



Predatory Lending Victory in Illinois!

In a key victory for the local and national fight against predatory lending, the Illinois General Assembly has approved predatory lending regulations that Governor George Ryan proposed late last year. The regulations are a major step towards curbing abusive home loans.

The regulations survived strong opposition from several trade associations and large subprime lenders. The Insti-

tute and other advocates were able to persuade the editorial boards of the Chicago Tribune, Chicago Sun Times, and Crain's Chicago Business—papers known to be skeptical of government regulation—to support the regulations. Moreover, Harris, LaSalle, and Northern Trust Banks went on record supporting the rules.

As a result of public education and organizing efforts, more than 100 local

government, religious, and civic organizations supported the rules, which were put out for public comment and submitted to a state legislature committee for final approval. The committee of six Democrats and six Republicans voted 8-4 to approve the regulations. In addition to the Governor, Speaker of the House Michael Madigan and State Senator Barack Obama provided crucial leader-

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Woodstock Salutes Leaders in Predatory Lending Fight

This March, Woodstock hosted its 16th annual Community Reinvestment Reception, where the Institute released the *1999 Community Lending Fact Book*, which details residential lending in Chicago's 77 community areas.

At the reception, Woodstock issued an award for excellence in the field of community reinvestment to Martin Eakes, founder of the Center for Self-Help Credit Union in Durham, North Carolina. Mr. Eakes has been a leader in the national effort to curb predatory lending. His efforts helped lead to the first state anti-predatory lending statute in North Carolina. The Institute also hon-



Martin Eakes of Self-Help Credit Union in North Carolina accepts the Institute's award for his outstanding leadership in the fight against predatory lending. Pictured, from left to right: Malcolm Bush, Woodstock Institute President; Martin Eakes; Charles Hill, Woodstock Board Chair.

ored the Homeownership Preservation Project of the Legal Assistance Foundation of Chicago for their tireless work in aiding Chicago-area victims of predatory lending.

Finally, long-time Board member Sandra Scheinfeld was recognized for her and her family's pivotal role in founding Woodstock Institute and for their continuing support.

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Highlights

Fifth Third Upholds Chicago CRA Coalition-Old Kent Agreement

Recently, Cincinnati-based Fifth Third Bank acquired Old Kent Bank, which is headquartered in Grand Rapids, MI and has more than 70 branches in the Chicago area. The merger created Fifth Third Bank Chicago, with over a hundred locations in Illinois and northwest Indiana. Woodstock is very pleased to note that Fifth Third Chicago recently agreed to honor the three-year community reinvestment agreement that the Chicago CRA Coalition negotiated when Old Kent acquired Pinnacle in late 1999. The agreement covers lending, services, and investment goals for the Chicago area through 2002.

Fed Proposes Changes to HMDA, HOEPA

The Federal Reserve Board is considering changes to Home Mortgage Disclosure Act (HMDA) and Home Ownership and Equity Protection Act (HOEPA) regulations that have important implications for lower-income communities. The Board has recommended changing HMDA to include interest rates (APR) on each reported loan. Woodstock has also recommended requiring data such as loan fees and age of borrower. These data would give the Fed and the public a much better sense of the quality of financial institutions' loans.

The Board, the Institute and others have recommended changing HOEPA regulations to include single premium credit life insurance in the calculation of fees that triggers HOEPA protections and to lower the interest rate trigger. Action on these items is expected by this summer.

Illinois Regulates Payday Loan Industry

In another major victory for consumers, new restrictions on the payday loan industry in Illinois help curb some of the industry's worst abuses. The rules, proposed by Governor Ryan, will go into effect this summer.

The restrictions include a \$400 cap on payday loans and a \$2,000 cap on auto title loans. There is a 15-day cooling-off period between loans, and rollovers will be limited to two, provided the balance of the loan has been reduced by at least 20%. The industry lobbied very aggres-

sively against the rules and last fall the Joint Committee on Administrative Rules voted to nullify them. A joint resolution by the General Assembly was required to solidify JCAR's action. Advocates, led by the Campaign for Payday Loan Reform, of which Woodstock is a member, worked hard to support the rules. Legislators, led by Speaker Michael Madigan, killed the resolution by refusing to act on it, and the rules became law.

For more information, contact Marva Williams at 312-427-8070.

Payday Loan Alternatives Save Consumers Money

Recent research by the Institute shows that community development credit unions (CDCUs) are beginning to provide low-cost, short-term consumers loans that rival predatory payday loans. *Reinvestment Alert 16: Affordable Alternatives to Payday Loans: Examples from Community Development Credit Unions* showcases some of these programs. For example, Faith Community United Credit Union (FCU CU) in Cleveland and Louisiana-based ASI Federal Credit Union (ASI FCU) offer affordable alternatives to payday loans for their members.

A six-week, \$200 loan from an Illinois payday lender would result in total charges of \$120. In contrast, the same

loan from ASI FCU's Stretch Plan is one-fifth of this cost, and Faith Community's Grace Loan saves consumers more than \$70.

These credit unions demonstrate that it is financially feasible to provide affordable alternatives to payday loans without risking safety and soundness issues. Of ASI FCU's 2,390 loans, only 1% are delinquent and 0.5% are in default. Faith Community has a similar record, with only 1% of its total Grace Loans delinquent or in default.

Moreover, the delinquency and default rates of these loans are comparable to overall industry loan failure rates. In 1999, the loan delinquency rate for all credit unions was 0.75%.

Cost Comparison of a Six-Week \$200 Payday Loan from Alternative Sources

	Illinois Payday Lender	ASI FCU's Stretch Plan	FCU CU's Grace Loan
Initial Fee	\$40.00	\$18.00	\$15.00
Fees for Two Rollovers	\$80.00	\$0.00	\$30.00
Interest	\$0.00	\$4.15	\$3.92
Total Interest & Fees	\$120.00	\$22.15	\$48.92



The "Sunshine" workshop sponsored by the Institute and Chicago CRA Coalition was very successful. Pictured, from left to right: Robert Mooney, FDIC; Geoff Smith, Woodstock Institute; Joyce Probst, Chicago Rehab Network; Malcolm Bush, Woodstock Institute; Marva Williams, Woodstock Institute; Ted Wysocki, CANDO; Katy Jacob, Woodstock Institute.

Letting the Sun Shine on Nonprofits

In April, the Institute hosted a very successful workshop for Chicago-area nonprofits on how to comply with the new CRA "Sunshine" regulations of the Gramm-Leach-Bliley Financial Modernization Act (GLBA). "Sunshine" is the shorthand name for a GLBA provision that requires nonprofits and others to disclose and report to federal regulators on certain agreements, contracts, or grants that they have with banks.

At the workshop, Woodstock outlined for more than 40 nonprofits what types of agreements are covered under "Sunshine;" what constitutes a "CRA communication" for the

purposes of "Sunshine;" and how to disclose and produce annual reports for "Sunshine" agreements. The basic message was that, while "Sunshine" is an unnecessary and arbitrary regulation, complying with the provision is relatively easy. Due to the efforts of Woodstock and its many colleagues around the country, disclosure and reporting requirements are not too burdensome. Woodstock's recent *Reinvestment Alert 17* is based on this presentation, and both the presentation and Alert are available at www.woodstockinst.org. For more information on "Sunshine," contact Katy Jacob: (312)427-8070.

Victory!

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ship and support.

The regulations define high-cost loans as those refinance or home equity loans with more than 5% in points and fees (including yield spread premiums and single premium credit life insurance) or with annual percentage rates above comparable Treasury rates plus 6% (above Treasury plus 8% for junior liens). Loans over these thresholds are not prohibited but are subject to consumer protections. For high-cost loans, the regulations:

- Limit the financing of more than 6% of the

loan amount in up-front fees.

- Prohibit the packing of loans with financed single-premium credit life insurance.
- Require lenders to document that the borrower can repay the loan.
- Limit prepayment penalties that can trap borrowers in high-cost debt.
- Prohibit frequent refinancing, or flipping, that does not benefit borrowers.
- Prohibit short-term balloon payments that are used to compel repeated refinancing and are unnecessary in making these loans.

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

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Weighing in on CRA Reg Review

The four federal banking agencies will be reviewing the CRA Regulations in 2002 for changes. Under the Clinton Administration, substantial improvements were made to the regulations in 1995. Woodstock and other advocates are getting in on the comment process early, before the official Advanced Notice for Public Rulemaking (ANPR) is released. Key issues include maintaining lending, services, and investments as separate tests and keeping the focus on quantitative performance over more subjective measures. The Institute is advocating for changes as well, including: updating the definition of assessment areas; reviewing bank affiliates' lending and investment records during exams; screening for purchasing or originating predatory mortgage or consumer loans; differentiating between different types of qualified investments; and collecting more substantial data for services, investments, and small business and community development lending.

Firststar Changes Service Area in Response to Institute's Concerns

In a victory for lower-income and minority residents and small businesses in the Chicago area, Firststar Bank has expanded its designated CRA service area to include more lower-income neighborhoods in metro Chicago.

Recently, upon Firststar's application to acquire US Bank, Woodstock filed a comment with the Federal Reserve describing how Firststar violated the letter and intent of the CRA regulation by creating ten separate CRA assessment areas within the Chicago region.

Under its old definition, Firststar, with 41 branches in the region, was only responsible for providing services in four low-income census tracts in the entire Chicago area. The Institute felt that Firststar created these assessment areas to avoid adequately serving low-income and minority neighborhoods. In correspondence to the Federal Reserve regarding the Institute's concerns, Firststar stated that they would change their CRA assessment area to include all of six-county metropolitan Chicago.

Low-Income Families Gouged for Quicker Tax Refunds

Tax preparers—like giants H&R Block and Jackson Hewitt—and banks exploit low-income recipients of the Earned Income Tax Credit by charging them exorbitant fees for getting their refunds a few days sooner with Refund Anticipation Loans. Many filers think they are getting a refund when in fact they are getting a very costly loan. Banks charge up to \$100 or more for the loan, average fees for tax preparation can

be almost \$100 more, and electronic filing costs are an extra \$30-50. These charges vary based on the complexity of the return and the amount of the refund, and the tax preparer gets a fee from the participating bank for every loan. These products are akin to payday loans. The Institute has recommended that federal bank regulators start to downgrade the CRA grade of banks that participate in this practice.

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.

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