



## Segregated Mortgage Market Drives Lending Abuses

**P**redatory mortgage lending has become an increasingly critical issue in the community development arena. The Institute has been documenting the problem and its impacts and working on local, state and federal policies for curbing abusive lending. Homeowners with these types of high-fee, high-rate loans build equity more slowly, may have the equity stripped out of their homes with constant refinancing, or may even lose their homes altogether.

Woodstock's recent report, *Two Steps Back*, describes predatory lending, identifies some explanations for its growth, quantifies the hypersegmentation of refinancing lending by neighborhood racial composition, and calls for a set of state and federal policies to curb lending abuses.

Predatory lending practices generally occur among subprime lenders, a booming industry of firms that specialize in lending to homeowners with less than perfect credit. The report finds that 58 percent of conventional refinance loans in African-American neighborhoods in the Chicago area were made by subprime lenders, compared to less than 10 percent in white neighborhoods. Refi-

nance lending by subprime firms in African-American communities grew by almost 30 times from 1993 to 1998, much faster than the 2.5 times increase in white areas. Of the 20 lenders accounting for the most conventional refinancing applications in white areas in 1998, 17 were prime lenders. Conversely, 18 of the 20 lenders reporting the

most applications in African-American neighborhoods were subprime firms.

At the local level, the Institute has been advising the City of Chicago on how it can encourage responsible lending. Recommendations involve cutting off financial institutions that engage in predatory practices from doing business

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## Consumers Pushed into Spiraling Debt; Regulation Needed

**W**oodstock's newest Reinvestment Alert analyzes the payday lending industry and its customers. It finds major faults in the key defense of the industry—that high-interest payday loans are short-term loans used for occasional cash shortfalls. The Institute's analysis of data collected by the State of Illinois found that only a small number of Illinois borrowers

are occasional users of payday loans. The average borrower renews a contract 13 times and pays \$650 in finance charges over 26 weeks for a \$250 loan. That loan would be considerably cheaper at a credit union or from a credit card advance.

Woodstock found that lower-income people are disproportionately represented

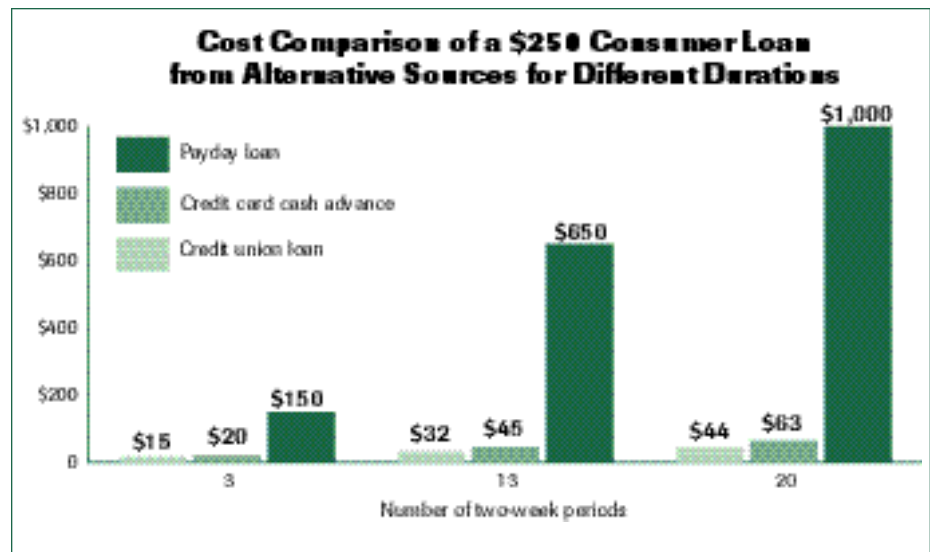
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## Highlights

### Low-Income Families Need Tools for Survival

Woodstock Institute's *Tools for Survival: An Analysis of Financial Literacy Programs for Lower-Income Families* argues that financial education is a necessary—but not a sufficient—condition for reducing poverty. It shows how low-income people are exploited by segments of the financial service sector and how many families lack the tools to avoid exploitative products and marketing. The report details what financial training poorer Americans receive and makes recommendations for providing more adequate training.

*Tools for Survival* describes the work of the organizations that are currently the largest providers of financial education: schools, the Cooperative Extension System, consumer credit counseling agencies, and employers.

Although banks and other financial institutions offer programs, their contribution is minuscule compared to their resources and the size of the problem. Community groups, social service agencies, and organizations offering Individual Development Account (IDA) programs, though small in scale, are increasingly providing financial education programs and their efforts are profiled as well.

# 'Sunshine' Provision Leaves Nonprofits Out in the Cold

CRA activists fought off serious anti-CRA provisions in last year's Bank Modernization Act. However, several such measures survived.

For example, Senate Banking Chairman Phil Gramm's (R-TX) so-called Sunshine provision requires public disclosure of all written agreements made in fulfillment of CRA involving grants by banks in excess of \$10,000 or loans in excess of \$50,000 to non-government entities. Its intent is clearly to discourage CRA activism by subjecting community groups to possible major paperwork burdens if

they comment—negatively or positively—on bank's CRA record. Besides being an example of terrible draftsmanship—one Federal Reserve Board governor described some of the sub-provisions as "ambiguous and seemingly conflicted"—the provision singles out a small group of people and organizations for special scrutiny, possibly violating their First Amendment rights.

The Institute and the Chicago CRA Coalition will work with Federal regulators to try and minimize the reporting burdens on community groups.

## Where Banks Do Business

Small business lending disparities between lower- and upper-income areas are on the rise. A new Institute report describes lending patterns across the Chicago area, analyzes changes in lending rates to lower- versus higher-income neighborhoods between 1996 and 1998, and examines the lending patterns of the 50 largest lenders in the region.

The study concentrates on the degree to which banks make loans to firms in low- and moderate-income (LMI) areas. Banks are ranked according to their business lending in lower- versus higher-income census tracts.

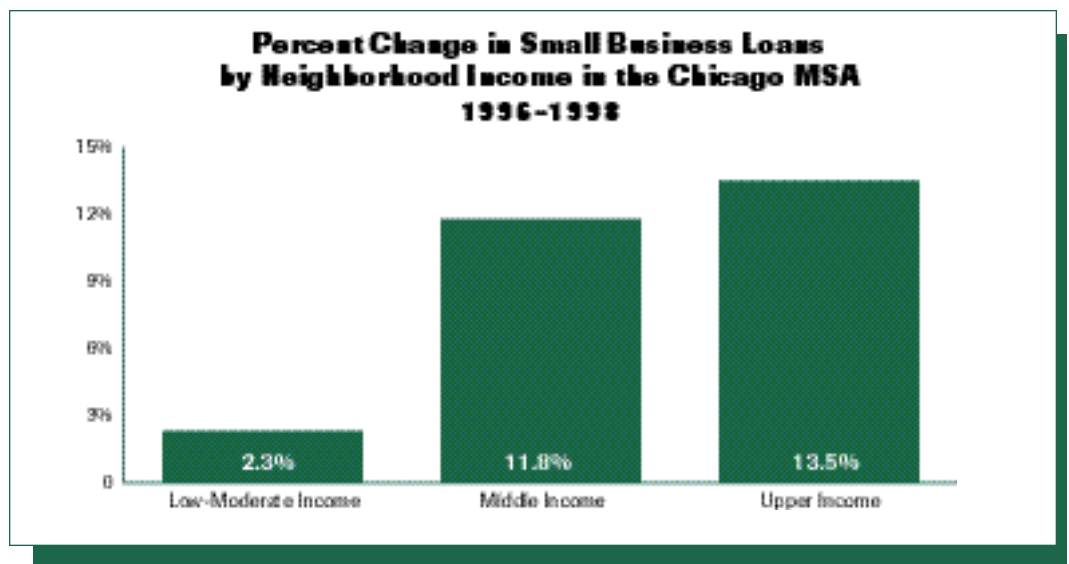
The principal findings of the report include:

The recent growth in small business lending activity has occurred primarily in middle and upper-income (MUI) areas; increases in LMI areas lag gains in other areas.

The gap between the loan-per-firm rates in LMI and MUI neighborhoods has worsened significantly.

Branch locations remain a critical determinant of lending patterns for banks and thrifts.

Out of state lenders are playing a large role in the Chicago market, especially for short-term and credit-card loans. Yet local lending by these banks is not generally being evaluated for community reinvestment purposes.





*Worker-owners of Casa Nueva exhibit their wares in the Ohio Proud Pavilion of the Ohio Grocers Association.*

## Go Market! Micro-entrepreneurs Network for Success

The Woodstock Institute recently completed a report that documents two microenterprise sectoral programs, which are a promising and fairly recent innovation in microenterprise development in the U.S.

Rural Ohio's Appalachian Center for Economic Networks' Food Ventures program enables local food specialty processors to access regional and local markets. Food Ventures has provided technical or financial assistance to more than 140 specialty food firms in the Ohio-Kentucky-West Virginia corridor to help them develop products and access mar-

kets. Participants have placed products such as relishes and salsa in Wild Oats, Kroger and Big Bear food stores.

The Women's Business Development Center, based in Chicago, runs an Apparel Roundtable that fortifies entrepreneurship by facilitating peer support for lower-income entrepreneurs who design and assemble clothing. Entrepreneurs cite improved marketing strategies and materials as a result of participating in Roundtable meetings and programs.

### Consumer debt

*Continued from page 1*

ed among payday loan borrowers. The high cost and longer duration of payday loans exacerbate the cash flow problems of many borrowers and make it more difficult for lower-income people to accumulate assets.

State and federal legislatures are considering proposals to curb the abusive practices of payday lenders. U.S. Representative John LaFalce (D-NY) recently introduced a bill to expand consumer protections for payday loan borrowers and prohibit federally insured institutions from engaging in high-cost payday lending. Numerous states, including Illinois, considered payday loan legislation in recent sessions with mixed success.

For more information, contact Marti Wiles: (312)427-8070.

### Predatory mortgages

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with the city. At the state level, Woodstock has been heavily involved with the Illinois Coalition against Predatory Home Loans to push for stronger state regulation of home lending. Industry opposition towards meaningful regulation has been very strong in Illinois, but community efforts will continue next year. Finally, the Institute has been pushing federal regulators to strengthen consumer protections, fair lending and CRA regulations to discourage abusive lending. There are also a number of bills in Congress aimed at curbing predatory lending.

For more information, contact Dan Immerluck: (312)427-8070.

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## Institute Recognizes Commitment to Reinvestment

On April 6, during the annual reception for the release of the Community Lending Fact Book, Woodstock presented awards for exceptional performance in the field of community reinvestment to:

**MONSIGNOR JOHN J. EGAN:** Monsignor Egan has dedicated his religious life as an urban parish priest to the pursuit of social justice. Since the late 1940s, he has focused on coalition building to help people of diverse backgrounds improve their lives. In the late 1950s, for example, he was a key organizer for the fight against racially-charged block-busting and buying homes on contract. Monsignor Egan has recently spearheaded a campaign to stem the spread of payday loan operations in Illinois.

**STEPHEN CROSS:** Mr. Cross serves as Director of the Federal Deposit Insurance Corporation's (FDIC's) Division of Compliance and Consumer Affairs. During his career as a bank regulator, Mr. Cross has used considerable skill and creativity to address the legitimate community reinvestment concerns of community groups across the country. As a representative of various regulatory bodies, he has given careful attention to matters of access to credit and capital in lower-income and minority neighborhoods.



*CRA Coalition receives award (from left): John Taylor, President, NCRC; Malcolm Bush Woodstock Institute and NCRC Board member; Dory Rand, National Center on Poverty Law; Katy Jacob, Woodstock Institute; Joyce Probst, Chicago Rehab Network; Marv Williams, Woodstock Institute; Ted Wysocki, Chicago Association of Neighborhood Development Organizations and NCRC Board Vice Chair; Gail Burks, NCRC Board Chair; Rashi Rangan, NCRC Board member; (center) Comedian Al Franken.*

## CRA Coalition Wins Excellence in Achievement Award

**W**oodstock is very pleased to report that the Chicago CRA Coalition received the James Rouse Excellence in Achievement Award in the category of Urban Nonprofit at the annual conference of the National Community Reinvestment Coalition in Washington, DC in March.

The Coalition was recognized for its recent work in negotiating CRA agreements

with several major banks as well as for innovative programming and successful organizing around a variety of crucial reinvestment issues. This award is a very special achievement in light of the fact that there are so many excellent CRA groups around the country that are doing vital work in urban areas. Congratulations Chicago CRA Coalition, and thanks for a job well done!

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