



A Comprehensive Attack on Predatory Lending

Over the last six months, the problem of predatory mortgage lending has received increased attention from policy-makers, community development practitioners, and the media. At the federal level, four bills have been introduced in Congress, and the Federal Reserve Board is considering strengthening regulations under the Home Ownership and Equity Protection Act (HOEPA). Following hearings, the U.S. Department of Housing and Urban Development and the U.S. Treasury Department issued a joint report on the topic. The report called for a number of

substantial reforms, including the banning of lump-sum credit life insurance, the lowering of thresholds defining high-cost loans, and an expanded definition of points and fees used in such definitions.

Following the lead of North Carolina, a number of states have introduced legislation or regulations to fight predatory lending. Even local governments have gotten involved, with the City of Chicago passing an ordinance barring the City from doing business with financial institutions involved in predatory practices. At the same time, since the initial victo-

ry in North Carolina, various segments of the financial services industry have increased their lobbying efforts to defeat or weaken substantive initiatives.

The Institute has been heavily involved with the predatory lending policy debate at all three levels of government. Testifying at the Chicago HUD/Treasury hearing in May, the Institute argued for tighter restrictions on high-cost loans. At the Federal Reserve's HOEPA hearing in Chicago in August, Woodstock argued for expanding the definition of points and fees in loans to close serious loop-

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Woodstock Joins in Crackdown on Payday Lenders

The Illinois Department of Financial Institutions (DFI) proposed short-term lending rules in August that have the potential to eliminate some of the worst practices associated with the payday and title loan industries. Continuous rollovers, simultaneous loans from different lenders and a lack of public information about the industry have devastating effects on mostly low-income consumers. The rulemaking process was initiated by the state legislature following unsuccessful attempts to pass consumer protection legislation

in the Spring 2000 session. Woodstock Institute, along with other consumer advocates and religious and community leaders—including Illinois Governor George Ryan—testified in support of the proposed rules at a public hearing conducted by DFI in September.

The purpose of the rules is to ensure that the products of the payday loan industry are what they are called—short-term. Payday lending may be considered a service, albeit an extremely expensive one, if and only if the loans are used for short-term, infrequent periods. However, because of the loans' high cost, many borrowers are locked into deceptive and expensive long-term or regular use.

The proposed rules include three provisions that, in combination, have the potential to eliminate continuous borrowing. The first key provision involves a loan rollover limit of two and a requirement that the outstanding balance be reduced with each rollover. The second is the requirement of a 30-day waiting pe-

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Advocates are working to regulate the payday loan industry to ensure that consumers don't get mired in debt.

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Highlights

Institute to Release 2001 Fact Book: Race Reporting Problem Worsens

The 1999 HMDA and CRA data are available, so be on the lookout for the 2001 release of Woodstock's 16th annual edition of the *Community Lending Fact Book*. The *Fact Book* contains detailed lending information on Chicago's 77 community areas and is an essential resource for community groups, financial institutions, regulators, and others.

Nationally, the problem of lenders not reporting race of borrowers is getting worse. This makes it difficult for the public to analyze lending discrimination, and the Institute and other groups around the country are working to get regulators to address this issue. Contact Woodstock Institute for more information on HMDA or CRA data analysis or technical assistance.

New Community Development Resource

The latest from Garland Press: *The Art of Revitalization: Improving Conditions in Distressed Inner-City Neighborhoods* by Sean Zielenbach. This work discusses the revitalization of distressed communities, using the Chicago neighborhoods of Englewood and North Lawndale as case studies.

OCC Merits 'Needs to Improve' in CRA Enforcement

Bank regulators are not adequately enforcing the CRA, according to a new analysis by Woodstock Institute. Despite being presented with overwhelming evidence regarding the poor CRA performance of Corus Bank, the Office of the Comptroller of the Currency (OCC) has given the Bank a Satisfactory CRA rating.

The case of Corus highlights the serious problem of CRA grade inflation that plagues all of the four federal bank regulators. For example, the OCC has not issued a Needs to Improve rating to a bank with over \$2 billion in assets since 1994. In the past decade, the OCC has only issued six Substantial Noncompliance ratings, all to very small banks. With \$2.4 billion in assets, Corus is the 10th largest bank based on deposits in Chicago's Cook County.

The evidence suggests that Corus's CRA performance is very poor. The Bank makes very few mortgage loans, makes most of its small business loans to currency exchanges and payday lenders, and works with currency exchanges to assist them in encouraging government benefit recipients to cash benefit checks at the exchanges rather than set up money-saving direct deposit accounts.

In addition, the bulk of Corus' community development investments are in mortgage-backed securities. These are routinely provided by other private investors and should there-



Dan Immergluck of Woodstock Institute chats with Comptroller of the Currency Jerry Hawke during a tour of Chicago neighborhoods led by Neighborhood Housing Services of Chicago, Inc. (Photo by © Marc PoKempner)

fore get little CRA credit. Moreover, the OCC did not address whether these loan packages contain predatory loans. For a detailed analysis of this exam, please visit www.woodstock-inst.org or contact Katy Jacob at (312)427-8070.

Payday loans

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riod between cycles of payday loan use. The third requires lender participation in a statewide loan database that enables the enforcement of the first two provisions.

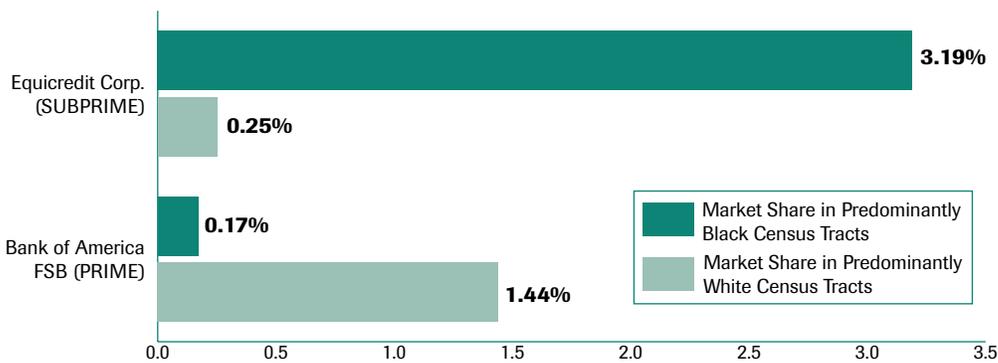
In a second draft of the rules, DFI modified the proposed rules. For example, the waiting period was shortened to 15 days. Although the Campaign for Payday Loan Reform, of which Woodstock is a member, feels the first draft of the proposed rules was stronger, the Cam-

campaign continues to support the rules. The Joint Committee on Administrative Rules planned to review the short-term lending rules for final consideration at its November meeting.

Lastly, the negative effects of payday lending will not be totally eliminated without limits on the rates and fees that lenders may charge. The Campaign for Payday Loan Reform is planning a legislative strategy that will include these key issues.

For more information on payday lending or the Campaign for Payday Loan Reform contact Marva Williams at Woodstock Institute, (312)427-8070.

1998 Conventional Refinance Originations of Major Bank of America Lenders in 6-County Chicago Area



Large Banks Support Dual Mortgage Market

Part of the Institute’s work on predatory lending has involved illustrating the growing presence of major banking organizations in the subprime mortgage market, their role in high concentrations of subprime loans in minority communities, and their association with predatory lending. In 1998, four of the five lenders taking the most refinance applications in predominantly African-American census tracts in the Chicago area were banks or bank-owned affiliates; all of these lenders have been named in local predatory lending lawsuits.

This summer Woodstock released *An Analysis of the 1998 Refinance Lending Patterns of Bank of America Corporation Affiliates*

Predatory mortgages

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holes in the current definitions. At the state level, the Institute worked with other organizations to convince the Governor of Illinois to withdraw an extremely weak regulatory proposal and redraft it. In Chicago, Woodstock worked closely with the City in developing an ordinance and worked hard to counter arguments from certain financial institutions and lobbyists that sought to weaken it severely. Because the predatory lending problem shows no sign of abating, these policy debates will continue at all three levels of government.

in the Chicago Area. This publication analyzes the home refinance lending patterns of four Bank of America Corporation affiliates. Two of the lenders are considered prime lenders and two are considered subprime. The report finds that the subprime affiliates are heavily concentrated in minority neighborhoods, while the prime lenders are heavily concentrated in white areas.

Now Citigroup, already a major player in the subprime business, has applied to acquire the Associates, a lender that has been involved in more than 100 lawsuits and has been investigated by the Department of Justice and the Federal Trade Commission. Citigroup controlled the subprime lender IMC Mortgage from at least late 1998 through late 1999 and then absorbed its operations into its Citifinancial subprime unit. IMC’s lending has been highly concentrated in minority neighborhoods, its foreclosure rates are among the worst in the industry, and the firm has shown up in a number of predatory lending cases.

It is clear that large banking organizations have been contributing to the problem of the dual mortgage market. Until these firms commit to stopping predatory practices, their involvement will serve only to provide cheaper capital to abusive lending operations. In the long run, improved regulations and better enforcement are needed to solve the predatory lending problem.

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Government in Action: Pro-Community Public Deposit Programs

Woodstock Institute recognizes that although government entities deposit billions of dollars in taxes and other revenues in banks every year, they rarely target their deposits in ways that support community reinvestment. This summer, the Institute worked with the Chicago region's North Shore Sanitary District's Board of Trustees, under the leadership of Trustee Eddie Washington, to develop an investment policy that examines a bank's lending, services, and investments in lower-income communities and its fair lending record to determine whether it will receive funds. The policy was adopted in August and mandates that banks that receive a portion of the District's \$34-36 million in investments or deposits must have overall CRA ratings of Satisfactory or above. The District also reviews the ratings of the individual lending, services and investment tests.

Currently, few public agencies in the Chicago region have deposit policies that hold banks accountable for their community reinvestment records. Woodstock Institute is working with several other agencies to encourage them to adopt similar policies.

Final 'Sunshine' Regulations Have Yet to See Light of Day

In 1999, Congress passed the Gramm-Leach-Bliley Financial Modernization Act (GLB), which allows banks, insurance and mortgage companies, and securities firms to merge.

The Institute and the Chicago CRA Coalition have worked to examine the proposed regulations under GLB that most affect low-income people. We are particularly concerned about the so-called Sunshine provision. Proposed Sunshine regulations were released by the bank regulatory agencies in Summer 2000, and Woodstock and other Coalition members pro-

vided extensive comments. This provision requires nonprofits that receive certain grants or loans from regulated financial institutions and comment on CRA matters to report the details of any bank contracts to the regulators. The intent of this provision is to make CRA activism more difficult for participating community groups. Our goal is to minimize the burden of the requirement on nonprofits.

Woodstock and other groups around the country will follow this issue closely as the regulators continue to mull over and finalize the regulations.

Join the Chicago CRA Coalition!

Are you a representative of a community-based or other nonprofit organization? Are you interested in collaborating with others to promote community reinvestment and economic development in the Chicago area? If so, join the Chicago CRA Coalition, which is convened by Woodstock Institute.

Participants receive action alerts and updates, are invited to the Coalition's an-

nual Fall Forum, and have the opportunity to join task forces focusing on: Housing, Financial Services, Investments, or Economic Development. Task Forces are engaged in policy issues and work with financial institutions to initiate creative programs to ensure equal access to credit in lower-income neighborhoods.

For more information, contact Katy Jacob at woodstock@woodstockinst.org.

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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