

New lending law outlines zip codes for credit counseling

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Nine areas on Southwest Side singled out for education

(Crain's) — A new state predatory lending law requiring home buyers to receive credit counseling before finalizing their purchases will apply initially to nine zip codes on the city's Southwest Side, state regulators announced late Friday.

The law requires the state's Department of Financial and Professional Regulation to set up a pilot program within Cook County and set up a database with information on mortgages made within the area's borders. In designating the nine zip codes, the department chose a part of the city that has experienced more high-rate mortgages than other areas.

Under the law, which goes into effect next month, the department reviews all proposed mortgages and determines whether a buyer should receive credit counseling before closing. If so, the broker or mortgage lender must pay the costs of counseling.

The affected zip codes are:

- 60620
- 60621
- 60623
- 60628
- 60632
- 60636
- 60638
- 60648
- 60652

The law, which applies to loans made through mortgage brokers and mortgage bankers and exempts those sourced by conventional banks, is strongly opposed by the mortgage industry.

"We think there's a good chance that property values will end up suffering and that properties will take longer to sell," says Bill McNamee, owner of Pinnacle Home Mortgage in Lombard and president-elect of the Illinois Assn. of Mortgage Brokers. "Those are areas that have (home-sales) weakness already."

Responds a spokeswoman for the department: "Every time there's a new regulation we get concerns from the industry that it's too onerous. We don't think it is."

The legislation, passed last year at the end of the session, was championed by House Speaker Michael Madigan, whose Southwest Side district is affected.

More than one-third of the mortgages made in the pilot area in 2004 were "high-cost," defined as interest rates three points higher than the going yields on U.S. Treasury bonds, according to the Woodstock Institute, a Chicago think tank on financial issues affecting low-income people. For Cook County as a whole, 19% of mortgages were high-cost.

Similarly, the pilot area had 19 foreclosures for every 1,000 properties in 2004 compared with 11 for all of Cook County.