



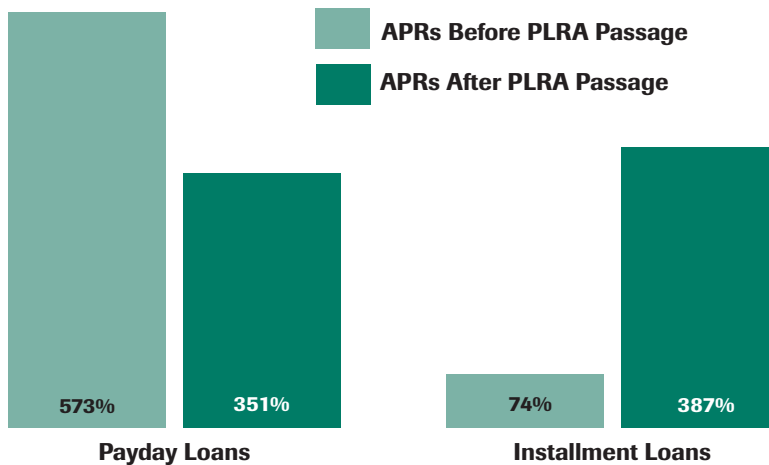
## Payday Lenders Put Costly New Spin on Installment Loan Product

After the passage of the Illinois Payday Loan Reform Act in 2005, the short-term loan industry has once again subverted consumer protection laws to take advantage of consumers—this time by offering a similar, longer-termed, but unregulated loan. The new product was clearly designed to escape the provisions of the law because these “look-alike” loans are actually several shorter payday loans issued back-to-back, giving them terms longer than those covered by the act.

Nationwide, payday lenders have been extremely successful at morphing their products to escape regulation, and Illinois is no different. When similar consumer protections were established in 2001 for loans with terms under 30 days, the industry immediately adopted 31 day loans.

Woodstock Institute has long documented the payday lending industry’s  
—Continued on page 4

Comparing the Cost of Credit Before and After the Monsignor John Egan Payday Loan Reform Act



Source: Woodstock Institute analysis of 2006 Illinois Trends in Payday Lending – Initial Report and data collected by the Monsignor John Egan Campaign for Payday Loan Reform

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## New Illinois Fact Books Bring Foreclosure and High-Cost Loan Analysis to Illinois Communities

Woodstock Institute has launched the first *Illinois Community Lending Fact Book*, a companion to the long running Chicago guide released annually. With the help of Housing Action Illinois, Beyond Housing, and the

Central Illinois Organizing Project, this valuable resource was launched in May, 2006 as part of Woodstock Institute’s Tools for Fair Finance workshops held in St. Louis and Peoria.

The *Community Lending Fact*  
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# Illinois Pushes Pension Board to Cut Off Investments in Predatory Lenders

The Speaker of the Illinois House, Michael Madigan (D-Chicago) has requested that public pension boards throughout Illinois cease investing funds in financial institutions making high risk home mortgage loans.

The request came in the form of a letter from the Speaker's office circulated in February, 2006. Pension boards have been asked to make sure the financial institutions they invest in self-certify that they do not make the types of risky, often exploitative, high-risk loans defined by the Illinois High Risk Home Loan Act. The Speaker's office has reported 57 favorable responses.

In 2003, the Illinois General Assembly passed the High Risk Home Loan Act (PA 93-561), a strong predatory

lending law intended to protect borrowers who use the equity in their homes to obtain loans. The Act protects home buyers who get involved in a high interest or high fee loan to refinance their current mortgage.

The law prohibits lenders from making loans in cases where they have no reason to believe the borrower is financially able to make the scheduled payments and targets other predatory practices such as negative equity loans and loan flipping in loans with high interest rates or high fees.

"Unfortunately, nationally chartered institutions have resisted our efforts [to combat predatory lending through the High Risk Home Loan Act] by seeking refuge under federal laws that they con-

tend preempt our State legislation," states Madigan in the letter. "We have been advised by community and consumer advocates that a number of large, publicly traded financial institutions are engaged, either directly or through an affiliate, in making home loans that would fall within the ambit of the High Risk Home Loan Act if not for federal preemption."

A number of states have enacted anti-predatory lending laws that have been weakened by federal preemption actions. The Madigan initiative demonstrates one creative way that states can further their efforts to reduce the devastating impact of predatory lending.

For more information, contact Malcolm Bush at (312) 427-8070.

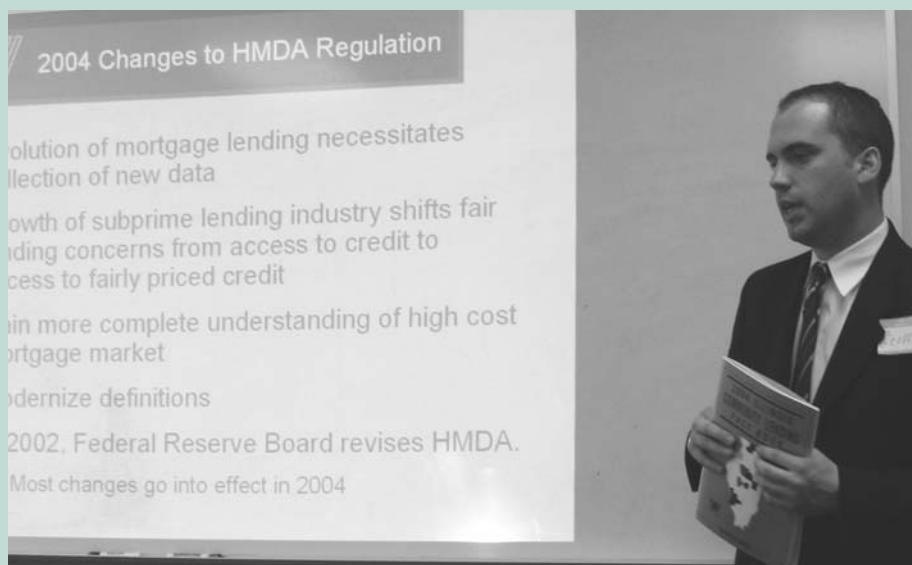
## Fact Books

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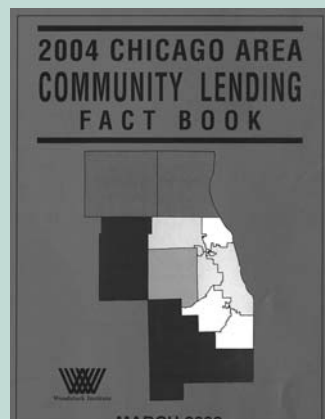
Books provide users with key indicators on mortgage and community development trends, including statistics on low- and moderate-income home buying, high cost lending, and foreclosures. This information is summarized in easy to use neighborhood handouts and includes a CD-ROM with the complete data tables used to create the *Fact Books*.

In the 2006 publication of the *Fact Books*, Woodstock Institute has included information on:

- Lending volume to low- and moderate-income borrowers



(Above) Geoff Smith makes a presentation in Peoria. (At left) the Chicago Area and Illinois fact books.



- Mortgage lending by two of Chicago's largest community development housing lenders
- Foreclosure statistics for 1999-2004
- The incidence of high cost or "subprime" loans
- Top lenders by neighborhood

Visit [www.woodstockinst.org](http://www.woodstockinst.org) to read more about the *Chicago Community Lending Fact Book* or to learn how community organizations, lenders, and policymakers use the *Fact Books* to examine home mortgage lending trends in their communities.

# Woodstock Institute Predatory Lending Report Helps Win Cincinnati Settlement

A group of mortgage appraisers, investors, and brokers in the Cincinnati area have settled out of court for defrauding banks in what was allegedly a flipping scam involving hundreds of home properties.

In one of the first suits of its kind, Price Hill WILL, a community development corporation serving the Cincinnati region, sought damages in Federal District Court (Southern District of Ohio) for the net loss in property value caused by the concentrated neighborhood foreclosures that occurred as a result of the scam.

Price Hill WILL, represented by the Legal Aid Society of Greater Cincinnati, based much of its compensation claim on the recent Woodstock Institute report *There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values*. The report, one of few analyses looking at the cumulative effects of foreclosure, found that each foreclo-

sure in the Chicago region reduced nearby property values in lower income communities by up to 1.4 percent. This reduction is repeated for every foreclosure in the same area. Woodstock Institute's methodology served as the foundation for calculating the undisclosed restitution amount agreed upon by the defendants in the out-of-court settlement.

Woodstock Institute's project director, Geoff Smith, co-author of the report, provided expert testimony during the restitution hearing. "This is a landmark hearing because it recognizes that when predatory lending and fraud causes foreclosures, both the borrower and the entire neighborhood suffer," said Smith.

Damages will go to a local revolving loan fund designated to support housing initiatives in the affected communities.

For more information, contact Geoff Smith at (312) 427-8070.

## Banks Demand Paybacks from Mandated CRA Activity That Limit Nonprofit and Consumer Choices

Increasingly banks are demanding that CRA activity produce returns as high as other bank loans and investments. While much CRA activity is and should be profitable, some banks are now making demands of their nonprofit partners that violate the spirit of community reinvestment. There is increasing evidence that some banks are shaping their CRA relationships with nonprofit groups in ways that restrict such groups' relationships with other financial institutions and restrict the financial choices of the groups' members and clients.

Examples of "branded" CRA grants or investments include:

- A financial institution, providing a relatively small portion of an organization's operating budget, requests that its grantees transfer their checking or money-market accounts to the financial institution.
- An organization offering pre-purchase home counseling is contacted by one of its bank sponsors. The bank indicates they expect the agency to increase loan referrals

to the bank, regardless of how its loan products compare in the marketplace.

- A bank requires a small business technical assistance provider be the only financial institution recommended as source of small business loans.
- A financial institution supporting a financial literacy workshop demands exclusive billing of its support even when it does not provide the full cost of the workshop.

While branding is a key tool in business relationships and could, under the right circumstances, benefit all parties to the process, branding that restricts a nonprofit's ability to seek grants, loans or investments from all the financial institutions operating in its market area is detrimental to economic development and community reinvestment. Similarly, if branding restricts an end user's choice of financial products through steering or other strategies, the practice could have an anti-competitive effect.

For more information contact Tom Feltner at (312) 427-8070.

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## Payday Lenders

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attempts to subvert state laws designed to protect consumers. These new "look alike" loans, often called "installment" or "checkbook" loans are strikingly similar to the longer term, and less expensive, installment loans offered by several Chicago-area payday lenders before the passage of the Payday Loan Reform Act. Now they are being heavily marketed as an alternative to regulated payday loans with some stores dropping the traditional two-week payday loan option entirely. Unfortunately for consumers, these loans are now much more expensive and lack any of the consumer protections adopted by the Illinois General Assembly.

Recent research shows that in early 2005, one-third of the loans made to Illinois consumers were "look-alike" designed to evade the Payday Loan Reform Act. Just two years ago, a borrower taking out a \$300 installment loan for five months would pay just \$86 in fees. Now, this same product will cost a borrower \$446 in fees.

Consumer protection groups continue to work on ways to protect families from these devastating predatory loans.

# Woodstock Welcomes Ada Skyles As New Board Chair

Woodstock Institute welcomes incoming Board Chair Ada Skyles, Associate Director of the Chapin Hall Center for Children at the University of Chicago. Ms. Skyles brings considerable experience and creativity to the challenges facing low-income and minority communities. Ms. Skyles' research has focused on child welfare systems and the experiences of children of color in those systems, and the challenges of capacity building in public and community-based agencies.

She is also a board member of the Appleseed Fund for Justice, where she utilizes her legal expertise towards promoting child support reform and social justice issues.

Woodstock Institute's immediate past board chair, Charles M. Hill Sr. has stepped down after serving as board



Ada Skyles

chair since 1998. Chuck has been at the forefront of innovations in housing finance all his career. In the 1970s, he was Secretary of Wisconsin's Department of Development where he created the division of housing, and the state housing authority on whose board he served as chairperson. He then came to Chicago where he was

for many years the Executive Vice-President of the Federal Home Loan Bank of Chicago and responsible for a number of innovations to increase homeownership. Chuck also serves on the boards of the National Association of Affordable Housing Lenders and Guarantee Bank in Milwaukee. He has brought all that experience and much more to his stellar performance as Woodstock Institute board chair and we look forward to his continued contributions to Woodstock Institute's board.

### Visit Woodstock's Virtual Home

Browse the internet and you'll find lots of community development resources. Browsers can log on 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.

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