Woodstock Developments

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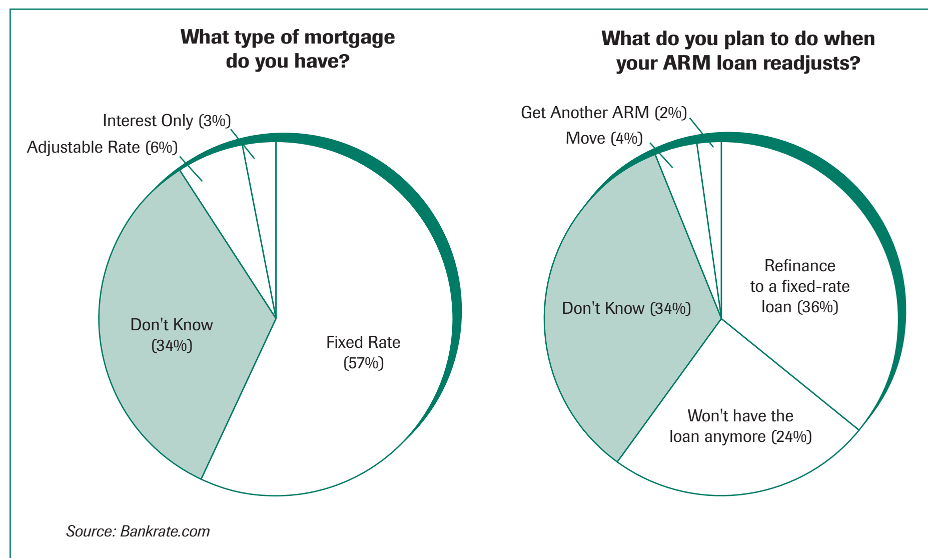
Many Borrowers Unaware of Mortgage Interest Rate Details; Foreclosures Affect Neighbors, Too

Too many borrowers have ended up with loans that were barely affordable during a brief introductory period, but quickly became burdensome or even ruinous after the interest rate ratcheted upwards. A recent poll suggests that fully one third of borrowers who have taken out adjustable rate mortgage loans are uncertain they will be able to afford the loan after the introductory rate and another third simply plan to refinance. Even more troubling, the wide variety of exotic loan products being aggressively marketed to potential homebuyers has created an environment where 34 percent of borrowers do not know whether their mortgage has an adjustable or fixed rate.



Source: Bankrate.com

As a result, foreclosure rates have spiked. Between 2005 and 2006, the Chicago region saw a one year increase of over 36 percent—with every indication that the trend will continue into 2008.

The Office of the Comptroller of the

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Congress Makes Saving Easier for Modest-income Families

Saving for retirement just got a little easier, thanks to a recently reworked tax credit available to lower-income families contributing to a retirement account. Made permanent as part of the Pension Protection Act of 2006, the Credit will provide approximately $10 billion dollars in tax benefits to about 5.5 million lower-income people over the next 10 years.

In recent years policymakers and employers have increasingly shifted the responsibility of retirement planning from employers to employees, often to the determent of lower-income workers whose biggest retirement asset is a pension from their employer.

As a cost cutting measure, employers are now less likely to offer

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Federal Regulators Do Incomplete, Inconsistent Job: Report

Federal regulators examine how the largest banks deliver financial services to communities throughout the Chicago region incompletely and inconsistently, says a new report by Woodstock Institute research staff. Looking at recent bank examinations, Woodstock Institute researchers tried to determine how federal examiners evaluated the distribution of bank branches and the quality and relative affordability of basic financial services, such as checking accounts.

Instead, they found glaring omissions, inconsistent evaluation methods, and in some cases, little more than cursory praise of the bank's modest effort. Geoff Smith, research director, described the examinations as "plagued by insufficient quantitative data, superficial and inconsistent qualitative data, and a lack of performance driven measurements."

The Community Reinvestment Act mandates that federal bank regulators evaluate the performance of financial institutions in lower-income communities using publicly available data on mortgage lending, small business lending, and bank branching. Researchers, community groups, and practitioners have criticized the implementation of the examination process for its vagaries and proposed several reforms designed to hold the largest banks accountable. At the same time, studies continue to provide incontrovertible evidence that lower-income communities have not shared in the recent bank building boom, despite the relatively high aggregate income available for deposit.

Woodstock Institute and others have called on federal regulators to collect meaningful data on how banks are reaching out to lower-income neighborhoods with appropriate and affordable financial services. Much useful data are currently available to bank examiners, but the fact that it has been only sporadically reported substantially limits its usefulness. Such data must be collected in a standardized manner and reported for every institution examined and the absence of such data from the majority of CRA examinations reflects an institutional unwillingness on the part of the bank regulators to take the service test seriously despite the Congressional mandate.

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Saving

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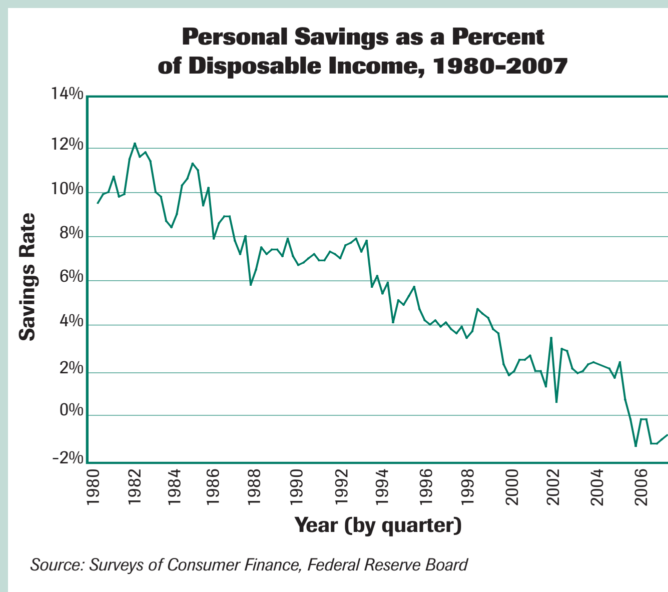
new employees pension plans which pay a retirement benefit in the form of a lifelong annuity and more likely to contribute to a defined contribution plan. Often referred to by their place in the tax code (401k, 403b, etc), these plans are more like savings accounts maintained by employers on behalf of each participating employee. "In short, this means that people have to save more in order to get by in retirement," says Woodstock Institute's Nathan Paufve, who recently published an analysis of the credit's impact. This trend has been accompanied by a massive decline in personal savings rates.

The challenge to save for retirement presents an even bigger problem for low-income people, who often lack the disposable income for savings and cannot access the generous savings incentives commonly offered to middle- and upper-income workers. In 2005 alone, the federal government spent $120 billion in tax credits that mainly benefited middle- and upper-income workers—a fraction of the incentive offered by this tax credit, or any other existing savings incentive for lower-income people. But when given the opportunity and the incentive, there is strong evidence that lower-income people do save—often at extremely high rates. This new tax credit is a modest step toward increasing the savings incentives offered to lower-income households.

To qualify for the credit, a person must be 18 years old or older, can not be a full-time student, and can not be claimed as a dependent on someone else's tax return. Additionally he/she must have an adjusted gross income in 2006 no higher than $50,000 for married filing jointly, $37,500 for head of household, and $25,000 for single or married filing separately. The maximum contribution that will be matched is $2,000 and the matching rate depends on the filer's income and filing status. While the stated matching rate is 50 percent (i.e. a maximum of $1,000 for a $2,000 contribution), the effective after-tax matching rate can be as high as 100 percent, or even 200 percent if the employer also makes a matched contribution.



Source: Surveys of Consumer Finance, Federal Reserve Board

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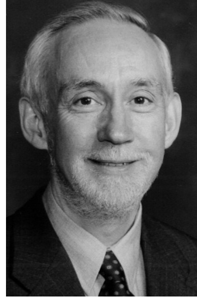
From the President: What We Need Is a Meaningful, National Standard for Mortgage Underwriting

The recently exposed problems in the subprime lending segment of the mortgage market should come as no surprise. Too many lenders offered too many loans with payments that seemed affordable during a brief introductory period, but skyrocketed shortly thereafter--leaving borrowers in foreclosure and communities devastated.



Malcolm Bush

In many respects, the widespread availability of mortgage credit has had a positive effect on communities throughout the country. Home ownership rates are at a record high and families that, in a previous era, would have been lifelong renters are living comfortably and building equity in their own homes.

But inadequate, and in many cases, nonexistent underwriting standards continue to spoil the dream for some and damage the property values of many. There is a strong connection between the growth and concentration of subprime lending and increases in foreclosures--not just in recent weeks, but in recent years.

It seems reasonable to hold lenders accountable to basic standards that make sure borrowers are getting loans they can truly afford. While this seems simple, our experience with predatory mortgage reform at the state and federal levels has been anything but simple. Previous laws failed to prevent the problems we are now seeing for a very straightforward reason. The nature of predatory lending is such that any attempt to regulate specific products or practices simply serves as an impetus for unscrupulous lenders to develop new methods for preying on vulnerable home owners.

What we need is a national standard--which is clear to both borrowers and lenders--to ensure that loans fit the borrower's short and long term financial situation. First, loans should be underwritten to ensure that potential home owners can afford the loan throughout its entire term, not just the introductory period. Second, when a loan is refinanced, there should be some clearly defined, long term benefit to the home owner. But standards must be enforced. The federal Home Ownership Equity Protection Act provides that the Federal Reserve Board "shall prohibit" unfair and deceptive practices has simply not been applied with any vigor or effectiveness.

Reforms based on these standards and a new sense of urgency and responsibility on the part of federal regulators can restore confidence in the subprime industry while making sustainable home ownership a possibility for millions of Americans.

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Interest rate details

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Currency estimates that banks lose between $40,000 and $50,000 per foreclosed home, with some lenders reporting loses of 50 cents on the dollar. Many of the largest mortgage lenders in the country have folded as foreclosures continue and losses continue to mount. But there is another side to the story, one which is too often overlooked by banking regulators and mortgage professionals.

In Chicago, Woodstock Institute has found that for every home where a foreclosure is initiated, there is a significant negative impact on property values of the surrounding homes. In fact, for each foreclosure that is initiated, there is about a one percent decline in every other property located within an eighth of mile. This finding corresponds to a city-wide loss in single-family property values of just over $1.39 billion and an average cumulative property value effect of more than $371,000 per foreclosure. And that's just Chicago.

Foreclosure rates are readily available at the regional and national level. But as part of a new initiative to shed light on the neighborhood impact of predatory lending, Woodstock Institute will continue to track foreclosures and will release a year-to-date analysis of foreclosures in mid-2007, giving community organizations and policymakers the up to date tools they need to make informed decisions.

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Tax Refund Lenders Bow to Community Pressure, Stop Offering Pre-season Tax Refund Loans

Thousands of taxpayers loaded up on debt early this year using a new variation of tax refund loan available in mid-November often called a “holiday loan.” Based on a taxpayers projected tax and calculated using tax information printed on their pay stub, these pre-filing season refund loans cost low-income taxpayers millions and often lock them into additional tax refund loans or other unnecessary and expensive tax preparation products. But there is good news––all three national banks, which funded the loans offered by storefront tax preparers such as H&R Block and Jackson Hewitt, announced that they would not offer these types of loans next tax season.

HSBC, JP Morgan Chase, and Santa Barbara Bank & Trust, all of which offered variations of the pre-tax season refund loan, announced last March that they would no longer offer these loans through their tax preparation partners.

Woodstock Institute and other fair finance organizations throughout the country have worked to protect the assets of lower-income people during tax filing season as those filers are continually bombarded with new, high cost consumer credit options. The recent announcement marks a significant victory and is a step towards substantive reform of an industry that continues to siphon millions of dollars from lower-income taxpayers every year by making expensive and unnecessary loans to low-income taxpayers.

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Woodstock Institute Gets MacArthur Award

In recognition of its 34 years of work to increase access to economic and financial resources in lower-income and minority communities, Woodstock Institute was a recipient of the 2007 John D. and Catherine T. MacArthur Foundation Award for Creative and Effective Organizations.

The award includes a major grant to increase institutional capacity and ensure the long-term stability of Woodstock Institute. The seven awardees included: Action Health Incorporated, a reproductive rights organization in Nigeria, the Institute for Security and Democracy, a policy reform organization in Mexico City, the Institute for Law and Public Policy, a group that champions constitutional and legal reform in Russia, and another Chicago organization, the prize winning documentary film organization, Kartemquin Films.

By broadening access to responsible credit and well-priced banking, financial and insurance services, Woodstock Institute has helped expand economic opportunity for individuals and strengthened targeted communities.

"We have always sought to document how national financial and economic policy and practice plays out at the neighborhood level," said Malcolm Bush, Woodstock Institute president since 1992. "This award will help us build on our successes and continue to produce pathbreaking community level research in Chicago and other cities around the country to impact state and federal policy.”

“Woodstock has had a major impact on policies and practices in such areas as access to mortgage finance, small business lending, retail banking products, and strategies to build and protect modest assets for moderate income people,” said Tom Feltner, Woodstock’s policy and communications director.

"Structural economic change, the improvement of local and federal economic policies, and persuading the financial service industry to treat the average family fairly are long-term projects,” said Bush. "We are deeply grateful to the MacArthur Foundation for its steadfast commitment to our work because of the time it takes to effect policy change, the unpredictable way in which that change happens, and because of the controversy that surrounds many of the issues we work on.”

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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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Cooperative Credit: Community Credit Unions Drive Down the Cost of Emergency Credit

Credit unions can offer sustainable, affordable short term credit at a fraction of the cost of traditional payday lenders, says a recent report by Marva Williams, until recently Woodstock Institute senior vice president.

"In addition to enacting consumer protections for the payday loan industry, increasing the number of lenders competing to provide affordable short-term loans is critical to driving down the cost of credit," said Williams.

As part of this strategy, Woodstock Institute conducted an 18-month evaluation of the short-term loan products offered by six credit unions participating in a joint program offered by the National Federation of Community Development Credit Unions and JP Morgan Chase.

Unlike traditional payday lenders, which charge triple-digit interest rates for short-term loans and structure them in a way that makes it difficult for borrowers to meet anything more than the minimum interest payment, these credit union-based loans are lower in cost and offer a number of asset building components.

Many of the loan products required the borrower to deposit a portion of the periodic loan payment into a savings account to help build a cushion against future financial instability. The credit unions also worked to develop long-term relationships with borrowers, having learned that longer-term members had considerably better repayment records than new members.

Several credit unions also used the credit reports of new borrowers to educate their members and help them identify any errors on the report. These and other steps created a product that was also sustainable in the long term for the participating credit union.

"Adopting consumer protections to prevent over-borrowing and encouraging or requiring financial education contribute strongly to the success of the product," said Williams.

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