Credit, Capital, and Communities:
New Roles Present Community-Based Organizations with New Opportunities

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The growth of mortgage lending to low-income and low-wealth individuals has expanded access to homeownership for millions, yet the new mortgage delivery system has left in its wake continuing problems associated with the mispricing of mortgage credit, not to mention the abusive practices encountered by some borrowers in the subprime market. While, historically, community-based organizations (CBOs) mounted efforts to confront these abuses, to be effective in today's rapidly changing world, CBOs and their allies must develop new programs and new strategies.

This section identifies roles that CBOs can play to expand access to capital in a manner that promotes affordable and stable long-term homeownership opportunities while at the same time providing assistance to existing homeowners struggling to cope with high debt burden and at risk of losing their home through foreclosure. Finally, this section discusses recent effective advocacy campaigns to promote needed regulatory reform and to pressure current market participants to pursue best practices in mortgage origination, servicing, and foreclosure avoidance.

Helping Homebuyers Get the Best Mortgage Available

The complex array of available mortgage products can overwhelm even the most knowledgeable borrower. Yet the consequences of this knowledge gap vary across borrowers. For example, many higher-income borrowers have access to financial or legal advisors to guide them through the intricacies of the borrowing process. In communities where homeownership is prevalent, borrowers can also obtain useful advice from family and friends. Even in situations where such advice is not forthcoming, borrowers with more extensive financial resources have a greater capacity to make their monthly payments, even if they overpay for their mortgage credit. In contrast, borrowers with fewer financial resources are more likely to suffer adverse consequences due to overpriced mortgages.

In an effort to protect more vulnerable borrowers, CBOs have engaged in a wide ranging set of homebuyer outreach, education, and counseling efforts. Yet in the face of aggressive "push marketing" by many subprime lenders, CBO efforts must be revised to ensure that low-income consumers obtain the best mortgage credit available in the market.

1. Enhancing Home Buyer Education and Outreach

To be successful, any homebuyer education program must be visible to the intended beneficiaries. Historically, real estate brokers referred credit-impaired customers to CBOs for counseling and to help them identify an appropriate loan product. While many real estate brokers continue to make these referrals, as a result of increased competition, mortgage real estate brokers can now refer clients to any one of a number of mortgage brokers operating in their area. Indeed, several respondents noted that referrals by real estate brokers had “dried up.” The intense competition in the marketplace makes it harder for CBOs to maintain their visibility.

Not only do shifting patterns of referrals limit the capacity for CBOs to identify potential customers, they also pose other policy challenges. Turner (1993) suggested that referrals made by real estate brokers may not always be in the best interest of the borrower. In the most benign cases, these referrals may simply reflect the desire of the real estate broker to sell the property as quickly as possible. In the more pernicious cases, a referral may reflect illegal collusion or racially discriminatory practices on the part of real estate and mortgage brokers. Regulations in this area do require that real estate brokers fully disclose their relationship (if any) with the mortgage broker and behave in a nondiscriminatory manner with respect to racial minorities.
Yet applicable regulations also recognize that real estate agents represent the seller of a home, and consequently, real estate agents have no particular obligation to help the borrower secure “the best available mortgage.”

Acknowledging the need to guide borrowers through the mortgage application process, many local CBOs are ramping up their efforts to reach out to prospective buyers. One common approach is to host a homebuyer fair and invite a prescreened group of mortgage brokers and lenders to participate. These homebuyer fairs seek to educate prospective buyers and help them identify specific mortgage products and providers that are best suited to meet their needs. In addition, they help increase the visibility of the CBO in the community and increase the likelihood that potential homebuyers will take advantage of the more extensive homebuyer education and counseling programs available.

To publicize their programs, some CBOs have placed ads in newspapers and distributed informational brochures at local supermarkets. Others have launched more extensive media campaigns. For example, one New York City CBO ran a series of commercials on a local Chinese language radio station, which expanded the CBO's ability to provide homebuyer education and counseling services to the new immigrant population that was a growing presence in their target neighborhood.

Yet lacking the resources needed for sophisticated market research and the funding needed to mount a wide scale media campaign, CBO advertising often struggles to find a place in the more expensive radio and television markets. Moreover, even when they do take to the airways, CBO ads often promote homebuyer education and counseling programs. This message may have limited appeal, at least when compared with a competitor's ad promising to approve a mortgage application in a matter of hours, if not minutes, even for borrowers with "bad credit."

Drawing attention to abusive brokers and lenders can be another way to warn potential borrowers of truly abusive lending practices. Working in cooperation with national campaigns such as Freddie Mac's "Don't Borrow Trouble," CBOs are redoubling their efforts to help low-income families avoid predatory lenders. In a closely related effort, the Fannie Mae Foundation has launched a series of ads to help potential borrowers better manage their credit. These ads feature a toll-free telephone hotline that enables low-income and low-wealth borrowers get in touch with experienced credit counseling agencies operating in their communities.

Even these well-funded initiatives, however, must confront the fact that the airwaves and advertising media are now saturated with the outreach efforts of mortgage brokers and lenders targeting the low-income, low-wealth market. While any advertisements are required by law to be factually correct, they are not required to offer information concerning better products available. As a result, many consumers are lured into taking out a loan, whether they can afford the payments or not, while offers by CBOs to provide homebuyer education and counseling or otherwise assist them in identify the best mortgage available go unheeded.

2. Improving Access to Loan Specific Information

For most consumers, shopping for mortgage credit is a rare occurrence, and assembling the needed information to shop the market is difficult. This information mismatch can be a serious problem. In the language of economics, there exists an “asymmetry of information” between buyers and sellers, particularly with respect to the price of mortgage credit. Mortgage industry professionals participate in numerous transactions over the course of weeks and months and have ready access to information on the set of fees, rates, and terms that comprise the overall “pricing of mortgage credit” in the marketplace. In contrast, consumers begin shopping for a loan with limited prior experience and equally limited access to the information needed to make an informed choice.

To correct this asymmetry, potential borrowers need detailed information that will enable them to search for the “best” available mortgage and to better understand the likely consequences of entering into any specific mortgage transaction. Here, CBOs can play an important role as a wholesale distributor of mortgage pricing information. Borrowing from the automobile “blue books” or consumer reports that have successfully guided those shopping for automobiles and other consumer durables, CBOs could develop a “home mortgage pricing guide” that includes available information on the best loan prices and terms available to a borrower of any given credit profile, income, and ability to make a down payment. It is important not to underestimate the complexity of assembling such a “blue book.” Mortgage companies readily advertise their low annual percentage rates, but full understanding of mortgage pricing requires information on the nature and extent of fees, prepayment penalties, and other charges. For example, a lump sum upfront fee may have limited impact on the estimated APR when allocated over the 30-year life of a mortgage. But since few families will hold a mortgage for 30 years, such calculations are inherently misleading to less than knowledgeable consumers.

While daunting, the task of assembling a “home mortgage pricing guide” is not insurmountable. Such an effort could focus on rating a variety of generic alternative mortgages stripped of all their marketing bells and whistles. To keep the magnitude of the task in perspective, it is important to remember that the detailed pricing information required to construct the guide is well known to mortgage brokers and other industry participants. For example, most major lenders regularly post “rate sheets” that provide this information to their network of retail, broker, and correspondent lenders. Making the information contained in these rate sheets more readily available could help borrowers shop for the best product, determine when to refinance, and better evaluate unsolicited offers.

While individual CBOs or national housing networks working with foundation support could develop this home mortgage pricing guide, there is a strong public interest in funding this activity. This follows from the fact that mortgage pricing information is in effect a “public good,” and there is a governmental role in providing the price information needed to support the efficient operation of the mortgage market. Federal regulators operating under applicable fair lending and fair trade authorities must expand their efforts to ensure that consumers obtain the pricing information needed to make informed choices. This could take the form of a national registry of best available mortgage products or other efforts to assist local government and community-based organizations in helping families to better understand the pricing of mortgage products as they relate to borrower income, credit score, and ability to meet down payment and closing cost requirements.

3. Providing Buyer’s Brokers to Improve Mortgage Shopping

Some industry experts suggest that even increased price transparency may be insufficient to ensure that individuals are effective shoppers and call for efforts to expand the ability of low-income and low-wealth homebuyers to access much needed advice on particular mortgage products. A recent Fannie Mae survey emphasized the importance to borrowers of having access to a trusted advisor to help guide them through the mortgage process.[1] Unfortunately, many community groups interviewed for this study seem reluctant to fill that role, feeling that such assistance goes against the goal of empowering people to make their own decisions. Yet given the complexity of the available mortgage products, like consumers in general, low-income and low-wealth borrowers would benefit greatly from assistance in assembling the information needed to make an informed choice. Also it is important to recognize that if CBOs hold back

[1] Fannie Mae, The National Housing Survey, 2001. Examining the Credit-Impaired Borrower.

from assuming the role of trusted advisor, there are many less than trustworthy brokers unfortunately all too eager to step in and fill the information void.

One approach is to expand the capacity of CBOs to work with buyers individually to search for the best mortgages. Of course, for such a service to be helpful, CBOs must keep abreast of mortgage market trends for credit and be recognized by potential borrowers as a trusted source of information. Indeed, some CBOs are already gearing up to develop a mortgage brokerage business with the explicit goal of using their good standing in the neighborhood to become a "buyer's broker" while at the same time earning a small fee for the service. Like the trusted advisors available to many higher-income borrowers, a buyer's broker would provide lower-income and/or less knowledgeable borrowers access to information on available mortgage terms and pricing. Like mortgage brokers, these buyer's brokers would help borrowers qualify for and procure a loan, but unlike mortgage brokers, buyer's brokers would work on behalf of the borrower.

To do this efficiently, CBOs will need to acquire automated tools to evaluate the risk profile of individual borrowers and develop the capacity to identify the best products available in the market. Again, this will be difficult, but not impossible. Today, mortgage pricing and terms are largely determined by credit history, income, and a limited number of other factors. Using software similar to that developed by large-scale mortgage originators or secondary market players, CBOs could help address the current complexity that now works to the detriment of many borrowers. CBOs, of course, would have to be mindful of the real or even perceived conflicts of interest inherent in assuming the role of buyer's broker. For example, to the extent that a particular CBO receives funding from a particular lending institution, the CBO may be pressured to recommend this institution's products, even in situations where more advantageous products exist in the marketplace. Needless to say, a CBO's failure to provide proper safeguards to avoid either a real or perceived conflict of interest would quickly erode the trust that community residents have placed in their organization.

Guttentag (2001) proposed another version of a buyer's broker system in which for-profit mortgage brokers agree to a fixed, upfront fee that would compensate them to use their expertise to shop on behalf of the borrower for the best mortgage. For a fee, consumers could secure the services of a market professional that would be contractually and legally accountable for finding them information about the best terms available in the marketplace. Moreover, these brokers would be contractually bound to work in the "best interests" of the borrower, and hence, the borrower would have legal remedies should this broker fail to make a good faith effort to perform as expected.

New Focus on Foreclosure Avoidance

Clearly, the extension of loans to borrowers with limited capacity to repay has contributed to the rise in foreclosures. This imposes hardships on individual families and also threatens to limit home sales, dampen home-price appreciation, and destabilize communities. Rising foreclosures are also of concern to the mortgage banking industry, as foreclosure processes are slow and expensive, and in many instances, the best option for all parties concerned is to modify the terms of the loan in a manner that helps keep the borrower in the home.

Aware of the financial and reputational costs of foreclosures, many large lenders/servicers are partnering with (or looking to partner with) CBOs to develop more effective efforts to avoid foreclosure. The recently announced Home Ownership Preservation Initiative (HOPI) is a good case in point. A partnership between the city of Chicago and Neighborhood Housing Services of Chicago, HOPI is challenging large subprime mortgage lenders/servicers to create new foreclosure avoidance tools. Concerned about their ability to conduct business in the city, as well as the reputational risk of being associated with Chicago's growing foreclosure problem, representatives of several large mortgage companies have joined HOPI to see if they can create mutually beneficial alternatives to current foreclosure practices.

As described below, CBOs that once focused on getting people into a home – through repurchase counseling and direct lending –are now pressuring lenders, particularly subprime lenders, to fund loan products and loan-loss mitigation programs that help delinquent borrowers remain in their homes. As HOPI and other emerging CBO efforts illustrate, this requires renewed efforts to expand outreach to financially distressed borrowers, as well as enhance the effectiveness of credit counseling efforts and the use of existing foreclosure avoidance resources.

1. Expanding Outreach to Distressed Borrowers

Over the past five years, servicers have developed sophisticated triage models to identify which of their various intervention strategies will minimize loan losses to investors that arise from foreclosure-related loss of mortgage principal payments. These strategies, collectively known as loan-loss mitigation activities, include programs to restructure the mortgage debt in a manner that allows borrowers to continue to meet their monthly mortgage payments, as well as to help distressed borrowers quickly sell their homes and avoid foreclosure procedures that can be costly to all parties involved in the transaction.[2]

In many instances, these loan-loss mitigation efforts could benefit both the lender/investor and the borrower; yet servicers report that they often have trouble reaching financially distressed borrowers. Indeed, mortgage industry experts and CBO officials repeatedly point out that many loans fail without contact ever being established with the borrower or occurring after problems have become too severe to rectify. The pilot partnership between Homecomings Financial Network[3] and Neighborhood Housing Services of Chicago (NHSC) is a promising way to address this problem. Homecomings believes that some borrowers that are unwilling to talk to them directly will talk to NHSC instead. In another effort to limit losses by boosting contact rates, both Countrywide and Homecomings partnered with NHSC to hold “workout clinics” at the NHSC offices during which dozens of workouts were conducted over the course of a weekend.

Municipal resources can also be used to overcome information bottlenecks. Several cities, including Chicago, have begun providing foreclosure avoidance information through 311 systems. Chicago supports a variety of community-based to programs to help finance workouts for borrowers in the early stages of default. Through expansion of its public service advertising campaign, the city hopes to encourage borrowers to call the 311 number to obtain assistance in

[2] For a discussion of new approaches to subprime servicing, see Cutts, 2003.
[3] The servicing arm of GMAC-RFC.

handling past due mortgage debt. This will include referring borrowers to a special “help desk” to connect borrowers to available foreclosure avoidance resources.

2. Improving on Credit Counseling

Of course, expanded outreach is no better than the assistance borrowers receive when they accept the offer of help. For borrowers in trouble on their mortgage, credit counseling offers both promise and risks. When administered by skilled counselors with the borrower’s interests in mind, counseling can help borrowers chart the best course to navigate their financial difficulties. Credit counseling can literally be the difference between saving and losing a home. When done poorly, however, counseling is a waste of time and money. When done unscrupulously, it simply makes a bad situation worse. As the industry becomes increasingly supportive of these efforts, the pressure for counseling to be done effectively should increase.[4]

HOPI contains many features that illustrate the productive role that CBOs can play in loan loss mitigation efforts. Upon contacting NHSC, under HOPI, borrowers are offered the option of independent credit counseling or speaking with a Homecomings representative based in the NHSC office. The partnership allows the organizations to work together to craft appropriate workouts and provides borrowers with a trusted advisor to guide them through what can be an intimidating process. Since Homecomings benefits directly from foreclosures that are averted, they have agreed to pay for the credit counseling if the borrower chooses to use it.

As CBOs move to form new partnerships with credit counseling agencies, they must first address several issues. First, a more effective method must be devised to separate legitimate and effective agencies from others. Many consumers currently rely on the IRS’ “nonprofit” designation as evidence that the agency will act in their best interests, but this is by no means the case. Many entities currently involved in substantial telemarketing efforts to lure debt-ridden borrowers into accepting their services are under investigation by state attorneys general across the country.[5]

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[4] Ameriquest’s best practices, for example, include provisions for free credit counseling by a nonaffiliated, nonprofit third party. GMAC-RFC also pays for counseling and has formed an alliance with three credit counselors called the Credit Counseling Resource Center (CCRC) to “help individuals restore financial balance to their lives.”

[5] See, for example, the discussion on abusive credit counseling offered in Mansfield, 2003.

Next, even among those agencies that are not out to take advantage of borrowers through excessive fees and referrals for costly ancillary services, not all credit counseling agencies have the skills needed to counsel borrowers facing mortgage-related problems. Indeed, to date the effectiveness of various counseling methods has been subject to little empirical scrutiny.

Different methods and programs must be evaluated and results disseminated so that the more effective approaches supplant the less effective methods. As a result, CBOs have an important role to play. As trusted community advisors, CBOs can expand the ability and willingness of distressed borrowers to seek credit counseling assistance and direct borrowers to high quality programs with a demonstrated track record of actually helping financially distressed borrowers.

3. Effectively Targeting Subsidies for Foreclosure Avoidance

While the magnitude of the costs is unknown, foreclosures, especially those in underserved areas, are widely thought to trigger enormous local, state, and federal government expenditures on activities such as crime prevention. Consequently, efforts to reduce the number of foreclosures or to limit the degree of financial distress suffered by the homeowner and deterioration of the property can save money that the government would have been forced to spend down the line. To the extent that neighboring home values and foreclosure probabilities are impacted by foreclosure events, municipalities may also have a responsibility to help protect neighboring owners from such ripple effects.

Identifying where and how best to introduce public funding into foreclosure avoidance efforts is no easy task. For example, national mortgage industry leaders, including Fannie Mae and Freddie Mac, have developed mortgage programs designed to refinance borrowers out of abusive “high cost” loans. Selected cities (Chicago and Boston) and states (Pennsylvania) provide public subsidies to help write down the costs of such refinance efforts. Unfortunately, these programs are not well known. For example, one distressed asset specialist estimated that in roughly one-third of foreclosures, there is some public money available, but that it is rarely accessed because there is no systematic method of making borrowers or servicers aware of the programs available in their area.

Once again, there is a role for CBOs to ensure the effective use of available public resources. In addition to helping distressed borrowers refinance, CBOs could be a conduit for funding a variety of loan-loss mitigation options. As noted earlier, servicing firms have elaborate human and software systems to manage the delinquency, default, and foreclosure process. In many instances, these evaluation tools may suggest that foreclosure is the best option for the investor, even in situations where home retention options would become viable with the addition of a modest public subsidy. This would essentially extend the margin of borrowers who would be able to remain in their homes based on their financial ability and "desire" alone.

Determining how government money could best be deployed is a challenge, however. One promising option is to make funds available to enhance loss mitigation and foreclosure avoidance efforts already employed by servicers. Since resources are likely to be limited, localities must create clear borrower and neighborhood eligibility standards to ensure that limited public funds target those most deserving of assistance and/or produce the greatest public benefit. Further, avoiding a situation where government money substitutes for funds, forbearance, and forgiveness that lenders would have offered on their own is problematic.

Some have suggested that these programs should be operated by CBOs, but it is not obvious that CBOs have the capacity to evaluate which borrowers are likely to succeed with the infusion of a few thousand dollars more into the loss-mitigation process. Rather than directly administer the foreclosure avoidance funds, it might be better for CBOs to help establish and monitor the use of clear guidelines for the program. Private servicers, as part of their existing loan-loss mitigation operations, could then determine whether a borrower meets the criteria established for public assistance and, if the borrower is eligible for assistance, complete the transaction.

New Approaches to CBO Advocacy

CBOs working in low- and moderate-income communities must now confront a series of complex considerations related to industry trends, the limitations of the existing regulatory framework and the marketplace, and the preferences and choices of individual consumers. While some organizations are expanding their efforts to assist borrowers, other organizations have mounted campaigns to challenge what they perceive to be abusive activities of lenders operating in their community. For example, Des Moines Citizens for Community Improvement reviewed courthouse records to identify households facing foreclosure. They then identified the lender that appeared to be responsible for making loans at inflated terms. Through skillful use of the media they obtained restitution for the borrowers who apparently “paid too much” for their credit and encouraged other borrowers to avoid this lender in the future. In addition, helped by the involvement of the Iowa attorney general’s office, they were able to extract a pledge from the lender to fund more appropriately priced loans in Iowa.

The Des Moines effort is one of a growing number that demonstrate how advocacy can adapt to changing market conditions. By identifying a set of problem loans, the group focused attention on the increasingly important issue of foreclosures. Then, working in partnership with state officials, the group was able to obtain a settlement that not only brought relief to victims of past abuse but also expanded the ability of future borrowers to secure appropriately priced home loans in the future.

1. Developing New Data on Abusive Lending

The rapid rise of subprime lending and the associated increase in foreclosures have caught many people—from industry and policy analysts to government officials and community activists—off guard. This is largely due to the fact that few data are available to government agencies charged with tracking the mortgage sector of the economy or to the general public. Although information on individual foreclosures is generally on file at courthouses or land registry offices, there has been almost no effort to systematically harvest these records. Even where available, data from foreclosure documents often fail to identify key characteristics of the mortgage loan or the identity of the originator, funder, or servicer — information essential to illuminating the factors that precipitate foreclosures.

Enhanced foreclosure data would also help local officials to better meet the challenges of foreclosure earlier in the process. Availability of detailed data on foreclosure and loan performance at the local level could isolate emerging foreclosure “hot spots.” CBOs could work with local officials to automate existing courthouse data, thereby making it more widely available. Having a database capable of identifying areas with elevated rates of foreclosure filings would enable local city officials – working in partnership with local community-based organizations as well as interested mortgage servicers — to take appropriate action sooner.

Because of the complexity of the mortgage foreclosure process, it would also be useful for CBOs to work with local governments to create a "foreclosure hot spot protocol," or a plan formulated in advance of problem detection that describes specific actions designed to minimize the adverse consequences of pathological foreclosure levels. For example, municipal tax-collection agencies could refrain from aggressively pursuing delinquency judgments against individual owner-occupants residing in foreclosure hot spots. Such forbearance activities could help individual owners avoid foreclosure, and to the extent that they could help stabilize a local market, forbearance programs could actually increase the amount of taxes collected in the area over time.

2. Advocating for Improved Laws and Regulation

Another promising approach refocuses CBO advocacy on finding new ways to improve the regulatory framework for mortgage lending and providing underserved households with better access to basic banking services. Many CBOs have allied with consumer, civil rights, labor, and other interests to build broad-based support for public policies and other efforts aimed at preventing predatory lenders and fringe bankers from exploiting low-income consumers.

For example, despite a less than supportive federal policy environment, CBOs continue their efforts to adapt or "modernize" CRA to cover a greater share of mortgage market and other lending activities. These advocates hope to convince banking regulators to update the present geographically based assessment area definitions for CRA reviews so that examiners can take into account the growing share of bank lending that occurs outside of these areas. They are also looking for ways to apply CRA rules to subprime affiliates of banks to prevent these institutions from engaging in predatory and other exploitative lending practices.

In light of recent allegations that Fairbanks Capital Corporation engaged in abusive subprime mortgage servicing practices, advocates are encouraging federal regulators to take a hard look as this important segment of the mortgage banking industry. While awaiting the release of new

Federal Trade Commission guidelines on what constitutes fair approaches to mortgage servicing, Ameriquest – one of the nation's largest subprime issuers and servicers – was the first to release a comprehensive set of "best practices" for subprime mortgage servicing. Under the leadership of the Mortgage Bankers Association of America, other subprime mortgage servicers are now hard at work creating their own set of "best practices." To the extent that advocates can pressure both regulators and industry participants alike to weed out predatory practices in the subprime servicing arena, the results can only serve to enhance ongoing CBO efforts at foreclosure avoidance.

Advocates are also working on strategies to prompt regulatory changes at the state and local level. In Massachusetts, CBO advocates recently won passage of a "CRA-like" regulation for mortgage companies and a community reinvestment requirement for insurance companies. CBOs and their allies have successfully endorsed the passage of tough new state anti-predatory lending standards in a number of states, including Illinois, Georgia, North Carolina, New Jersey, New York, and New Mexico. The National Community Reinvestment Coalition is working to create an anti-predatory lending member network to challenge discriminatory practices and promote fair access to credit.

The experience of CBOs in negotiating CRA agreements has been adapted and successfully applied to efforts to change the business practices of non-CRA regulated financial institutions. For example, faced with inadequate consumer protection laws, CBOs and their national networks have persuaded individual subprime lenders to discontinue certain abusive mortgage practices, such as the sale of single-premium credit life insurance (SPCI). SPCI is a low-value product that adds an upfront payment to the loan amount. Since few borrowers benefit from this form or insurance, advocates designated the addition of SPCI as a particularly egregious example of predatory lending. Since CRA did not apply to most of the lenders offering SPCI, CBO activism took other forms. Advocates convinced the two secondary market entities — Fannie Mae and Freddie Mac — not to purchase loans containing this product and encouraged the Federal Reserve Board of Governors to amend the existing Home Ownership and Equity Protection Act regulations. This had the effect of requiring lenders offering SPCI to abide by additional consumer protections for high-cost mortgages. One by one the major subprime lenders agreed to stop offering SPCI.

Others are moving beyond mortgage lending to develop a variety of community-based responses to the two-tiered financial system that imposes unreasonably high costs for consumers without access to mainstream banking services. For example, because of pressure from advocates, federal bank regulators adopted policies to prevent banks from “renting their charters” to payday lenders looking to circumvent state limits on the interest that can be charged for these short-term, extremely high-priced loans. Further, one welfare rights organization challenged a major national banking operation to offer direct deposit accounts for families participating in a welfare-to-work program. In Birmingham, a church-based group worked in partnership with local banks to fund a financial literacy campaign in a local housing development that included efforts to teach young adults how to manage credit card debt and to start saving for future needs.

3. Creating New Partnerships for More Effective Advocacy

The continued consolidation in the mortgage industry necessitates changes in the way CBOs relate to these mega-institutions. Consequently, some CBOs are looking for ways to join forces with other local, regional, and national organizations to address matters of common concern. Working through their support organizations and networks, CBOs have joined forces with banks and the secondary mortgage market entities to fund financial education and counseling efforts managed by a single community partner that serves as a conduit for numerous smaller participating groups. Such arrangements can be particularly important in areas that lack significant community-based capacity. For example, as an outgrowth of a region-wide planning effort, Region 2020, a Birmingham, Alabama-based nonprofit is working to form a community development financial institution that could serve as a conduit for the charitable contributions and CRA-related investments of locally based banks.

CBOs, aware that bank support for their work may be declining, have mounted campaigns to diversify their funding bases. One executive director noted: “CRA gave community groups access to bank resources, but times are changing. We have to convince other major corporate players that the health of our communities is not just important to the mortgage and banking sector – it affects all business.” Consequently, some CBOs are turning to other private-sector institutions and trying to get corporate leaders from the health care, manufacturing, service, and other sectors to “walk the neighborhoods with us” and learn first hand what effective CBO approaches can accomplish.

Conclusion

Each of the examples presented in this section illustrates both the promise and complexity of the roles that CBOs can play in today’s market. Once CBOs could work to organize neighborhoods and stand outside a local bank and protest the lack of mortgage lending in the community. In many instances, the list of demands was simple. Some pushed banks to commit to lending in target neighborhoods. Others persuaded banks to fund counseling or other initiatives. Today, however, both the growing industry concentration and the complexity of mortgage programs make it difficult to know exactly how to put pressure on the system, much less to understand exactly what to ask for should an advocacy campaign succeed.

CBOs must work to improve the ability of consumers to shop wisely for mortgage products, and they must work to offset the negative consequences of abusive lending and resulting foreclosures that threaten to undermine decades of community revitalization efforts. To do so requires CBOs to increase their understanding of how today’s technologically sophisticated mortgage market operates, as well as to develop new approaches to advocacy that will be effective in the rapidly changing world of mortgage lending.

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