



## OCC Blasted for Weakening Consumer Protections

This year, Woodstock Institute and its colleagues around the country protested the Office of the Comptroller of the Currency's (OCC) Docket 03-16, the preemption of state consumer protection statutes for national banks. The preemption and the accompanying guidelines set a dangerous precedent. This preemption removed much of the consumer and fair lending authority previously granted to states by Congress without providing a national policy that effectively protects borrowers from abusive lending practices. This preemption proposal was in response to state attempts to regulate predatory lending.

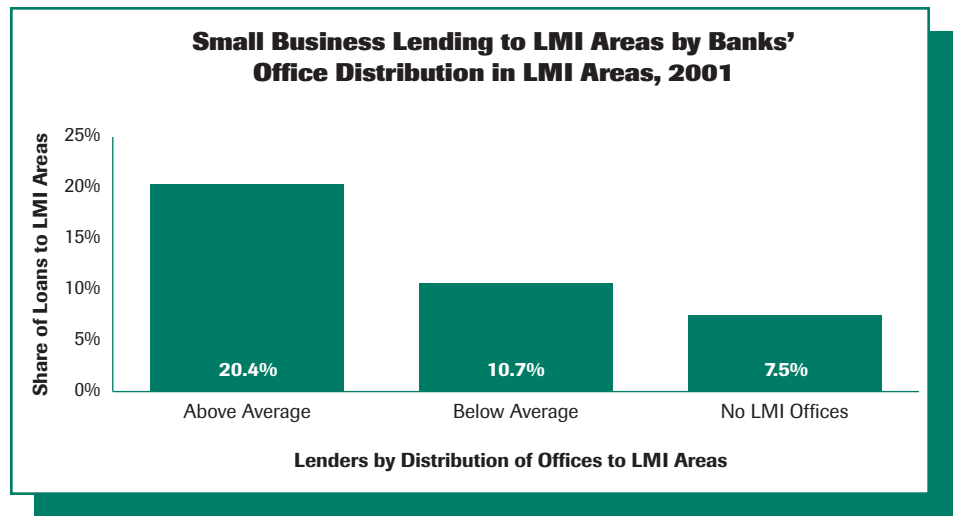
Woodstock argued that OCC was effectively seizing portions of some of the most effective consumer protection mechanisms available to states. For these protections to remain effective, states must be able to set their own standards and improve on national standards for consumer-related issues, even when they apply to nationally chartered banks. Forfeiting the regulation of the majority of real estate

secured transactions, indisputably a local issue, to federal regulators does little to protect borrowers, neighborhoods or states from abusive practices.

Also, neither the OCC nor the Federal Trade Commission has the capacity

to adequately address all the violations of the Fair Housing Act, the Equal Credit Opportunity Act, and HOEPA that involve national banks. It is unlikely that either agency will be able to provide the same level of consumer protections cur-

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## Institute Completes Research on Small Business Lending

Woodstock recently released two pieces of research on small business lending in the Chicago area. The first, *Reinvestment Alert 23: Small Business Lending in the Chicago Region, 2001*, shows lending to firms in low- and moderate-income (LMI) and minority areas lagged behind levels to businesses in middle- and upper-income (MUI) and white areas. The most active small business lenders in the region are credit card lenders, but

local banks still play a significant role in area lending, especially in LMI areas. Banks with strong branch networks in LMI areas made a larger share of their loans to these communities. The Institute, with the Chicago CRA Coalition's Economic Development Task Force, also released survey results of area banks' small business lending products and technical assistance programs.

For more information, contact Geoff Smith: 312-427-8070.

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## Illinois Passes CRA Law

In July, Illinois Governor Rod Blagojevich signed the State Funds Reinvestment Requirement Act. Sponsored by Representative Eddie Washington (D-Waukegan), the bill allows the Illinois State Treasurer to consider a bank's CRA rating and other factors in order to receive state deposits.

The Act is based on a community investment policy developed by Representative Washington and Woodstock Institute. This policy, referred to as 'Little David' in honor of Representative Washington's brother, requires that banks have a CRA rating of satisfactory or higher to receive public deposits. 'Little David' has been adopted by several governmental and non-profit agencies in Lake County.

The new CRA policy is a victory for Illinois taxpayers. It sets a precedent that only those financial institutions that adequately meet the credit needs of the communities they serve, including low- and moderate-income areas, may receive deposits of state funds.

## Impacts of Illinois CDFIs 2001

Impact Category	Number
Housing Units Assisted.....	3,640
Individual Development Accounts (IDAs) Offered.....	533
Microbusiness/Small Business Jobs Created.....	246
Microbusiness/Small Business Jobs Maintained.....	212
Microbusinesses/Small Businesses Financed.....	262
Individuals Receiving Technical Assistance.....	7,453
Organizations Receiving Technical Assistance.....	353
Community Facilities Financed.....	56
Individuals Served by Community Facilities Finance.....	161,498

# CDFIs Serve Neighborhoods, Need Funding

In January 2003, the Illinois Fund for Investment and Development (IFID), a law creating a comprehensive state-based program to support the CDFI industry, was established with support from the Illinois CDFI Coalition. However, IFID is currently unfunded. Illinois lawmakers need to set aside funding for this important initiative in order to trigger community development in underserved areas.

In recent research, Woodstock found that in 2001 Illinois CDFIs assisted in the financing of thousands of housing units, created or maintained hundreds of jobs, and provided countless hours of technical assistance to individuals and organizations. *Reinvestment Alert 21: Impacts of CDFIs in Illinois* shows that CDFIs

also helped lower-income people in Illinois build assets by offering individual development accounts (IDAs) to support homeownership, higher education, or start-up businesses. Through the financing of community facilities, CDFIs were actively engaged in supporting important community services.

Also, a substantial majority of the client base of community development (CD) loan funds and credit unions were traditionally underserved groups, including women, minorities, and low-income persons. CD banks were more likely to provide home mortgage loans to minority and lower-income consumers than other financial institutions.

For more information, contact Katy Jacob at 312-427-8070

## Protections

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rently provided by some state regulators. Also, when abusive lending does occur, the OCC does not assign liability to national banks, their subsidiaries or affiliates, who violate the new national consumer protection regulations. Regardless of enforcement issues,

many of the new national guidelines on predatory lending provide little protection against even the most basic abusive practices. The OCC should not encourage the "downward leveling" of protections against abusive lenders. The Institute will continue to monitor this issue.

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

# Woodstock Institute Celebrates 30 Years of Action and Advocacy on Community Reinvestment and Economic Development

On November 13, 2003, Woodstock Institute celebrated its 30th year of advocating for fair and equal access to credit and capital for lower-income and minority families.

The program for the event reflected “the amazing day to day learning experience that Woodstock provides for non-profits and community leaders. The Institute is a tremendous asset to the financial community, as it offers the most detailed and precise research on CRA issues in the U.S.,” according to Woodstock Board member Leroy Pacheco. The event featured an exemplary panel, including Ellen Seidman, Managing Partner of Shorebank Advisory Services and former Director of the Office of Thrift Supervision; Jeremy Nowak, CEO

of The Reinvestment Fund of Delaware Valley and longtime innovator in the CDFI industry; and Joe Brooks of Policy Link, formerly with the San Francisco Foundation and the Emergency Land Fund of Atlanta. A group of local and national community development leaders, including Jesus Garcia of the Little Village Community Development Corporation, Jacky Grimshaw of Center for Neighborhood Technology, and Greg Squires of George Washington University, posed questions to the panel.

In 1973, visionaries Sylvia and Aaron Scheinfeld saw the need for an organization dedicated to bringing economic resources to low-income and minority communities and families. Through their family foundation, they created the Woodstock Center in rural Illinois. Wood-

stock Institute was formed as the Center’s program arm, with the mission to “explore and pursue the most effective strategies for dealing with discriminatory housing and investment policies in the Chicago metropolitan area.” Thus Woodstock Institute was born and soon became an independent “think and do”

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All of Woodstock’s Presidents attended the celebration (clockwise from top left): Malcolm Bush; Larry Rosser; Larry Swift; Dennis Marino; Elspeth Revere; Jean Pogge.

## 30th Anniversary Contributors

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# Knowledge and Power in Community Reinvestment: 30 Years and Counting

Uniting knowledge and power was the theme of Woodstock Institute's 30th Anniversary and panel discussion. Woodstock's President Malcolm Bush started the program by quoting Sandra Scheinfeld, Institute Board member and daughter-in-law of Woodstock's founder Sylvia Scheinfeld. At the Institute's 25th anniversary, Sandra said, "Woodstock Institute works to demystify the financial field and transfer power mindfully to its community users." Bush warned, however, that all the successes in the community reinvestment field would be negated by mounting federal budget deficits that, if allowed to continue, would force major cutbacks in key New Deal and Great Society safety net programs such as Social Security, Medicaid and Medicare. Unfortunately, he noted, there is evidence that the weakening of these programs is a deliberate goal of some politicians and their advisors.

To protect the gains made during the last 30 years, and to promote community rein-

vestment well into the future, Woodstock assembled some of the most insightful and well-known advocates, activists, and researchers from the national reinvestment community. Moderated by Woodstock's Board Chairman Charles Hill, Sr., panel members and respondents sounded off on critical issues such as expanding bank involvement in urban communities, Latino banking and financial equity.

The financial marketplace has seen a dramatic shift in how and to whom banking services are delivered. "Banks are returning to their consumer roots after years of pursuing corporate clients," said panelist and Managing Partner of Shorebank Advisory Services Ellen Seidman. According to Seidman, banks have become more responsive since the origin of Woodstock Institute. More bank officers recognize their responsibilities to the communities they serve. Trying to better serve consumer clients, banks have begun offering new products, marketing, and services to attract a larg-

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Woodstock's Board Chair Charles Hill, Sr. (center, at podium), introduces the panel. (See story above for details.)



Attendees enjoy the Institute's 30th anniversary celebration. From left: Michael Frias (FDIC); Charles Hill, Sr. (Woodstock Institute board); Jesus Garcia (Little Village Community Development Corp.); and Jacky Grimshaw (Center for Neighborhood Technology).



From left: Ed Jacob (Woodstock Institute board); Charles Hill, Sr. (Woodstock Institute board); Pam Daniels-Halisi (Woodstock Institute board); Leroy Pacheco (Woodstock Institute board); Michael Mitchell (Woodstock Institute board); Gary Washington (LaSalle Bank); and Sandra Scheinfeld (Woodstock Institute board).

## Woodstock Institute's Recent Achievements Include:

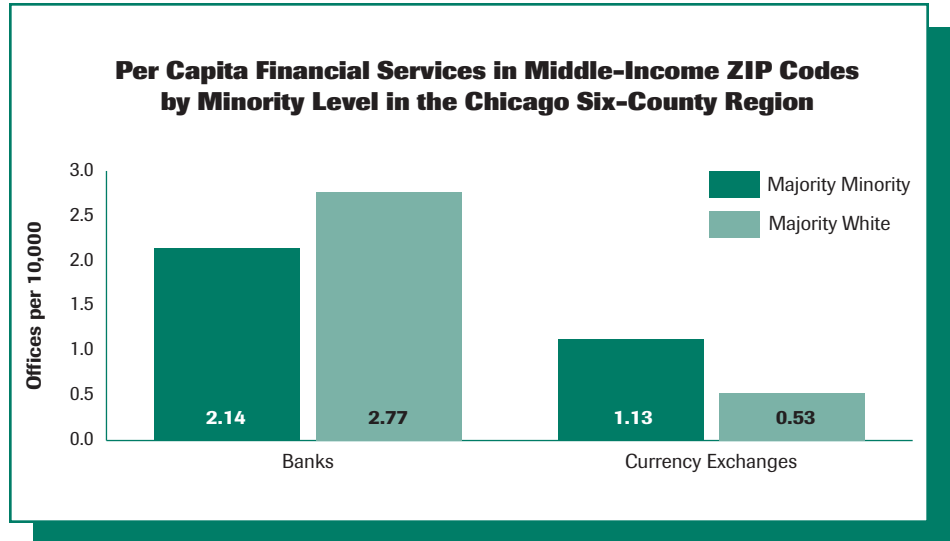
- Successfully fought for Illinois predatory mortgage and payday lending regulation and legislation with colleagues from around the state.
- Brought considerable national attention to the problem of predatory mortgage lending by producing the first empirical research on the scope of the problem;
- Played a major role in the large increase in minority and lower-income homeownership in the 1990s;
- Convened one of the largest and most active regional CRA coalitions in the country, which negotiated path breaking CRA agreements with local banks;
- Produced the first public, empirical study of how regular credit unions fail to adequately serve low-income people, thereby changing the national debate on the role of credit unions;
- Got local and national banks to change their products, programs, and service areas to better serve low-income people via advocacy and regulatory action;
- Helped design the recently-created Illinois CRA statute, known as the State Funds Reinvestment Requirement Act;
- Served as a major national documentor of the role of community development financial institutions in serving underserved populations;
- Provided technical assistance to hundreds of community development organizations, financial institutions, municipalities, and others;
- Employed new data to demonstrate the continued disparate treatment faced by minority small business owners in financing their businesses.

# Branch Expansions Continue, but Only for Some

Recent Woodstock research shows that low- and moderate-income and minority communities are significantly underserved by banking offices. As several large banks have announced plans to open hundreds of new branches throughout the Chicago area, a significant opportunity exists for banks to expand into these areas.

Key findings of *Reinvestment Alert 22: Where Banks Aren't* show that:

- Low- and moderate-income (LMI) areas account for nearly 33 percent of area residents, but less than 17 percent of area bank offices.
- LMI areas have 1.27 bank offices per 10,000 people compared to 3.15 per 10,000 in middle- and upper-income (MUI) areas.
- Only areas that are over 75 percent white are above the regional average for per capita bank offices (3.64 per 10,000).
- Majority African-American areas have 1.04 bank offices per 10,000.



Majority white areas have 3.19.

- Minority, middle-income areas have fewer bank offices (2.14 per 10,000) than white, middle-income areas (2.77), but have more than twice as many currency exchanges (check

cashing outlets), 1.13 per 10,000 compared to 0.53.

The less competitive markets in lower-income and minority communities decrease choice and increase costs for their residents.

## Knowledge

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er and more diverse market segment. This new activity changes many of the goals of reinvestment advocates. Seidman concluded by calling for community reinvestment advocates to continue working to gain access to capital and to build on the access they have already attained to help their communities build wealth.

Where banks have expanded their consumer activities, Latinos and low-income households have been widely recognized as profitable and exciting new markets. However, respondent Jesus Garcia of Little Village CDC noted the concern that African-Americans may lose ground unless advocates can adapt to the changes in the field with an equity agenda.

Panelist Joe Brooks of Oakland-based PolicyLink agreed. Brooks elaborated that race continues to interfere

with financial equity. Despite recent gains, there have been many missed opportunities and an overall lack of connection between minorities and wealth building strategies. An equity agenda that would pursue the long standing goal of “equal outcomes for equal effort” should remain a key focus of community reinvestment.

“We need policy that is fundamentally different than what it has been and recognizes extraordinary differences between cities,” said panelist Jeremy Nowak of the Reinvestment Fund of Delaware Valley. Nowak emphasized that knowledge and power should be directed toward finding more textured policy solutions, and not assuming that the “recovery of the market and poverty reduction are directly related.” He added that public subsidy is a very valuable commodity, and that we should be tough-minded in distinguishing between “dumb” and “smart” subsidies.

But such a policy needs to be consid-

ered holistically within a reasonable timeframe, continued respondent Jacky Grimshaw of Center for Neighborhood Technology. Otherwise “we will be stuck with policies going in the wrong direction.” Community reinvestment needs to come to grips with critical equity issues. Grimshaw also noted that advocates need to critically assess their mission and ask themselves “knowledge and power to what end?”

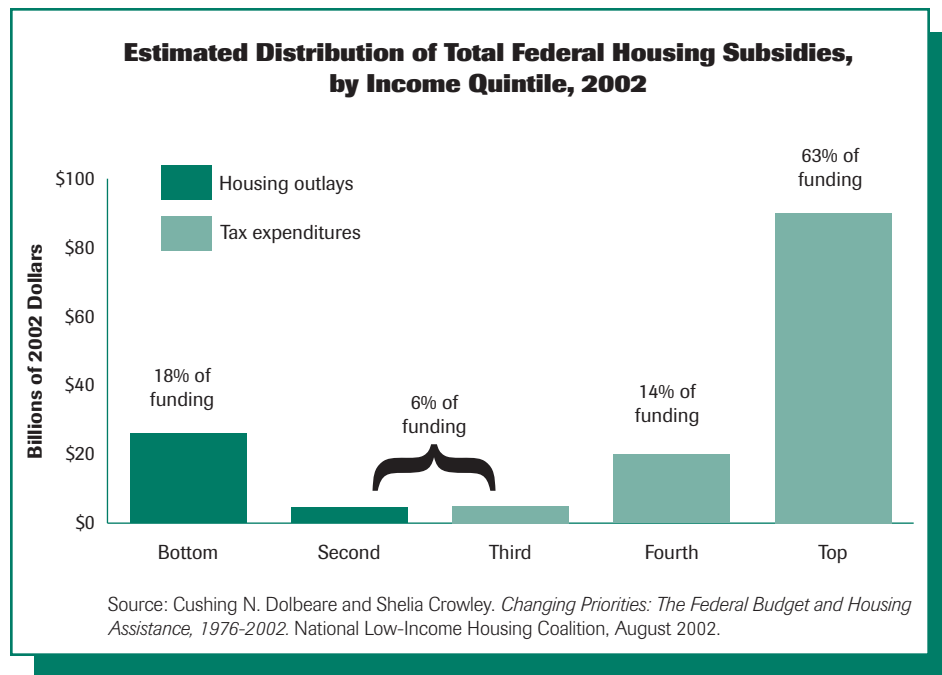
Greg Squires, chair of the Sociology Department at George Washington University and a Woodstock Institute Board member, rounded out the discussion. Squires noted that wealth building and homeownership are as important as ever and should remain the focus of community reinvestment as the financial marketplace becomes more inclusive.

Woodstock Institute would like to thank all of the panel members, contributors, and guests who participated in the 30th Anniversary celebration.

# The Nation Fails to Tackle a Growing Housing Crisis

Over 80 million people in the U.S. are paying more than they can afford for housing. In no area of the country can a person earning a minimum wage, full-time salary, afford a fair market rent. These facts are staggering given the importance of decent, affordable housing for family and community stability. A new Institute report, *Spurring the Maintenance and Development of Affordable Housing*, looks at a variety of strategies for tackling this problem, particularly as those strategies impact “mom and pop” rental housing owners. These owners can serve some moderate-income families without subsidy, but they cannot serve low-income families without subsidy. Nor can new rental housing for lower-income families be built without deep subsidies.

The report examines several possible changes in the federal tax code for their impact on the owners of small buildings. It also examines the merits of providing small scale developers with modest grants to assist in the purchase and renovation of existing buildings. These findings are set in the larger context of inadequate and inequitable federal subsidies for housing. The total budget of the Department of Housing and Urban Development



in 2002 in inflation controlled dollars was just 41 percent of HUD’s budget in 1976.

Moreover, the federal housing dollar is divided very unfairly. Some 63 percent of federal housing subsidies go to families in the top fifth of the income distribution through deductions for mortgage interest and property taxes; capital

gains deferments; and exclusions for home sales. Only 18 percent go to families in the bottom fifth of incomes. While successive national Administrations have concentrated on increasing the homeownership rate, little attention has been paid to lower-income renters.

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

## Insurance Banks Thwart CRA Responsibilities: Institute Proposes Reforms

Recent Institute research shows that insurance company banks are doing the vast majority of their single-family mortgage lending outside of their stated CRA assessment areas, leaving most of their activity beyond the purview of CRA. *Reinvestment Alert 24: CRA, Financial Modernization and the Policy Implications of Insurance Company Involvement in Banking for Low-Income Populations* shows that federal regulators, hiding behind a very particu-

lar interpretation of the statute and the regulations, are permitting these banks to avoid CRA scrutiny.

Moreover, in aggregate, insurance banks are seriously underperforming the national averages in the percentages of mortgage loans that they make to low- and moderate-income (LMI) borrowers. The largest lender of the group, State Farm Bank, is doing an extremely poor job of lending to LMI borrowers in its very limited assessment area.

Because federal regulators treat insurance company banks differently than “traditional” banks, the federal statute to protect lower-income families from disparate treatment by financial institutions is much less effective than it should be. Regulators should, as a matter of urgency, reframe the gravely inadequate way in which they apply CRA to insurance company banks.

For more information, contact Katy Jacob at 312-427-8070.

## Illinois Passes Anti-Predatory Lending Bill

On August 20, 2003, Illinois Governor Rod Blagojevich signed the Illinois High Risk Home Loan Act, which applies to all state-chartered mortgage lenders. The legislation codifies much of the Illinois Anti-Predatory Lending Regulations approved in 2001, including maintaining interest rate and points and fees thresholds for defining high-risk home loans.

Under the law, high-risk loans are subject to certain restrictions, including banning prepayment penalties after three years of the loan origination date and banning the financing of all single premium credit life or similar insurance provisions. The legislation also allows for a private right of action (which lets consumers directly pursue lenders who originate violating loans) and for assignee liability, which lets consumers pursue the holder of the loan. This is critical because most predatory loans are sold to secondary market entities soon after origination, and these firms are now accountable for the violations of the originating lenders. Assignee liability should significantly limit investment in predatory lending in Illinois. Additionally, the Illinois Attorney General now has the ability to pursue lenders who violate this legislation under the Consumer Fraud Act.

## Woodstock

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tank operating locally, nationally, and internationally.

Over the last 30 years, Woodstock has been a crucial force on issues such as increasing the homeownership rate among low and moderate-income people and in fighting against predatory financial services such as payday and home mortgage loans. Citing a particular example, Institute Board member Ed Jacob said, "Woodstock has not only been instrumental in advocating for reasonable regulation of the payday loan industry in Illinois, but the Institute has played an impor-

tant role in creating alternative payday loan products for families in need."

The Institute's first President and current Woodstock Board member Larry Rosser explains: "I'm proud to have been associated with this non-partisan Institute that has been mission-driven to use its considerable intellectual ability to analyze how capital and credit are allocated for the good and ill of ordinary citizens. While the Institute's work is designed to benefit low- and moderate-income people, it also has strengthened, in my judgment, this country's financial institutions by opening their eyes to the profitability of serving these neglected consumers."

### Visit Woodstock's Virtual Home

Browse the internet and you'll find lots of community development resources. Browsers can log in 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](mailto:woodstock@woodstockinst.org) (E-Mail)  
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