

# Profitwise

## News and Views

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## Bankruptcy – the New Law



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# Profitwise

News and Views

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## Around the District

### Illinois

#### **Woodstock Institute Releases Latest Community Development Fact Book (2004)**

The Fact Book contains data on the level of high cost, or subprime, mortgage lending in the region, neighborhood foreclosure trends, and information on the changes in the income levels of local homebuyers. The Fact Book is available in two editions, one for the six-county Chicago region, and a new edition for the 10 largest metropolitan areas in Illinois. Community summaries from the 2004 Community Lending Fact Book are now available.

For more information, visit [www.woodstockinst.org](http://www.woodstockinst.org).

### Indiana

#### **State Awards \$617,204 in Training Acceleration Grants**

The Indiana Department of Workforce Development and Indiana Economic Development Corporation have awarded \$617,204 in training grants to 15 Indiana companies or consortia. The program provides financial assistance to companies and organizations seeking to expand the skills of their existing workforce through training programs that result in industry-recognized credentials. This grant program is one of the state's primary job training programs offered to Indiana businesses.

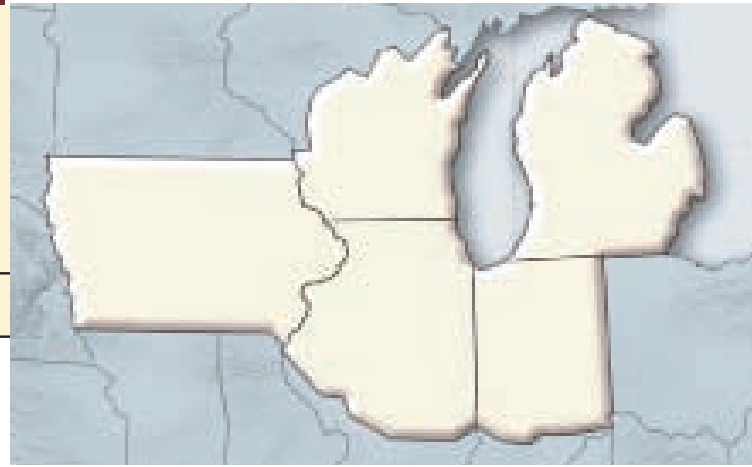
For more information, visit the Indiana Workforce Development Web site at [www.in.gov/dwd](http://www.in.gov/dwd).

### Iowa

#### **Three Iowa Communities Named One of the "100 Best Communities for Young People"**

Senator Tom Harkin (D-Ia.) congratulated three Iowa communities recently on being named one of the "100 Best Communities for Young People." The communities are: Lamoni, Des Moines, and Waterloo. Selection of the 100 communities is a project of America's Promise, an organization founded by former Secretary of State Colin Powell.

The selection criteria relates to the organization's five essential promises to young people: (1) caring adults who are actively involved in their lives; (2) safe places in which to learn and grow; (3) a healthy start toward adulthood; (4) an effective education that builds marketable skills; and (5) opportunities to help others.



For a complete list of the winning communities and details about the 100 Best competition, visit [www.americaspromise.org](http://www.americaspromise.org).

### Michigan

#### **Hudson-Webber Foundation Makes \$2.1M in Local Grants**

The Detroit-based Hudson-Webber Foundation approved \$2.1 million in grants to Southeast Michigan nonprofits. The largest grants were: \$517,000 to Goodwill Industries of Greater Detroit to continue its "Reducing Chronic Unemployment Initiative"; \$300,000 to Habitat for Humanity Detroit to assist in neighborhood revitalization and increase homeownership among low-income residents; \$300,000 to the United Way for Southeastern Michigan to help fund its 2-1-1 health and human services hotline; \$200,000 to the University Cultural Center Association for community development in the Woodward corridor; and \$200,000 to Volunteers in Prevention, Probation and Prison Inc. to expand its community-based mentor program.

For further information, visit [www.hudson-webber.org](http://www.hudson-webber.org).

### Wisconsin

#### **Milwaukee LISC Recognizes Innovative Projects and Leaders**

King Drive Commons, a mixed-use development that includes 18 affordable rental apartments, was among the recipients of the Milwaukee Awards for Neighborhood Development Innovation (MANDIs). While the \$3.5 million project signals investment opportunities in Milwaukee's Harambee neighborhood, the Martin Luther King Economic Development Corporation was also honored for achieving 40 percent minority and disadvantaged business participation in the construction.

MANDIs are presented annually to individuals and organizations that demonstrate innovative approaches to stabilizing and revitalizing Milwaukee neighborhoods.

For more on the MANDI awards and other Milwaukee neighborhood initiatives, visit the Milwaukee LISC Web site at [www.lisc.org/milwaukee](http://www.lisc.org/milwaukee).

# The Impact of Poverty on the Location of Financial Establishments: Evidence from Across-County Data

By Robin Newberger and T. Lynn Riggs

## Introduction

The location of bank branches is an important issue for consumer advocates and other groups that monitor access to financial services for low- and moderate-income people. The proximity of banks and their branches to the places where people live and work is one basic element of mainstream financial access. The ability of people to choose from an array of financial products, especially those offered through the banking system, is fundamentally related to the economic well-being of a community.

In a recent working paper, T. Lynn Riggs of the *Chicago Census Research Data Center* examines the location patterns of both mainstream depository institutions and “alternative” financial services providers, including payday lenders and pawnshops.<sup>1</sup> The study summarized in this article contributes to the conversation about branch placement by applying empirical methods to the question of establishment location. Addressing the issue from an empirical perspective is useful for determining whether a specific connection exists between poverty rates and the places where different types of financial services companies locate their businesses.

## Brick and Mortar Bank Establishments Are on the Rise

Over the past two decades the number of deposit-taking firms has fallen by almost 50 percent, yet there has been substantial growth in the number of establishments – i.e., offices, branches, and stores – of these financial services companies. There were 30 percent more branches of commercial banks and savings institutions in 2004 than there were in 1984. Alone, commercial bank branches grew by 67 percent. Savings and loan branches actually fell by 14 percent. Credit union establishments displayed some growth between 1992 and 2002, but relative to banks this number was small, just 4 percent. Figures 1

and 2 show the changes in the growth patterns of these depository institutions over this time period.

The financial services establishments analyzed in this study are found in the Standard Industrial Classification (SIC) industry category of Finance, Insurance, and Real Estate. The subgroups with this category include:

1. Depository institutions – national commercial banks, state commercial banks, savings institutions, credit unions, branches and agencies of foreign banks; and

2. Non-depository institutions – personal credit institutions, business credit institutions, mortgage bankers and loan brokers.

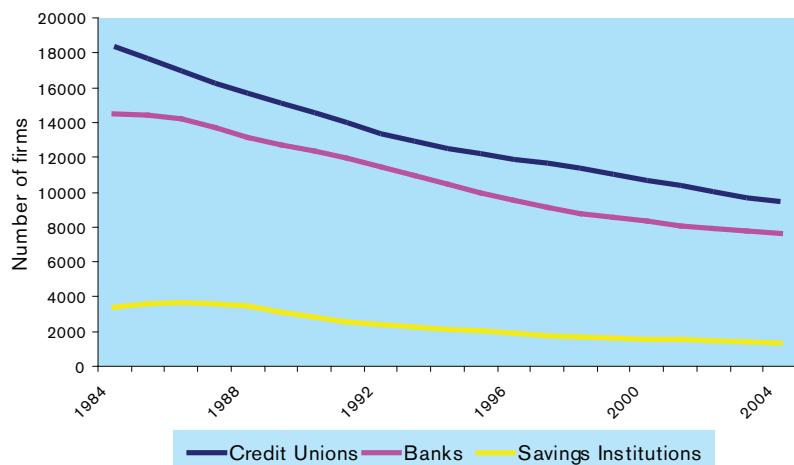
- Personal credit institutions include consumer finance companies; establishments engaged in the financing of automobiles, furniture, appliances; and loan companies.
- Business credit institutions include establishments engaged in extended credit with installment notes; factorers of commercial paper; and purveyors of working capital financing and intermediate investment banks.

This analysis also includes firms classified under a separate SIC category called “Used Merchandise Stores.” This category includes pawnshops.

## The Number of Branches, Offices, and Storefronts of Non-depository Credit Institutions also Grew in the 1990s

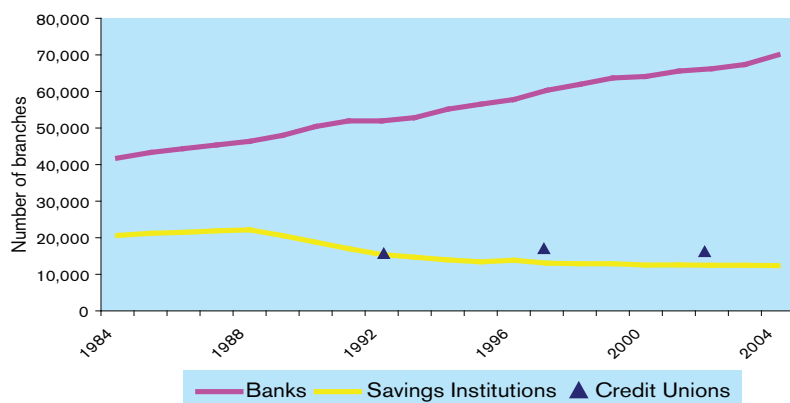
Non-depository credit institutions, including both personal and business credit institutions, have displayed similar growth patterns with respect to the number of establishments over the last two decades. Most of this growth occurred in the mid 1990s. Between 1992 and 1997, establishments of non-depository credit institutions grew dramatically, by 32 percent. Between 1997 and 2002, growth dropped to 3 percent, but the number of firms in this group again grew, by 2 percent, between 1997 and 2002. Pawn shops entered these figures when, in 1997, the Census Bureau began to report pawn

**Figure 1: Growth of Depository Firms**



Source: United States Credit Union Statistics (CUNA), Federal Deposit Insurance Corporation.

**Figure 2: Growth of Depository Branches**



Note: Credit Union data from the Economic Census is available for years 1992, 1997, and 2002.

Source: United States Credit Union Statistics (CUNA), Federal Deposit Insurance Corporation, Economic Census (U.S. Census Bureau).

shops as their own category within non-depository credit intermediaries. Pawn shop establishments grew by 10 percent while the number of firms grew by approximately 5 percent.

### High-poverty Counties Have Fewer Financial Establishments, Including Those in the Alternative Financial Services Sector

Throughout this period, many more commercial banks, savings institutions, and credit unions established branches in counties with fewer lower-income residents than in higher-poverty areas (Figure 3).<sup>2</sup> In 1997, there were almost three times as many depository establishments in low or very low-poverty areas (VLLP) as in high or very high-poverty counties (VHHP). This imbalance persisted throughout the decade even though there was much greater growth in the number of depository institutions between 1989 and 1995 in higher-

poverty counties, on average, than in lower-poverty counties. The trend reversed between 1995 and 1997 when the average number of depository establishments fell in higher-poverty counties and increased in lower-poverty counties.

Surprisingly, non-depository credit establishments displayed the same patterns as depository establishments during this time. These establishments are usually associated with the alternative financial services sector, which typically serves lower wealth and lower-income households. As Figure 4 shows, there were about 25 percent more personal non-depository establishments – e.g., payday lenders and other consumer finance companies – in low-poverty areas than in high-poverty areas in 1997. Non-depository business credit institutions were also more prevalent – by more than three times – in lower-poverty counties than in higher-poverty counties.

In sum, not only did wealthier areas have more bank branches and offices, they also had more establishments associated with the alternative financial services sector. This finding gives reason to look more closely at the nature of the relationship between poverty in a given county and the prevalence of financial services establishments, particularly those related to the alternative financial services sector. Statistical tools help clarify the role that poverty plays in the location decisions of financial establishments.

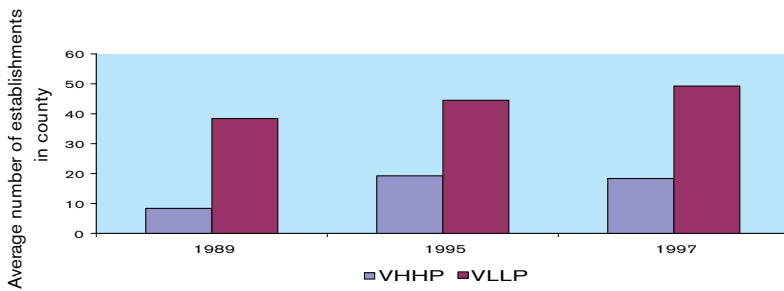
According to Small Area Income and Poverty Estimates from the U.S. Census Bureau, the average poverty in a given county was between 13 and 16 percent over the period analyzed in this study. A very high-poverty county had over 30 percent of its population in poverty; a very low-poverty county had about 6 percent.

### The Impact of Poverty on Financial Services Providers

The motivation for this analysis is to isolate the relationship between the extent of poverty in a county – i.e., the percent of the county population estimated to live in poverty – and the share of financial establishments in that county. It makes sense to perform this analysis separately for depository establishments – commercial banks, thrifts, and credit unions – and for non-depository establishments, since the role that poverty plays may not be the same for each type of establishment.

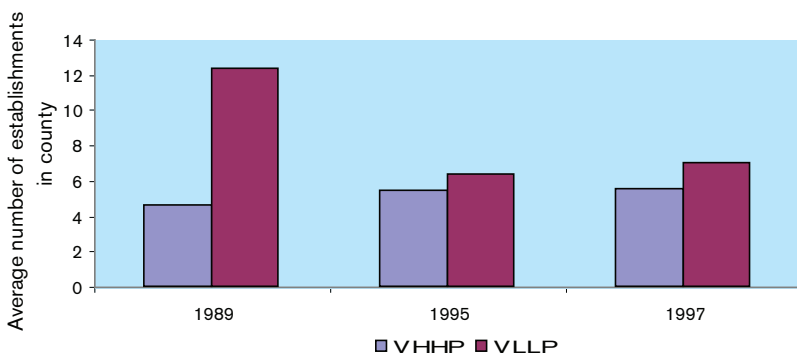
In addition to poverty rates, the analysis controls for other factors that might influence the location of financial establishments, including the share of businesses that operate in a given county.<sup>3</sup> It is important to separate the

**Figure 3: Average Number of Depository Establishments by County Poverty Levels**



Source: Longitudinal Business Database and Small Area Income and Poverty Estimates

**Figure 4: Average Number of Personal Credit Establishments by County Poverty Levels**



Source: Longitudinal Business Database and Small Area Income and Poverty Estimates

effect that local firms and their employees might have on the presence of financial services establishments.

It should also be noted that financial establishments are represented in the analysis as a county's share of financial establishments relative to the total in the U.S., divided by the county's share of the U.S. population. Standardizing financial establishments by population is important to avoid mistaking the role of poverty with that of population. Poorer counties may have fewer people than wealthier counties, and this could lead to a given county having fewer financial establishments.

After combining data from 1989, 1992, and 1997,<sup>4</sup> the results show that the extent of poverty in a county does matter for the location of financial establishments. However, there is a different impact for depository versus non-depository institutions. For commercial banks, thrifts, or credit unions, the share relative to the county's population *rises* as the intensity of poverty falls. For example, low-poverty counties have, on average, six more community banks per 100,000 population than high-poverty counties, three more savings institutions

per 100,000 population, and one more credit union per 100,000 population.

Conversely the share of personal credit establishments relative to the county population *decreases* as poverty levels fall. In other words, rising poverty rates increase the share of alternative financial services organizations in a given county. For example, on average, high-poverty counties have six more personal credit establishments than low-poverty counties. Business credit establishments, like factoring companies, follow a similar pattern as the personal credit establishments, but the results are less strong.

Poverty therefore does affect the proportion of depository establishments in high-poverty areas as well as the proportion of alternative financial services providers in these same counties.

### Conclusion

A simple count of alternative financial services companies in low- versus high-poverty counties does not reveal the complete picture about the influence of poverty on the location of financial establishments. Poverty levels in a county do impact the location of mainstream establishments and alternative financial services providers. While this finding alone

does not indicate that individuals in high-poverty areas are under-banked, it does have potential implications for the stabilization of high-poverty areas. The presence of mainstream depository institutions is an important indicator of the overall economic and social well-being of a community. The analysis described in this article uses county-level data. More work is needed to examine whether these results hold for smaller geographic areas as well.

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**Notes**

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1 This article is adapted from an unpublished study, "Location of Financial Services" by T. Lynn Riggs, April 2005. The study is based on data from the Economic Census and the Longitudinal Business Database of the U.S. Census Bureau, 1977-1997.

3 Separate variables are constructed for businesses in the mining, construction, manufacturing, transportation, communications and utilities, wholesale trade, retail trade, finance, insurance, real estate, and services industries.

2

4 The most recent Economic Census survey years.

<i>Category</i>	<i>Poverty Percentile</i>	<i>Percent of County Population in Poverty</i>
Very high poverty	90th percentile	34%
High poverty	Between 75th and 90th percentile	23%
Above median poverty	Between 50th and 75th percentile	18%
Below median poverty	Between 25th and 50th percentile	13%
Low poverty	Between 10th and 25th percentile	10%
Very low poverty	10th percentile	6%
Source: Longitudinal Business Database and Small Area Income and Poverty Estimates		

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**Lynn Riggs** has been an economist with the U.S. Bureau of the Census, Chicago Census Research Data Center since 2002. Dr. Riggs has conducted research related to policy evaluation, health care, education, and social welfare including the effects of policy on consumer and producer incentives to undertake food safety efforts. She received her Ph.D. from the University of Wisconsin-Milwaukee in 1998 and completed a post-doctoral fellowship at the U. S. Centers for Disease Control and Prevention in 2000.

# Bankruptcy – the New Law

By Helen Mirza

## Background and Overview

New provisions under bankruptcy law became effective on October 17, 2005. The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 was passed by the 109<sup>th</sup> Congress on April 14, 2005, and signed into law by President Bush on April 20, 2005.

The new legislation made sweeping changes to existing bankruptcy law, and the main result appears to be that it will now be more difficult for certain individuals to discharge all debt in Chapter 7 filings than under the old law. Individuals under the new law will have to demonstrate whether or not they have the ability to repay some or all of their debt. If the court determines that the consumer does have the ability to repay, s/he will be forced into Chapter 13, as opposed to Chapter 7. The filer as an alternative may simply withdraw the filing. There is now a “means test” to qualify for Chapter 7. Simply put, Chapter 7 results in the extinguishment of all debt, other than priority debt such as child support, taxes, and certain types of judgments. Chapter 13 does not extinguish all non-priority debt, but requires repayment of at least some debt (often including unsecured debt) over a certain time period—generally three years under the prior statute and five years under the new.

## Means Testing

While the new law also included provisions affecting farming (Chapter 12), Business Reorganizations (Chapter 11), financial contracts, and ancillary foreign bankruptcy proceedings, many of which are also important in their scope, the centerpiece is the means testing required for consumers. Under the former law, the Chapter 7 filer received a presumption of eligibility to receive relief under the statute. Although it was a presumption rebuttable by the creditors or the trustee in bankruptcy, it was rarely challenged, and even more rarely challenged *successfully*, due to the inability of creditors to obtain in-depth information about the filer’s financial status.

Under the new law, no presumption of eligibility exists; the filer must prove eligibility by disclosing financial information including income documentation and tax returns. If the filer’s income is below the median income in his state (based on the prior six months), s/he is not required to show eligibility and may stay in Chapter 7. However, for those earning more than the median state income, a means test is applied.

This test, in its most simplified form, is conducted as follows:

- Step 1: Subtract defined allowable expenses from monthly income, and multiply the result by 60 (the total of five years of monthly income).
- Step 2: If the result of the calculation above is more than 25 percent of the filer’s unsecured (non-priority) debt or \$10,000 or more, the case must be converted to Chapter 13 or dismissed.

If ultimately, either Chapter 7 or 13 goes forward, the filer must complete an approved financial management course in order to obtain the final discharge.

## Pre-filing Credit Counseling Required

For the court to begin to process a filing, the potential filer must have completed an approved credit counseling session within the prior six months.

Early predictions about the likely effects of the new provisions on debtors, prior to passage, held that the new law would make achieving total relief in Chapter 7 very difficult for the average filer. Thousands of debtors rushed into court hoping to get their case filed before the law changed. During the final two weeks before the new law took effect, over 600,000 debtors filed for bankruptcy protection,<sup>1</sup> compared with approximately 30,000 filings per week on average previously, and a mere 3,600 a week immediately following the effective date of the new law.<sup>2</sup>



Although predictions of difficulties in filing under the new law apparently prompted the spate of filings before it took effect, it is interesting to note that a Washington Post staff writer who spent time with a representative of Money Management International, Inc. (MMI), the “nation’s largest credit-counseling organization,” was told that most of the debtors they have counseled under the new requirements *will* in fact meet the test of being able to file under Chapter 7.<sup>3</sup> Most of the debtors counseled were in very serious financial difficulty with no apparent way to repay. “In the first 13 weeks after the new law took effect October 17, only 4.5 percent of the 14,907 debtors counseled by MMI had sufficient income to be considered for a plan to pay back debts over a few years. Of those 669 debtors, only 42 have signed up so far for such a debt-management plan,” stated the Washington Post reporter in the same article.<sup>4</sup>

## Winners and Losers

The financial services industry, including banks and credit card companies, had lobbied aggressively for the passage of bankruptcy reform for over a decade. The last major reform of the bankruptcy code occurred in 1978 and was considered largely pro-debtor. Creditors had been complaining ever since about certain practices they considered unfair. In particular, they did not believe that the abruptness of the bankruptcy filing was appropriate. The creditor often only learned of the bankrupt’s financial difficulties when informed of the automatic stay occasioned by the filing. Creditors felt that this lack of any notice of financial duress often lured them into continuing to extend credit in the face of the debtor knowing s/he was unlikely to be able to repay. They also felt victimized by the bankrupt’s legal ability to shift assets prior to filing into asset protection trusts and into homesteads in states with extremely or even unlimited homestead exemption provisions.

Since, under the new law, the debtor must undergo counseling, creditors have an opportunity to work with the borrower and have input into any proposed repayment plans. The new law also addressed the issue of state homestead exemptions. It requires that a debtor must have lived for two years in any given state before being able to use that state’s homestead exemption. In addition, if the property was acquired within 3.3 years (1,215 days) prior to filing bankruptcy, the debtor is limited to \$125,000 in homestead exemption, regardless of the state’s statutory exemption limit.

Creditors were also pleased with a change to what was formerly referred to as the “cramdown” provisions of the old statute. This provision required that the secured value of a vehicle be written down to its fair market value even though the debtor may still owe substantially more than that value. Automobiles purchased new usually depreciate

rapidly; a write-down in proportion to the loan amount on a car purchased new can be significant. Under the new law, the write-down is not permitted if the vehicle was purchased within 910 days preceding the date of the filing. For other purchase money security interests on personalty, the write-down is not permitted if purchased within one year of the filing.

Debtors also received consideration in the law’s new requirement for more disclosures for open-end credit under Regulation Z (Truth in Lending). The Federal Reserve is responsible for implementing these changes, and has issued an Advance Notice of Proposed Rulemaking to seek public opinion on how to craft the required disclosures. The comment period ended on December 16, 2005, and the Federal Reserve staff is in the process of evaluating these comments and drafting appropriate regulations. The principal thrust of these disclosures is to let consumers of open-end credit understand how long it will take to pay off their debt if they only make the minimum required monthly payments, and to provide a toll-free number where they can call to find out how long it would take to pay off their own balance assuming minimum payments. This provision also requires language concerning introductory interest rates (often referred to as “teaser” rates), when they will expire, what rate will apply after they expire, and under what circumstances the rate can be changed earlier (late payments for example). Some other provisions for consumers under the Truth in Lending law include:

- Barring creditors from closing open-end accounts where the consumer does not incur finance charges;
- Disclosure of the earliest date a late fee can be charged, and the fee amount; and
- Disclosure for home-secured credit wherein the amount of the loan may exceed the fair market value of the home, and the fact that interest would not be tax deductible for amounts above that fair market value.

## Recent History and a Reality Check

Post enactment counseling experience at MMI indicates little change for the average consumer (who is not in a position to repay debts) seeking bankruptcy protection. The American Bankruptcy Institute is quoted as estimating that the new law will adversely affect fewer than 3 percent of all debtors.<sup>5</sup> Early indications from counseling records support that estimate. However, these early filings may not be typical of future filings inasmuch as they may represent a group of filers who, for the most part, were unable to complete or attempt a filing prior to October 17, and were forced into filing relatively soon thereafter due to dire and worsening financial circumstances.

## More Consumer Issues

One significant change to the priorities of obligations was to elevate child support payments or recoverable amounts to first priority, making it somewhat more likely that such debts will be paid to the custodial parent. In addition, certain penalties are provided for abusive creditor practices, particularly when a creditor refuses to negotiate a reasonable repayment schedule.

Another change prohibits disclosure of the name of minor children, unless required by the court to be kept in a non-public record, and the prohibition on the release of personal information of the debtor that may create undue risk of identity theft or "other unlawful injury to the individual or the individual's property" (Subtitle C., Section 234).

Interestingly, however, the law caps at \$1 million the value of an IRA, which the debtor may claim as exempt property, and may increase this cap "if required in the interests of justice" (Subtitle C., Section 224[e]).

## Summary

It is too early to evaluate the longer-term impact on consumers and society in general of these changes to our bankruptcy laws. However, it is clear that Congress was able to put together a significant number of changes sought by various and conflicting interests and parties after an extended effort. Certainly, the financial services and banking industries were able to claim some reforms in what they perceived to be pro-consumer provisions – particularly barring some debtors with the real ability to repay some debt from Chapter 7 relief. The "means test" provides some ability to control abuse. The homestead exemption, which almost all parties other than bankrupts and their counsel felt was often abused, was successfully addressed by the new limit of \$125,000 for property held less than 3.3 years, and curtailment of use of a state's exemption until the filer has been a property owner in that state for at least two years. Certain states, notably Florida and Texas, had very high homestead exemptions, causing some wealthy individuals who contemplated bankruptcy to purchase expensive homes in these states in order to shield as much of their assets as possible under this single exemption.

Pro-consumer advocates are particularly pleased to note the new disclosures required for open-end credit – especially the requirement to let a consumer know the true cost of his borrowing if s/he makes only minimum payments. The consumer is also well served in being informed of the duration of teaser rates and how rate changes are triggered.

In February 2005, 92 law professors of bankruptcy and commercial law throughout the U.S. issued a letter to Congress to express their dissatisfaction with the then

proposed law, and to ask Congress not to pass it. They expressed the belief that abuses of the system were the exception, and that it is extremely important that an avenue remain open for consumers to make a fresh start. They particularly pointed out that consumer lending is highly profitable, and that clear abuses exist on the part of creditors as well.

No one appears to have received their entire wish list from this piece of legislation; nevertheless, most parties are happy with at least certain aspects of the new law.

What a number of people have pointed out, however, is that having obtained bankruptcy reform from Congress is just the start. Getting the legal community involved in bankruptcy filings to adapt to the changes as Congress intended may take time.

There will undoubtedly be compromises and differing interpretations of the various express changes to the law. It is too early to assess the degree of compliance with the new requirements, and the effect on the bankruptcy system as a whole.

For more information on the Truth in Lending regulatory changes, please check our Web site for updates at [www.federalreserve.gov/regulations/default.htm#z](http://www.federalreserve.gov/regulations/default.htm#z).

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## Notes

- 1 Caroline E. Mayer, *Washington Post* staff writer, Tuesday, January 17, 2006, Page A01 located at [www.washingtonpost.com](http://www.washingtonpost.com).
- 2 *Ibid.*
- 3 *Ibid.*
- 4 *Ibid.*
- 5 Bankruptcy Resource Center located at [www.legalhelpers.com](http://www.legalhelpers.com) quoting a spokesperson for the American Bankruptcy Institute.

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**Helen Mirza** is a community affairs program director for the state of Iowa at the Federal Reserve Bank of Chicago. She is a supervising examiner with experience as examiner-in-charge for both safety and soundness and compliance examinations, as well as a fair lending specialist and instructor. Prior to joining the Federal Reserve in 1996, she was with the United States Treasury Department, Office of Thrift Supervision, as Community Affairs Liaison, and was with the predecessor organization, the Federal Home Loan Bank of Chicago since 1975, where she was a vice president of Mergers and Acquisitions, and a supervisory agent with special assignment for liquidations and troubled institutions. She graduated *summa cum laude* from Marymount College with a degree in English and Secondary Education and is also a graduate of John Marshall Law School. Ms. Mirza is licensed to practice law in Illinois.

# Illinois Launches Program to Help Working Families Buy Homes Program accepts alternative credit and ITIN numbers

Building on a commitment to help working families realize the American Dream of homeownership, the state of Illinois has launched a new mortgage program designed to help working, taxpaying individuals and families buy homes.

The program, called Opportunity I-Loan, will help individuals and families who are first-time homebuyers and do not have traditional checking accounts or have not been able to establish credit histories, qualify for low-interest mortgage loans. This program will make Illinois only the second (and the only current) state in the nation to provide affordable, 30-year fixed-rate mortgage loans for qualifying individuals and families that work and pay taxes – but have either no (traditional) credit history, no Social Security number, or have neither. The program also serves as a viable alternative to high-cost, predatory home loans.

“Buying a home is a key first step for many working families to start realizing the American Dream. But when you are paid in cash, or you can’t open a checking account or establish a credit history, applying for a mortgage loan is a lot more difficult,” said Gov. Blagojevich. “That’s why we created the Opportunity I-Loan program to help Latino families; African-American families; Asian-American families; and so many other families qualify for a loan and buy a home...it will help thousands of families across Illinois build better lives.”

The Opportunity I-Loan target market is populations that live and work in a cash economy, under the radar of credit reporting companies. These groups, traditionally from immigrant or minority communities, are wary of banks, cash their paychecks at local check cashing or grocery stores, and pay bills in cash. Most mainstream financial institutions cannot qualify them for conventional mortgages, and they are at risk for predatory loans.

Another danger is that some buyers may qualify for complex ARM (adjustable-rate mortgage) or interest-

only products (even if the loan pricing is not necessarily “predatory”) that have low payments early in the loan term, only to find later that payments for the remainder of the term are not affordable. The potential long-term effects of improvident borrowing and lending within lower-income communities (and groups) are erosion of home equity, increased foreclosures, and destabilized neighborhoods.

The new mortgage program has been implemented by the Illinois Housing Development (IHDA) as part of the state agency’s I-Loan Mortgage Program. IHDA has expanded its underwriting guidelines to accept alternative forms of credit and individual taxpayer identification numbers issued by the Internal Revenue Service.

Applicants to this program do not need a bank account, but must show that they have paid income taxes for the prior two years. IHDA will accept tax returns that were filed with Social Security numbers or individual taxpayer identification numbers. IHDA expects to help 100 families buy homes with \$15 million in Opportunity I-Loans in 2006.

Opportunity I-Loans have a below market interest rate for a 30-year fixed-rate mortgage. The interest rate varies depending on market interest rates but is always at least half of a percentage point below market interest rates. Through the program, homebuyers are eligible for \$1,000 down payment assistance for a slightly higher interest rate. Additional down payment assistance is available through community organizations, including the Spanish Coalition for Housing and the Latin United Community Housing Association, LUCHA.

According to U.S. Census Bureau’s Survey of Income Program Participation and Chicago’s Center for Financial Services Innovation, 46 percent of all African Americans are “unbanked” or don’t have bank accounts. Thirty-four percent of U.S.-born Hispanics are similarly unbanked, and a third of all immigrants, Asian, European, Latino, and other, are unbanked. “This program will break down the

barriers between conventional banks and the communities that are underserved by them," Governor Blagojevich said.

"The Opportunity I-Loan program is the same affordable 30-year fixed-rate mortgage we offer under our other mortgage programs, and it is also at least a half percent below the market rate," said Kelly King Dibble, IHDA executive director. "The change we are announcing is that IHDA will now accept payroll check stubs, rent receipts, phone bills and other documents that prove credit-worthiness rather than relying on scores from credit reporting companies."

"Homeownership is a central wealth-building tool and an essential vehicle for long-term financial security and stability," said U.S. Congressman Luis V. Gutierrez. "The Opportunity I-Loan program will help immigrant and minority families tear down barriers that prevent homeownership and provide opportunities and options for first-time buyers."

Juanita Irizarry, the executive director of Latinos United and a member of Illinois' Statewide Housing Task Force, emphasized that "Illinois has more than 440,000 immigrant households and that they will account for one quarter of new homebuyers in the Chicago area. With this program, Illinois has proactively addressed their situation, helping them become homeowners."

IHDA does not originate loans directly to consumers. To receive a home mortgage through this program, borrowers must go through an IHDA-approved partner bank.

Currently seven banks are prepared to accept applications for Opportunity I-Loans. "We will continue to train all IHDA-approved originators across the state on this program throughout the next several months as interest grows and resources permit," said Dibble.

For a list of the banks that currently originate the Opportunity I-Loan, call 877-ILOAN56 (877-456-2656).

### **About the Illinois Housing Development Authority**

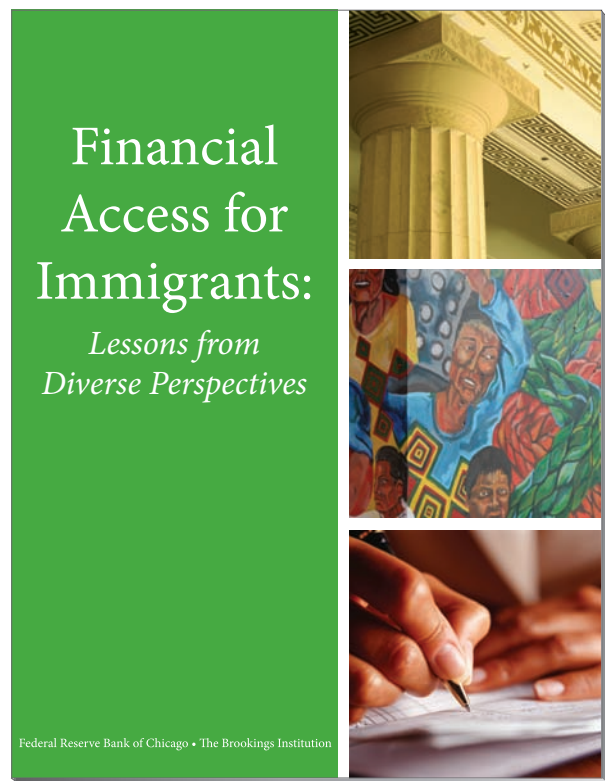
IHDA ([www.ihda.org](http://www.ihda.org)) is a self-supporting state agency that finances the creation and the preservation of affordable housing across Illinois. Since its creation by an act of the Illinois legislature in 1967, IHDA has allocated more than \$6.4 billion and financed more than 160,000 units of affordable housing across the state. IHDA accomplishes its mission by selling bonds in the private bond markets. IHDA also administers a number of federal and state funding sources, including the Illinois Affordable Housing Trust Fund, the Illinois Affordable Housing Tax Credits Fund, the allocation of federal Low-Income Housing Tax Credits, HOME Investment Partnership funds, and others to finance affordable housing throughout Illinois.

*Portions of this In Brief were excerpted from a press release issued by the Office of the Governor of Illinois on December 11, 2005. For a complete copy of the press release visit, [www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=3&RecNum=4531](http://www.illinois.gov/PressReleases/ShowPressRelease.cfm?SubjectID=3&RecNum=4531).*

# New Publication Announcement

In May 2006, the Federal Reserve Bank of Chicago and The Brookings Institution will publish: *Financial Access for Immigrants: Lessons from Diverse Perspectives*.

This monograph reviews the financial practices of immigrants, industry approaches to reaching the immigrant market, and community innovations in moving immigrants into the financial mainstream. The document will be available at [www.chicagofed.org/faicenter](http://www.chicagofed.org/faicenter).



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Why is Immigrant Financial Access so Important?

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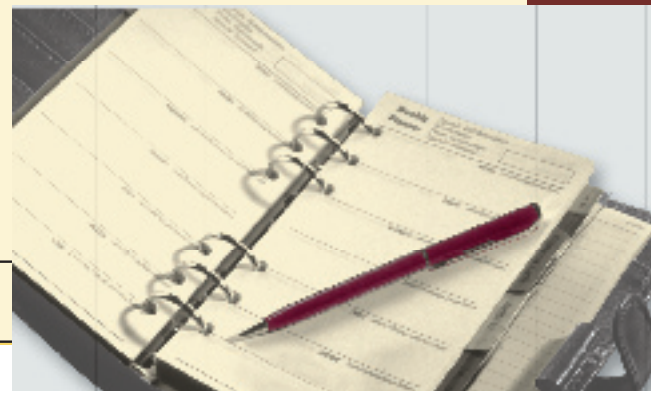
Financial Sector Efforts to Reach Immigrant Customers

### 4 THE COMMUNITY

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### 5 THE FUTURE

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## Calendar of Events

### **Nonprofits and Innovation: Surviving and Thriving in an Age of Change**

**Chicago, IL**  
**May 16-17, 2006**

Seventh Annual Axelson Center Symposium for Nonprofit Professionals. From an organizational perspective, what does it take to be innovative and nimble? What best practices in the field of nonprofit innovation might we learn from? Specifically, what's new in nonprofit marketing, fundraising, and program development? These are just a few of the questions that will be addressed through Symposium 2006.

For more information, visit <http://gateway.northpark.edu/events/detail/306>.

### **Michigan Conference on Affordable Housing**

**Lansing, MI**  
**June 4-7, 2006**

The largest conference of its kind in the United States. Educational tracks for the 2006 conference include ending homelessness, homeownership, creating and preserving multi-family housing, community economic development, organizational development, and asset management for individuals and families.

For more information, visit [www.housingconference.org](http://www.housingconference.org).

### **Making Sense of Money and Banking: A Money and Banking Course for Educators**

**St. Louis, MO**  
**June 19-23 and 27-28, 2006**

A seven-day course open to all practicing elementary and secondary teachers interested in integrating money and banking topics into social studies, language arts, and math.

For more information, visit [www.stlouisfed.org/education/conferences.html#makingsense](http://www.stlouisfed.org/education/conferences.html#makingsense).

### **LISC 2006 Conference on Youth & Community Economic Development**

**Atlanta, GA**  
**June 21-23, 2006**

Conference sessions will explore innovative and dynamic ways to make young people champions and build winning communities through workforce development, financial literacy, media and technology, sports and recreation, civic engagement, and crime prevention.

For more information, contact Beverly Smith at [bsmith@lisc.org](mailto:bsmith@lisc.org) or Kwame Flaherty at [kflaherty@lisc.org](mailto:kflaherty@lisc.org).

### **Neighborhood Characteristics Matter: When Businesses Look for a Location**

**St. Louis, MO**  
**July 19, 2006**

Fed economist Chris Wheeler will present the results of his research on 15,000 neighborhoods across 361 metropolitan areas to find out why some neighborhoods attract businesses and jobs, while others do not. He will present the results of his research during a luncheon meeting sponsored by the Community Affairs department of the Federal Reserve Bank of St. Louis.

For more information, visit [www.stlouisfed.org/community/conferences.html](http://www.stlouisfed.org/community/conferences.html).

### **Save the Date – International Financial Instability: Cross-Border Banking and National Regulation**

**Chicago, IL**  
**October 5-6, 2006**

In conjunction with the International Association of Deposit Insurers, the Federal Reserve Bank of Chicago will host its ninth annual International Banking Conference on October 5 and 6, 2006. This year the theme will be "International Financial Instability: Cross-Border Banking/National Regulation."

For more information, visit [www.chicagofed.org/news\\_and\\_conferences/conferences\\_and\\_events/all\\_conferences.cfm](http://www.chicagofed.org/news_and_conferences/conferences_and_events/all_conferences.cfm).

### **Call for Papers – Financing Community Development: Learning from the Past, Looking to the Future**

**Washington, DC**  
**March 29-30, 2007**

The Community Affairs officers of the Federal Reserve System are jointly sponsoring their fifth biennial research conference March 29-30, 2007, to encourage objective research into the factors governing the availability of credit and capital to individuals and businesses within the changing financial services environment.

For more information, visit [www.chicagofed.org/cedric/files/2007\\_call\\_for\\_papers.pdf](http://www.chicagofed.org/cedric/files/2007_call_for_papers.pdf).



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