Research and Advocacy for Responsible Lending

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November 9, 2006
Why Research and Advocacy?
Problem: individual and 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
Why Research and Advocacy?
Solution: tools to support communities

CBOs

grants

Local Financial Institutions

loans and services

CRA

CDFIs

Consumers

equity

Government
COMMUNITY REINVESTMENT ACT HISTORY

1975 Home Mortgage Disclosure Act (HMDA)

1977 Community Reinvestment Act (CRA)

1977-87 Limited adherence to CRA requirements

1989 “The Color of Money” story printed

1989 CRA Exams made public

1990 New data added to HMDA

1992-96 Boston Fed analyses of CRA reports

1995 Lending, Investments, Services test added

2005 “ISB” regulations
Fair Access to Banking Services

Individual: unbanked pay more for transactions

Comparing basic transaction costs at banks and currency exchanges

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Bank Charges</th>
<th>Currency Exchange Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very-Low Income</td>
<td>$70</td>
<td>$87</td>
</tr>
<tr>
<td>Low-Income</td>
<td>$82</td>
<td>$291</td>
</tr>
<tr>
<td>Moderate-Income</td>
<td>$99</td>
<td>$403</td>
</tr>
</tbody>
</table>

Source: Reinvestment Alert 10 – Currency Exchanges Add Poverty Surcharge to Low-Income Residents. 1997 Woodstock Institute
Change in Chicago Six-County Area’s Full Service Bank Offices by Income Level of Zip Code 2000-2004

- Low-Income: 47 to 53, change: 6
- Moderate-Income: 268 to 313, change: 45
- Middle-Income: 718 to 869, change: 151
- Upper-Income: 778 to 988, change: 210

Source: Reinvestment Alert 27 - Increase in Bank Branches Shortchanges Lower-Income and Minority Communities. 2004 Woodstock Institute
## 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</td>
<td>$1,287</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>$1,383</td>
<td>$3,299</td>
</tr>
<tr>
<td>3</td>
<td>$1,487</td>
<td>$10,714</td>
</tr>
<tr>
<td>4</td>
<td>$1,598</td>
<td>$19,735</td>
</tr>
<tr>
<td>5</td>
<td>$1,718</td>
<td>$27,278</td>
</tr>
<tr>
<td>6 and beyond</td>
<td>$1,718</td>
<td>$33,446</td>
</tr>
</tbody>
</table>

<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

Share of Conventional Single-Family Loans that are High Cost, 2004
- 40% or greater
- 39.9% to 25%
- 24.9% to 14%
- 13.9% to 5%
- < than 5%
- < 10 loans in 2004

10 miles
Fair Mortgage Lending
Community: Subprime lending in minority areas

Percent of 1998 refinance application by type of lender – heavily concentrated in minority communities

White Tracts
21%

Prime Lender

Subprime or “High Cost” Lender

Black Tracts
74%

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**
  - Prime Loan: 0.31
  - Subprime or “High Cost” Loan: 8.91

- **Home Improvement**
  - Prime Loan: 1.76
  - Subprime or “High Cost” Loan: 9.55

- **Refinance**
  - Prime Loan: -0.54
  - Subprime or “High Cost” Loan: 7.82

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 Access to Banking Services
Solution: Advocate for equitable distribution

Increase in Bank Branches Report

Change in Chicago Six-County Area’s Full Service Bank Offices by Income Level of Zip Code 2000-2004

Source: Reinvestment Alert 27 - Increase in Bank Branches Shortchanges Lower-Income and Minority Communities, 2004 Woodstock Institute
Fair Mortgage Lending
Solution: Financial counseling pilot program

Concentrated subprime lending increases risk of foreclosure and reduces neighborhood property values

Pilot program operating in 10 ZIP codes on the Southwest side of Chicago

Requires credit counseling for borrowers with fair or low credit scores who are taking out loans with potentially predatory features:

- Property financed in the last 12 months
- Mortgage has an interest only feature
- ARM with an initial fixed period of less than 3 years
- No income documentation

Requires that everyone receive credit counseling if the loan contains:

- Prepayment penalty
- Negative amortization
- Points and fees exceed 5 percent of the principal
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

CRA agreements online at www.woodstockinst.org
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
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: Payday Lending Under the Illinois Payday Loan Reform Act. 2005 Woodstock Institute
Change in pricing for a $300, two week loan before and after the Payday Loan Reform Act

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Before Reform (%)</th>
<th>After Reform (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payday Loans</td>
<td>573%</td>
<td>351%</td>
</tr>
<tr>
<td>Installment Loans</td>
<td>74%</td>
<td>387%</td>
</tr>
</tbody>
</table>

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: regulating payday loans in Illinois
Credit union alternatives:
APR for typical $300, 14 day loan

Why Research and Advocacy?
Problem: individual and community effects

Individual Effects

Community Effects
Research and Advocacy for Responsible Lending

Tom Feltner
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