properly enforced, and it will be up to community groups to make sure this happens. The same is true for Illinois payday loan regulations which were promulgated recently and went into effect in August.

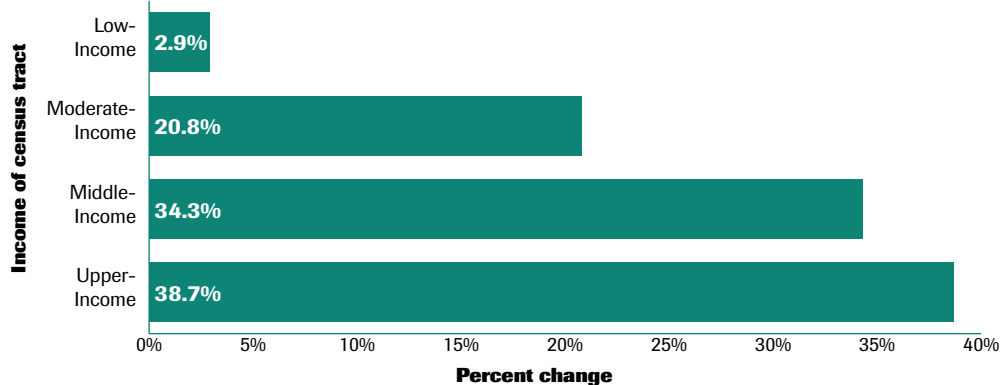
Highlights

Community Lending Fact Book Updated for 2000

Woodstock Institute's *Community Lending Fact Book* is being expanded for 2000. In addition to providing home lending data for Chicago and its 77 community areas, the *Fact Book* will now include data for suburban Chicago. Lending data will be available for north, northwest, west, southwest and south suburban Cook County, as well as for the entire counties of DuPage, Kane, Lake, McHenry and Will. Additionally, the *2000 Fact Book* will provide improved data on the area's most active refinance lenders. The *2000 Community Lending Fact Book* will be available in spring 2002.

For more information on the *Fact Book*, contact Geoff Smith: 312-427-8070.

Change in Number of CRA-Reported Small Business Loans in U.S., 1996 to 1999



Source: "Bigger, Faster... But Better?", Brookings Institution Center on Urban and Metropolitan Policy.

Changes in Small Business Lending Affect Lower-Income Communities

A new report by the Brookings Institution Center on Urban and Metropolitan Policy identifies recent changes in small business lending with a particular focus on impacts on lower-income areas.

Authored by Woodstock Institute staff, *Bigger, Faster...But Better? How Changes in the Financial Services Industry Affect Small Business Lending in Urban Areas* describes the effects of bank mergers, credit scoring, the increasing scale of small business lending markets, and the changing role of nonbank financial institutions on credit delivery to small firms. Some businesses in modest-income

communities, especially those with strong, well-established credit, may actually see improvements in access to loans. However, many companies, particularly those with more marginal credit, are likely to see increasing problems.

Overall, the net effect of these changes is likely to be a continuing disparity in access to credit between older, modest-income and newer, higher-income areas. The paper ends by discussing recommendations for policies and programs to improve credit access in lower-income communities. The paper can be obtained at www.brookings.edu/urban.

CRA

Continued from page 1

- based on outcome rather than process.
- The primacy of the lending test and the need for examiners to evaluate the quality of an institution's lending to uncover predatory features.
- The essential nature of the three-test format of CRA exams that includes lending, investments and services as separate tests.
- The problem with liberalizing the definition of "small bank" to exclude

more institutions from thorough examination and the inadequacy of the current small bank performance standards.

- The necessity of revamping existing regulations on assessment areas. (Under CRA, banks are responsible for their service or "assessment" area, which generally consists of areas where they have branches or full-service ATMs). The current regulations are not sufficient in today's market of Internet, credit card, and telephone banking. Assessment areas must also include areas where the bank takes a significant portion of

its deposits or makes a significant portion of its loans.

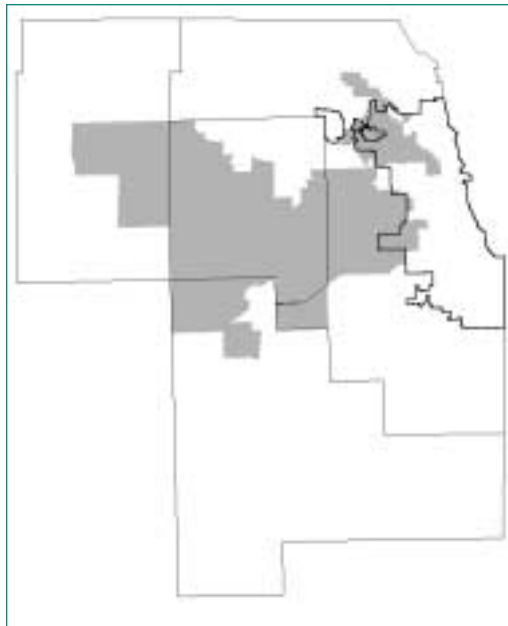
- The significance of bank affiliates' lending practices, which should always be examined.
 - The need for additional data to enable the public to scrutinize banks' records. Small business data should mirror the Home Mortgage Disclosure Act (HMDA) and include applicants' race and gender. Institutions should also report data on the distribution of checking and savings accounts in lower-income neighborhoods.
- For more information, please contact Katy Jacob at 312-427-8070.

Institute Protests MidAmerica-MidTown Bank Merger

In August, Woodstock Institute wrote to the Office of Thrift Supervision (OTS) to oppose the proposed acquisition of Mid Town Bancorp by MAF Bancorp, the parent company of MidAmerica Bank.

Woodstock objected to MidAmerica's CRA assessment area as well as its poor minority lending performance. The Bank, which is the third largest home lender in the region, includes only a portion of Cook County (where it has 26 branches) in its oddly-defined assessment area (*see shaded area in map of Chicago area at right*). This means the Bank is shirking CRA responsibility for the areas where it claims the most activity—fully 40% of its lending occurs outside of its assessment area. The Institute suggested expanding the area to include Cook and DuPage counties. Moreover, Institute analysis showed that Mid-America was performing very poorly in home purchase and refinance lending to African-Americans and Latinos.

In a letter to OTS, MidAmerica objected to Woodstock's claims, stating that they couldn't possibly serve a larger region (The Institute pointed out that many smaller banks have significantly larger assessment areas). The Bank also "questioned the significance" of the infor-



mation on lending to minorities. Woodstock has since issued a response to the OTS. In a very similar situation, earlier this year the Institute got the Federal Reserve Board to pay attention to Firststar Bank's assessment area and as a result the Bank expanded it to include the six-county Chicago area.

Advocates Victorious over Single Premium Credit Insurance

In a major victory in the fight against predatory lending, lenders Household International and Citigroup agreed in the face of intense pressure to stop selling single premium credit insurance with mortgage loans.

This insurance was widely acknowledged as predatory, as it is financed into the loan and the borrower cannot cancel it; it slows the equity-building process; and while it is only good for about seven years, borrowers must pay it off for up to 30 years. The product can add 20% to the cost of a mortgage, making it especially difficult for seniors on fixed incomes

to make payments. Many borrowers are duped into buying the product and don't even know that they have it.

Household is the largest subprime lender in the country and Citigroup recently purchased the maligned predatory lender The Associates. Woodstock Institute and its colleagues around the country engaged in extensive campaigns to get these lenders to stop predatory lending practices, including the sale of single premium credit insurance. Both lenders recently agreed to offer monthly insurance premiums instead, which may be cancelled at any time.

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Redlining Revealed in Philadelphia

In 2001, staff at the Institute authored "Redlining Redux: Black Neighborhoods, Black-Owned Firms, and the Regulatory Cold Shoulder," *Urban Affairs Review* (forthcoming in 2002). The paper measures small business lending flows to neighborhoods in the Philadelphia metropolitan area. The results show that black neighborhoods receive far fewer loans after accounting for firm size, industrial mix, neighborhood income, and the credit quality of local firms. The findings suggest that federal bank regulators should expand small business lending data to include application and racial information, in part to help identify discriminating lenders. Also, CRA regulations should pay more attention to the distribution of small business loans by both race and income of neighborhood.

Gale Cincotta, 1929-2001

The community reinvestment movements in Chicago and the nation mourn the death of Gale Cincotta, who founded National People's Action and the National Training and Information Center and was instrumental in getting the Community Reinvestment Act and the Home Mortgage Disclosure Act passed in the 1970s. Gale inspired us all through her unflagging devotion to the condition of ordinary people and the creativity with which she pursued her goal of fair and equal access to credit. She was truly the "mother of CRA" and our debt to her is immeasurable.

Woodstock Congratulates CCLF on 10-year Benchmark

Woodstock Institute congratulates the Chicago Community Loan Fund (CCLF) and its Director Calvin Holmes on its recent tenth anniversary celebration.

The Institute and the Loan Fund have a long and productive history together. In fact, Woodstock was a co-founder of the Loan Fund and worked hard on its formation between 1989 and 1991, when CCLF was incorporated.

The idea behind the Loan Fund was to offer a vehicle to provide flexible, low-cost financing to community development projects. Jean Pogge, then-President of the Institute, was a member of the Founding Committee of CCLF.

Kathy Tholin, then-Vice President of Woodstock, sat on the Loan Fund's Board (as she does today) and Kate Pravera served as the first fund manager and staff member. In the beginning, CCLF was even located inside Woodstock's office and Institute staff worked double-duty to help the Fund with its administrative functions.

Today, CCLF has more than \$8 million in total capital under management, compared to \$200,000 upon incorporation. The Fund has closed over 60 loans totaling more than \$7 million and leveraging almost \$80 million in additional capital.

Congratulations, CCLF!

Visit Woodstock's Virtual Home

Browse the internet and you'll find lots of community development resources. Browsers can login to <http://www.woodstockinst.org> to find out more about the Institute's activities, staff, and publications. There is also a page of useful links to other community development organizations, federal banking regulators, and sources of HMDA and other data. The site also features a form to request information.

Woodstock Institute

407 S. Dearborn, Suite 550

Chicago, Illinois 60605

312/427-8070 • 312/427-4007 (FAX)

woodstock@woodstockinst.org (E-Mail)

<http://www.woodstockinst.org>

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