Role of Non Profit Research in Community Development

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Why Research and Advocacy?
Problem: individual and community effects

Individual Effects

Community Effects
Why Research and Advocacy?
Solution: measuring community effects

Informing communities about the financial services policy issues that impact them most

Documenting patterns of discrimination and helping local organizations and media understand the problem

Giving communities the tools to make better, safer financial decisions
## Increase in Minimum Monthly Payments and Outstanding Loan Balance
with an April 2004 $400,000 Payment-Option ARM, Assuming Rising Interest Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>Minimum Monthly Payment</th>
<th>Total increase in outstanding balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>$1,287</td>
<td>N/A</td>
</tr>
<tr>
<td>3-6</td>
<td>$1,383, $1,487, $1,598</td>
<td>$10,714</td>
</tr>
<tr>
<td>6 and beyond</td>
<td>$1,718</td>
<td>$19,735</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,931</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$27,278</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$33,446</td>
</tr>
</tbody>
</table>

Fair Mortgage Lending
Individual: implications of inappropriate pricing

Pricing implications of interest rate changes on $100,000 30-year fixed rate mortgage

<table>
<thead>
<tr>
<th>Rate</th>
<th>Monthly Payment</th>
<th>Interest paid over life of the loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>$537</td>
<td>$93,256</td>
</tr>
<tr>
<td>7%</td>
<td>$665</td>
<td>$139,509</td>
</tr>
<tr>
<td>10%</td>
<td>$878</td>
<td>$215,926</td>
</tr>
</tbody>
</table>

Source: Woodstock Institute calculations
Fair Mortgage Lending
Community: distribution of subprime lending

2004 High Cost Mortgages
- 40% or greater
- 39.9% to 25%
- 24.9% to 14%
- 13.9% to 5%
- < than 5%
- < 10 loans in 2004

2005 Foreclosures per 1,000 Mortgageable Properties
- 25 or greater
- 24.9 to 10
- 9.9 to 5
- 4.9 to 0.1
- Zero foreclosures
- <10 properties
- < 10 properties
Percent of 1998 refinance application by type of lender – heavily concentrated in minority communities

White Tracts: 21%
Black Tracts: 74%

Prime Lender
Subprime or “High Cost” Lender

Source: Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development. 1999 Woodstock Institute
Fair Mortgage Lending
Community: Subprime effect on foreclosures

Expected Foreclosures per 100 loans by loan type

- **Home Purchase**: 0.31 (Prime Loan), 8.91 (Subprime or “High Cost” Loan)
- **Home Improvement**: 1.76 (Prime Loan), 9.55 (Subprime or “High Cost” Loan)
- **Refinance**: -0.54 (Prime Loan), 7.82 (Subprime or “High Cost” Loan)

Source: Risky Business: An Economic Analysis of the Relationship Between Subprime Lending and Neighborhood Foreclosures. 2004 Woodstock Institute
3,750 foreclosures in 1997 and 1998 are estimated to reduce nearby property values by more than $598 million

average cumulative single-family property value effect of $159,000 per foreclosure

1.44 percent decline in property values for each foreclosure within one-eighth of a mile of a house in a low- or moderate-income census tract.

Given the $111,002 for properties in low- and moderate-income tracts, this amounts to a loss of nearly $1,600 per foreclosure for the average property

Source: There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values. 2005 Woodstock Institute
Fair Mortgage Lending
Solution: Negotiating CRA agreements with banks

CRA agreements increase mortgage lending and ensure that banks are accountable for lending in underserved areas

Market share analysis for mortgage lending to lower-income and minority borrowers and communities

Market share analysis for mortgage lending to lower-income and minority borrowers and communities

Weighted ranking of grants and investments to CBOs, CDFIs and affordable housing organizations

Analysis of bank branch distribution

Mutually acceptable best practices

Source: There Goes the Neighborhood: The Effect of Single-Family Mortgage Foreclosures on Property Values. 2005 Woodstock Institute
1970s  CRA Coalition Founded
1980s  First Chicago CRA Agreement
1997  Established Steering Committee And Task Force Structure
1998  Established the Alternative Banking Program
1998  CRA Agreement with Bank One
1999  CRA Agreement with Charter One
2004  Negotiated MOU with Chase
2005  “Keeping it Real” Seminar established
2006  Working regionally

TIMELINE
Refinancing or “rollovers” occur when borrowers can only make interest payments

<table>
<thead>
<tr>
<th>Rollover</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 weeks</td>
<td>$46.50</td>
</tr>
<tr>
<td>4 weeks</td>
<td>$93.00</td>
</tr>
<tr>
<td>6 weeks</td>
<td>$139.50</td>
</tr>
<tr>
<td>8 weeks</td>
<td>$186.00</td>
</tr>
<tr>
<td>10 weeks</td>
<td>$232.50</td>
</tr>
</tbody>
</table>

Distribution and summary of payday loan defaults in 2005-2006

- 72% of defaults were female borrowers
- 70% of defaults were in LMI communities
- 90% of defaults were in minority communities

Payday Loan Reform Act keeps credit available and borrowers safe

Source: ABC News Chicago and Woodstock Institute
Change in pricing for a $300, two week loan before and after the Payday Loan Reform Act.

- **Payday Loans**
  - Before: 573%
  - After: 351%
  - Change: 222%

- **Installment Loans**
  - Before: 74%
  - After: 387%
  - Change: 313%

Source: Comparing the Cost of Credit Before and After the Monsignor John Egan Payday Loan Reform Act. 2006 Woodstock Institute
Fair Pricing for Consumer Credit
Solution: promoting affordable alternatives

Credit union alternatives:
APR for typical $300, 14 day loan

Why Research and Advocacy?
Problem: individual and community effects

Individual Effects

Community Effects