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## Southwest Side had early solution to housing crisis

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January 10, 2009

**PHIL KADNER**

To find ground zero in the home foreclosure crisis you only have to visit the Southwest Side of Chicago.

In 1998, 10 years before the entire world would take notice, leaders of the nonprofit Greater Southwest Development Corporation saw a startling increase in the number of boarded up homes in the Chicago Lawn community.

By 2000, it had identified predatory lending practices as the culprit and came up with a solution.

It would take years to implement, last only 19 weeks, be vilified by critics such as the Rev. Jesse Jackson and only now is being seen as a potential remedy to the worst housing crisis in the nation's history.

Simply put, the corporation identified high-risk home buyers and required counseling before they could sign a mortgage agreement.

The resulting state legislation H.B. 4050, created a 10-ward pilot project in Chicago, but was immediately attacked as racially discriminatory.

The Illinois Predatory Lending Database Pilot Program, sponsored by Illinois House Speaker Michael Madigan and state Sen. Jacqueline Collins (D-16th), began in September 2006 and ended in January 2007 when Gov. Rod Blagojevich, for reasons that remain unclear, ordered his finance department to suspend its implementation.

Now the Federal Reserve Bank is looking at that pilot project as a model for the entire nation as it desperately attempts to address the housing crisis.

"We've reviewed 4050 as we searched for ways of addressing this problem and found some interesting results that give us reason for optimism," said Gene Amromin, senior financial economist with the Federal Reserve Bank of Chicago. "The default rates on mortgage in the 10 zip codes were 30 percent lower than those in similar communities that did not have the counseling program. That's significant. That's dramatic. Of course, finding a program that works and turning it into policy can be a tricky thing."

Livia Villarreal, deputy director of counseling services for the corporation, is baffled that people in Washington, D.C. neither understood the problem nor its potential impact on the economy.

"I still can't believe that the people in charge didn't foresee the magnitude of this problem," said Villarreal, whose organization continues to provide counseling free of charge through a MacArthur Foundation grant. "Education is the solution. You have to take a driving test

before you get a driver's license. Why shouldn't you be required to take a class, or at least participate in counseling, before you make the biggest purchase of your life?"

Until the investment community felt the impact of the home foreclosure crisis, Villarreal notes, there wasn't much interest in helping the thousands of home buyers who were in trouble.

And even now, the government's \$700 billion bailout has done more to help bankers than to keep homeowners in their homes.

H.B. 4050 required mortgage lenders to subsidize counseling for at risk borrowers. The corporation had no control over whether people would eventually sign the mortgage agreement, but its counselors would look at the terms of the loan, the assets of the borrowers and offer advice. "I think there's evidence that the program worked," Amromin said. "It could be a piece to solve this national puzzle."

While the corporation still offers free counseling to homeowners in trouble, Villarreal said she has discovered many people are paying for-profit companies for the same service, while others refuse to seek help before its too late.

"We're reaching out to churches now to tell their parishioners to come to us before they're homes are in foreclosure," Villarreal said.

"But people are too embarrassed to get help. They don't want to admit they're in trouble."

The bottom line is that billions of federal dollars have been spent on a bailout. But homeowners, at the heart of the crisis, still aren't getting the help they need.

*Phil Kadner's column appears in the SouthtownStar. E-mail: pkadner @southtownstar.com.*

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edman68 wrote:

Now THIS is a great article. I was a Mortgage Consultant for 5yrs. from the early to mid 90's. Just as the No Income Verification Loans were coming out. As the standards were being relaxed. I'm sure I wasn't alone in questioning the "housing bubble". There should be more articles like this one. Educate. Educate. Educate. So this does not happen again.

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