THE COMMUNITY REINVESTMENT ACT AFTER FINANCIAL MODERNIZATION: A FINAL REPORT

Prepared for the Department of the Treasury by**:**

Robert E. Litan
Nicolas P. Retsinas
Eric S. Belsky
Gary Fauth
Maureen Kennedy
Paul Leonard

January 2001

ABOUT THE AUTHORS

Robert E. Litan is the Vice President and Director of the Economic Studies Program at the Brookings Institution, where he also holds the Cabot Family Chair in Economics. He previously served as Associate Director of the Office of Management and Budget, and as Deputy Assistant Attorney General in the Antitrust Division of the Justice Department. He was a consultant to the Treasury Department on financial modernization issues from 1995 through 1996, and co-author of the Treasury report to Congress, *American Finance for the 21st Century*. At Brookings, Dr. Litan is co-editor of the Brookings-Wharton Papers on Financial Services and an annual series on Emerging Markets Finance, published jointly with the World Bank and the IMF. During the course of his career, Dr. Litan has authored or edited over 20 books and over 100 articles in professional journals on a wide range of economic policy and legal issues, especially those dealing with the financial services industry and government policy toward it.

Nicolas P. Retsinas is Director of Harvard University's Joint Center for Housing Studies and Lecturer on Housing at the Harvard Design School and Kennedy School of Government. Prior to his Harvard appointment, Retsinas served for almost five years as Assistant Secretary for Housing and Federal Housing Commissioner at the United States Department of Housing and Urban Development. He also served as director at the Office of Thrift Supervision and on the boards of the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, and the Neighborhood Reinvestment Corporation. He currently chairs the Federal Home Loan Bank of Boston and serves on the Board of Directors.

Eric S. Belsky is Executive Director of Harvard University's Joint Center for Housing Studies and Adjunct Lecturer of Public Policy at the Kennedy School of Government. Prior to his Harvard appointment, Dr. Belsky led the Housing Finance and Credit Analysis Group at Price Waterhouse. Prior to his work at Price Waterhouse, he directed housing finance research at Fannie Mae and policy research for the National Association of Home Builders. Belsky currently serves on the editorial board of the Journal of Housing Research. Dr. Belsky is the author of dozens of articles on housing economics and finance in trade publications and academic journals. He currently serves on the editorial board of the *Journal of Housing Research* and as a Research Associate at the Center for Economic Studies at the U.S. Bureau of the Census. Belsky holds a Ph.D. in economic geography and a masters degree in international development from Clark University.

Gary Fauth. Gary Fauth is an economist with many years of data and policy analysis experience, in business, government and academia. As Associate Professor of Urban Planning at Harvard University, he taught courses in urban housing and transportation economics, and directed several research projects on urban housing markets for HUD and for the Department of Transportation. As Director of Motor Carrier Policy at the Interstate Commerce Commission, he led assessments of the deregulation legislation that changed the freight industry. And in corporate executive positions for Union Pacific, Dun & Bradstreet, Faneuil Research, and Charles River Associates, where he served on the Board of Directors, he has developed statistical demand models for a variety of planning and policy analysis exercises. Dr. Fauth holds a PhD in economics from Harvard University.

Maureen Kennedy. Maureen Kennedy is a California-based policy consultant focused on housing and economic development issues, and high-leverage social change strategies. Clients include the Brookings Institution and PolicyLink. She served in the Clinton Administration, first in the White House, then as Deputy Assistant Secretary for Policy at HUD, and finally as Administrator of the Rural Housing Service. Prior to government service, Kennedy lobbied Congress on affordable housing and tax issues, and spent nearly 10 years as a housing and utility policy advocate in Alaska, Virginia and Washington, DC. A graduate of the Kennedy School of Government at Harvard University, Kennedy earned her undergraduate degree at Mount Holyoke College.

Paul Leonard. Paul A. Leonard is an independent policy consultant based in Berkeley, California. He has broad expertise in housing, community development finance, and social welfare policy. Prior to consulting, Leonard served as the Acting Assistant Secretary for Policy Development and Research and as the Deputy Assistant Secretary for Policy Development at the U.S. Department of Housing and Urban Development. Prior to his appointment at HUD, he served as a Senior Policy Analyst at the Center on Budget and Policy Priorities in Washington DC.

ACKNOWLEDGEMENTS

Without the support of a number of individuals, this report would not have been possible. The authors would like to thank Dawn Patric, Mark Duda, and Matt Lambert for their valuable research and assistance. For their econometric advice, the authors would like to thank Anthony Yezer, Paul Emrath, Stuart Rosenthal, Michael Carliner. The authors would also like to thank the Division of Research and Statistics of the Federal Reserve Board for providing data, and their thoughtful advice.

In addition, Treasury staff, including Under Secretary for Domestic Finance Gary Gensler, Assistant Secretary for Financial Institutions Greg Baer, Deputy Assistant Secretary Michael Barr, Melissa Schroder, Alan Berube, and Gary Sutton made important contributions to the report. We are also grateful to staff of each of the federal banking regulators for their input and review of the report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

In November 1999, President Clinton signed into law financial modernization legislation (referred to herein as the Financial Modernization Act (FMA)). The FMA directed the Secretary of the Treasury, in consultation with the federal banking agencies, to conduct a study on the "extent to which adequate services are being provided as intended by the Community Reinvestment Act of 1977, including services in low- and moderate-income neighborhoods and for persons of modest means, as a result of the enactment of this Act. " The FMA further required that Treasury issue two reports, with the first report serving as a "baseline" report of Community Reinvestment Act (CRA) activity against which to measure any subsequent changes resulting from the FMA, and the second report providing findings about the effect of the FMA and recommendations, as appropriate.

Treasury issued the first report, the *Baseline Report*, in April 2000. The *Baseline Report* concluded that during the 1990s the CRA encouraged lending by institutions covered by the Act to those who were its intended beneficiaries – low-and moderate-income borrowers and areas. The *Baseline Report* also reviewed the legislative history and rationales for CRA.

Treasury now submits the second report, which contains preliminary findings about the likely effects of the FMA on the delivery of services under CRA. Because quantitative data on the impact of the FMA is not likely to be available for several more years, these findings are based upon industry interviews, an econometric analysis of factors affecting financial institutions' shares of CRA originations, and metropolitan-area case-studies.

This final report augments the *Baseline Report* in four ways.

- It contains interviews with experts in financial institutions, community and civic organizations, and local government leaders on their judgment of likely CRA lending behavior in the wake of the FMA.

- It updates national mortgage lending trends by examining changes in CRA-eligible lending from 1993 to 1999, and better controls for product specialization and affiliate acquisitions in benchmarking the performance of banks and thrifts.

- It examines metropolitan area variations in lending performance to explore the role of economic conditions, policy changes, and other factors in such lending.

- It provides detailed case studies of CRA lending in four metropolitan areas – Boston, Denver, Detroit and Houston – to gain a fuller understanding of what factors are important in successful CRA performance by lending institutions covered by the CRA. These cases confirm many of the findings of the econometric modeling, but reach beyond modeling to identify some of the local practices in providing loans and services to low- and moderate-income individuals and communities.

While this final report does not draw firm conclusions about the effects of the FMA on services (including lending) under CRA – in our judgment, such findings would be premature –

early indications from the study suggest that the FMA will not have a significant effect on the delivery of services under the CRA. Two possible effects are cited throughout the study. First, the requirement that a financial holding company's subsidiary banks have a "Satisfactory" CRA rating before it can expand into new non-banking activities will cause at least some institutions to raise their CRA performance in order to ensure they continue to meet this test. Second, the Sunshine provision in the FMA Act may raise compliance costs for regulated institutions. It will take perhaps five years before the general effects of the FMA on the financial services industry become more clear and for data to be generated to quantify what, if any, effects the FMA will have on the adequacy of services provided to borrowers and areas covered by the CRA. For these reasons, this report does not recommend administrative or legislative changes with respect to institutions covered by the CRA. We do, however, recommend a follow-up assessment in five years.

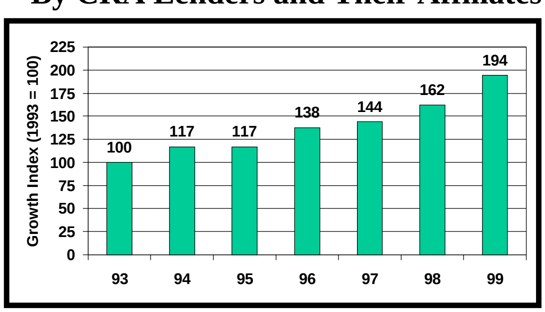
Principal Findings of the Report

Interviews with major financial institutions indicate the FMA will not likely lessen the amount of lending to low- and moderate-income (LMI) individuals and communities under CRA. The Sunshine provision, which requires CRA-covered institutions to report and disclose CRA agreements is, however, expected to lead to modestly higher compliance costs. Those institutions most likely to use the broadened powers of financial service holding companies to diversify into a broader line of products reportedly intend to broaden their efforts to meet the credit needs of their intended beneficiaries. In fact, several institutions reported that the requirement to have a "Satisfactory" CRA rating in order to engage in the newly authorized lines of business under the FMA has increased pressure internally to seek "Outstanding" CRA ratings. These financial institutions saw the provisions in the FMA that amend or directly impact the CRA as having only modest effects on overall CRA lending and compliance.

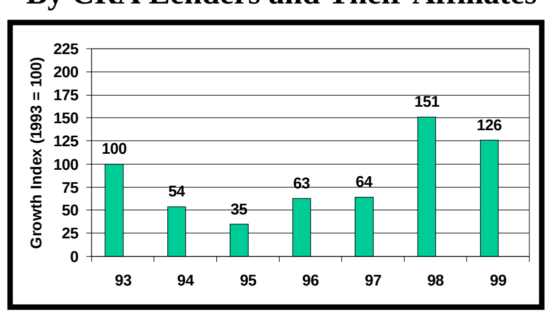
Metropolitan level statistical analysis demonstrates that CRA has had a positive impact on bank and thrift home purchase lending to LMI individuals and communities, after controlling for other factors. At the same time, the metropolitan level statistical analysis shows that other variables, including local economic conditions, have played key roles in encouraging CRA lending. The statistical findings are consistent with the national benchmarking analysis that suggests that CRA lenders and their affiliates outperformed independent non-bank counterparts. However, the limitations to the statistical analysis discussed in the body of the report suggest caution in interpreting the nature and magnitude of the CRA effect.

CRA lenders and their affiliates increased home purchase loans to LMI individuals and communities by 94 percent between 1993 to 1999 and refinancing loans by 51 percent between the two refinance boom years of 1993 and 1998. A portion of these significant increases is attributable to the performance of non-bank affiliates acquired by banks and thrifts during this period: 16 percentage points of the 94 percent growth in home purchase loans, and 12 percentage points of the 51 percent growth in refinances. In addition, a growing share of lending by CRA lenders was accomplished through the affiliates they had created or acquired before 1994. This shift underscores how the decisions by banks and thrifts of which affiliates to include for the purposes of assessing their organization's CRA performance can affect the overall data on CRA-eligible lending.

Home Purchase CRA Loans By CRA Lenders and Their Affiliates



Refinancing CRA Loans By CRA Lenders and Their Affiliates



Note: In 1993, the base year, 462,000 CRA-eligible home purchase loans and 589,000 CRA-eligible refinancing loans were originated by CRA lenders and their affiliates.

CRA lenders increased the share of their home purchase loans going to LMI individuals and communities from 31.5 percent to 35 percent from 1993 through 1999. The evidence suggests that policy changes have played some role in this increase. Over half of the growth in CRA-eligible home purchase loan origination shares of CRA lenders occurred between 1997 and 1999, while most of the growth in minority home purchase origination shares occurred between 1993 and 1995. While other factors undoubtedly also were important, the growth in minority home purchase shares coincided with more vigorous enforcement of fair lending laws and intense public scrutiny of newly available data on mortgage denial rates by race and ethnicity. Moreover, the surge in total LMI lending took place largely since 1995, after new performance-based measures went into effect under CRA. Case study interviews suggested that recent increases in CRA lending were partly a response to these new measures, as lenders set internal lending goals based on them.

CRA lenders and their affiliates, adjusting for differences in product specialization, increased their purchase lending to LMI individuals and communities faster than independent non-bank lenders. Even after netting out non-bank affiliates acquired after 1993, CRA lenders and their affiliates increased their prime home purchase lending by 9.0 percent and their subprime and manufactured housing lending by 79.6 percent while independent non-bank lenders increased theirs by only 6.7 percent and 36.6 respectively. Had CRA lenders and their affiliates grown their prime and other lending at the slower rates of independent non-banks, they would have advanced about one-fifth fewer home purchase loans to low and moderate income individuals and communities.

Interviews with experts in four metropolitan areas – Boston, Detroit, Denver and Houston – provide further supporting evidence that CRA has played a role in the expansion of CRA-eligible lending in each of those regions. Lenders, civic leaders, and public officials alike believe that CRA has made a material difference in the behavior of lending institutions and in community credit flows. They acknowledge the importance of the CRA's flexibility in enabling CRA lenders in the different areas to determine the best way to meet the credit and service needs of their particular area. In addition, there is general agreement that other factors – including actions by local government and civic leaders, community groups, the media and local policy analysts – have also contributed to the success of the CRA Act in better serving its intended beneficiaries.

Chapter I
Introduction and Background

The Gramm-Leach-Bliley Act of 1999 (referred to herein as the "Financial Modernization Act" or "FMA"),[1] which permits the affiliation of banks, securities firms, and insurance companies, includes several provisions that specifically amend or otherwise affect the Community Reinvestment Act (CRA).[2] Congress recognized that these direct amendments and the broader integration of financial services providers, might influence the provision of credit under CRA. As a result, the FMA requires the Secretary of the Treasury to conduct a study within two years of enactment "on the extent to which adequate services are being provided as intended by [the CRA], including services in [LMI] neighborhoods and for persons of modest means, as a result of the enactment of this Act." The FMA also directs Treasury to include in the final report such recommendations "as the Secretary determines to be appropriate for administrative and legislative action with respect to institutions covered under [CRA]."

This report fulfills the congressional mandate. It builds upon an earlier study that was also required by the Congress as part of the FMA: *The Community Reinvestment Act After Financial Modernization: A Baseline Report*.[3] The purpose of that earlier report was to provide a baseline against which to measure any subsequent changes in services provided under the CRA after the enactment of the FMA. The *Baseline Report*, completed in April, 2000, broadly concluded that during the 1990s the CRA increased lending by depository institutions covered by the CRA to LMI borrowers and to borrowers who live in LMI areas. These borrowers are referred to in this report as "CRA-eligible" borrowers.

The report contains six chapters. Chapter I briefly summarizes the history of the CRA, the requirements under the CRA, and how it is administered.

Chapter II takes a forward look by providing the results of a preliminary assessment of the impact of the FMA on CRA activity. The assessment is based on a series of interviews with leaders of the community lending operations of eleven nationwide banking and financial service institutions, including some of the largest institutions. Under the FMA, depository institutions are required to have an adequate CRA record in order to commence any newly authorized activity either through their subsidiaries or their affiliates. These interviews indicate that the commitment of banks and thrifts under CRA is unlikely to diminish, and indeed may increase, as a result of the FMA. In addition, the institutions reported that the Sunshine provision may cause a modest increase in compliance costs. Yet, the FMA was so recently enacted, it is difficult to predict with certainty the long-term effects of the FMA's passage on community lending.

Chapter III provides a benchmark for home purchase loans made by CRA lenders, relative to non-CRA lenders. This chapter describes the lending to CRA-eligible populations by CRA-covered lenders over the period 1993 through 1999, one year longer than the period

---

[1] Pub. L. 106-102, 113 Stat. 1338 (1999).
[2] 12 U.S.C. 2901 *et seq.*
[3] Robert E. Litan, Nicholas P. Retsinas, Eric S. Belsky and Susan White Haag, "The Community Reinvestment Act After Financial Modernization: A Baseline Report," (The United States Department of the Treasury, April 2000, Washington, D.C.).

covered in the *Baseline Report*. The benchmarking finds that, over this period, CRA lenders increased their CRA-eligible home purchase lending faster than non-CRA lenders after controlling for differences in the mortgage products between the two groups.

Chapter IV presents the results of a statistical study of the factors contributing to the metropolitan variation in CRA lending. Broadly speaking, the results indicate the CRA has encouraged banks and thrifts covered by the CRA to expand access to home mortgage lending for LMI individuals and communities.

The *Baseline Report* indicated that significant variation in CRA lending performance across metropolitan areas may provide an opportunity to test for the effect of CRA and to reveal factors that contribute to successful CRA lending. Chapter V supplements the statistical study in Chapter IV by examining four metro areas in particular. Chapter VI concludes the overall report.

These chapters are intended to help policy makers, financial institutions, and the public at large understand the factors that are important in determining the CRA performance of institutions covered by the CRA and to place future performance in its proper historical context. Because the FMA was so recently enacted, the report offers no recommendations for changes in CRA-related policy, either through regulation or legislation.

Background on the Community Reinvestment Act

The CRA affirms the obligation of federally insured depository institutions to meet the credit needs of all communities in which they take deposits, consistent with safe and sound operations. The four regulators of these federally insured institutions (the Federal Reserve Board, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision) are required to assess the CRA performance of banks and thrifts.[4] Lenders evaluated under the CRA receive a grade for their performance and effort in meeting the credit needs for low-and-moderate income borrowers and neighborhoods. For purposes of evaluating CRA performance, each institution must delineate the geographic areas that constitute its CRA assessment area. For a retail-oriented banking institution, the institution's CRA assessment area generally includes the areas in which the institution operates branches and deposit-taking ATMs and any surrounding areas in which it originated or purchased a substantial portion of its loans. In addition, the delineation an institution's assessment area may not reflect illegal discrimination or arbitrarily exclude LMI areas (taking into account the institution's size and financial condition) and must consist of whole census tracts or block numbering areas.[5]

[4] The *Baseline Report* presented a detailed discussion of the legislative and regulatory history of the CRA as well as of the rationales for the Act. Accordingly, we begin this report with only a brief summary of the same subject and refer readers interested in greater detail to the earlier report.

[5] For a more complete description of these issues, see definition and description of the term 'assessment area' in the CRA regulations of each of the federal banking regulators found at 12 C.F.R. 25 (OCC); 12 C.F.R. 563e (OTS); 12 C.F.R. 228 (Federal Reserve Board); 12 C.F.R. 345 (FDIC) (Collectively referred to as the "CRA regulations").

The main incentive for all the subsidiary banks in a holding company system to achieve a satisfactory rating or to strive for an outstanding rating is that the CRA records of all such subsidiary banks must be considered when regulators are asked to approve an "application for a deposit facility." This includes most of the means by which a holding company expands its banking activities, including the acquisition of the stock or assets of any bank, whether existing or newly chartered. The CRA record of any individual bank must also be considered when the bank seeks to relocate a main office or to establish or relocate a branch. As is discussed more fully in Chapter II, as a result of the FMA, depository institutions are required to have, at a minimum, a "Satisfactory" CRA rating on their most recent CRA exam in order to engage in new lines of business.

In addition, banks and thrifts may strive for high marks on CRA because no other single measure publicly signals their commitment to LMI individuals and communities as clearly as its CRA grade. Moreover, some government agencies and state and local governments will only place their deposits with banks that have earned higher than "Satisfactory" CRA ratings.

As discussed in the *Baseline Report,* there are reasons to suspect that CRA may have been more effective in the 1990s than in earlier years. Through much of the 1980s regulations were seen as being enforced inconsistently, and CRA was not perceived as having a major impact on lender behavior.[6] However, during this time period, community groups were beginning to urge banks and thrifts to expand CRA lending, and banks and thrifts were experimenting with new products. As a result, infrastructure was being put in place that could support expanded CRA-eligible lending.

Actions taken in 1989 and again in 1995 have strengthened the regulatory efforts that enforce the CRA, and, since 1990, performance evaluation grades have been released publicly. In addition, local community groups have been empowered with more readily available information and more standing to participate in CRA lender performance evaluations. For example, the Home Mortgage Disclosure Act (HMDA), as amended in 1989, required public disclosure for the first time of data on individual loan applications and the race and income of the applicants. These disclosures made it possible to more readily identify CRA-eligible loans. This information also became far more readily available through the national aggregation, formatting and release of micro data to the public.

The merger movement in the financial industry also accelerated in the 1990s and probably heightened awareness of CRA regulations. Since a proposed 1989 merger was blocked due to CRA considerations,[7] it is reasonable to assume that senior management of banks and thrifts are now more aware of and responsive to CRA requirements, to avoid regulatory actions that could disrupt consolidation plans.

The revisions in 1995 modified evaluation standards and gave more attention to quantitative measures of loans originated than to marketing and outreach efforts. Lenders, regulators, and community groups all felt that this modification freed banks and thrifts from

[6] See, e.g., Joint Notice of Proposed Rulemaking-CRA Regulations, 58 FR 67466, 67467 (December 21, 1993).
[7] Continental Bank Corporation, 75 Fed. Res. Bull. 304 (1989). See also First Interstate BancSystem of Montana, Inc., 77 Fed. Res. Bull. 1007 (1991).

burdensome paperwork requirements and enabled them to better focus on their community reinvestment responsibilities.

CRA influenced lending throughout the 1990s; however, it is difficult to identify and isolate the specific effects of CRA over the decade because other changes that likely helped expand credit flows to LMI individuals and communities occurred simultaneously. The economy was expanding strongly, new technologies permitted institutions to better measure and manage mortgage risks, and the enforcement of fair lending laws intensified.

Chapter II
Preliminary Assessment of the Effects of the FMA on CRA Activity: Financial Institution Interviews

This chapter provides a preliminary assessment of what has happened, or is likely to happen, to CRA lending in the wake of the passage of the FMA based on the results of interviews with representatives of financial institutions and community and civic leaders. Because relatively little time has passed since the FMA went into effect, we rely on these interviews to provide forward-looking judgments from knowledgeable individuals about the likely future course for CRA lending.

The interviews suggest that beyond increased paperwork and staffing requirements necessary to comply with the Sunshine provisions of the FMA, no adverse effect on CRA lending is now felt or anticipated by the industry as a result of the passage and implementation of the Act. In fact, several of those interviewed said that the FMA requirement that firms have at least a "Satisfactory" CRA rating to pursue "expanded powers" had *increased* pressure internally to perform at the "Outstanding" level, to ensure that larger corporate strategies remain viable. It is worth repeating, however, that very little time has passed since passage of the FMA, and as a result, the market may see changes several years out that are hard to envision at present.

To better understand the impact of the FMA on CRA activities, interviews were conducted with a series of senior CRA officials at eleven of the nation's largest financial institutions. In particular, these officials were asked about their institution's CRA operations and likely short-term and long-term effects of the passage of the FMA. Taken together, these eleven institutions represent a very large portion of the nation's financial services needs and are likely to utilize the expanded powers authorized under the FMA. Companies were selected based on three criteria.

The first and most important criterion for selecting institutions to be interviewed was the size of the financial institutions as measured by total assets and branches. Because of their size and breadth, the largest banks and thrifts are well positioned to take advantage of the new powers and structures created under the FMA. The largest banks disproportionately tend to have "Outstanding" CRA ratings, and thus are likely to lead the industry in pursuing new opportunities for meeting the credit needs of LMI individuals and communities under the new FMA framework.

The second selection criterion for institutions was geographic coverage. The Treasury Department's *Baseline Report* shows substantial variations in CRA activity among metropolitan areas. Therefore, this study includes institutions that are either national or regional in scope and that collectively cover all regions of the nation.

Finally, several institutions that historically have not had banking as their principal line of business were interviewed. The FMA removed barriers to affiliations between commercial banks and other financial services providers such as insurance and securities firms. Certain companies that previously had engaged only in securities or insurance activities recently have initiated banking activities, either by obtaining new charters or by acquiring affiliates with existing charters. An interview goal was to understand how each kind of institution contemplates implementing its CRA obligations within its banking business.

Small- and medium-sized institutions, and institutions serving primarily rural areas were omitted from our interview sample. While the FMA provides new opportunities for these institutions, including a single institution representative of these would not adequately reflect the variations likely to be found in their classes of institutions.

Based on the criteria established above, interviews were conducted with CRA officers at the banks of each of the following 11 institutions:[8]

Bank and Thrift Holding Companies	**Other Financial Companies**[9]
1. Citigroup, New York, NY	9. State Farm, Bloomington, IL – insurance
2. Bank of America, Charlotte, NC	10. Charles Schwab Corp. San Francisco, CA-
3. Chase Manhattan Corp., New York, NY	-securities
4. Bank One, Chicago, IL	11. Merrill Lynch, New York, NY – securities
5. First Union, Charlotte, NC	
6. Wells Fargo, San Francisco, CA	
7. Washington Mutual, Seattle, WA	
8. FleetBank Boston, Boston, MA	

Of these 11 institutions, the first eight are among the largest bank and thrift holding companies in the U.S., based on total asset size. They are all U.S.-owned depository institutions with assets greater than $100 billion.[10] All eight of these large firms operate branches in multiple states, and taken together they represent all geographic regions of the country. Financial structure, assets, number of branches, and geographic coverage for each institution are provided below.

In addition to the largest banks and thrifts, the study included State Farm, a leading insurance company that has recently received a thrift charter, and two institutions that have historically focused on securities. Charles Schwab Corp. acquired US Trust, which has CRA obligations, in 2000. Merrill Lynch has significantly expanded its insured deposits by converting some $24 billion in uninsured cash management accounts into FDIC-insured accounts in its two

[8] Charles Schwab Corp. interviews were conducted with a corporate executive and deputy general counsel rather than CRA officials from U.S. Trust.

[9] These three companies are also bank or thrift holding companies, but have traditionally been engaged primarily in non-bank activities.

[10] The only top-10 bank holding company not included is J.P. Morgan & Co., which has four branches and is a commercial bank largely concentrated in investment banking. J.P. Morgan & Co., recently announced its merger with Chase Manhattan Corp., which is included in the survey.

banks during 2000. These three institutions are good representatives of non-bank financial services institutions that must meet the obligations of CRA for a portion of their operations.[11]

Banking and Thrift Companies

Bank or Thrift Holding Company	Total Assets ($ in billions) June 30, 2000	Approximate Number of Branches	Primary Geographic Focus
Citigroup, Inc., New York	$792	1,400 (worldwide)	Northeast, Mid-Atlantic, IL, CA
Bank of America, Charlotte	$680	4,502	Southeast, South, West
Chase Manhattan Corp., New York	$396	539	Northeast, Mid-Atlantic, TX
Bank One Corporation, Chicago	$273	1,800	Mid-West
First Union Corp, Charlotte	$258	2,300	South, Southeast, Mid-Atlantic
Wells Fargo & Co., San Francisco	$234	5,300	Midwest, West
Washington Mutual Inc., Seattle	$186	2,000+	West
FleetBankBoston, Boston	$181	5,700	New England

Source: American Banker Online: Top 100 Banking Companies and Individual Bank Web Sites.

Other Financial Companies

Company	Primary Business	Depository Institution	Depository Institution Type	Depository Institution Assets
Charles Schwab Corp.	Securities	US Trust Company	6 Commercial Banks and 1 Thrift	$3.8 billion
Merrill Lynch	Securities	Merrill Lynch Bank and Trust, Merrill Lynch Bank, USA Merrill Lynch Trust Co. FSB	2 Commercial Banks and 1 Thrift	$31 billion
State Farm	Insurance	State Farm Federal Savings Bank	1Thrift	$231 million

[11] Of these three firms, only Charles Schwab had utilized the expanded powers authorized by the FMA to affiliate with depository institutions.

Factors that Influence Institutions' CRA Activity

The FMA was enacted after a period in which mortgage lending to LMI individuals and communities grew substantially. According to the *Baseline Report*, the total amount of mortgage lending by CRA-regulated institutions and their affiliates to LMI borrowers and areas stood at $135 billion in 1998, up from $75 billion in 1993 – an 80 percent increase. The number of loans to LMI borrowers and areas also grew by 45 percent to 1.7 million transactions in 1998. Both the dollar value and number of loans to LMI borrowers and areas exceeded the trends in total lending for these CRA-covered lenders over this period, which were 57 percent and 27 percent, respectively. The *Baseline Report* concluded that the CRA contributed to the recent increase in mortgage lending to LMI borrowers and areas. As discussed in chapters III and IV, these trends continued into 1999.

The specific provisions and legislative framework created by the FMA are only a few of many factors that might affect the provision of credit and services consistent with CRA in coming years, however. Those institutions interviewed consistently suggested that the following factors have driven, and will likely continue to drive, CRA lending more directly than any provisions within the FMA.

Macroeconomic Factors

Perhaps the most important factor cited in the interviews for continued expansion of CRA lending activity is the state of the economy. The level of mortgage and business lending in general, and CRA lending activity in particular, is closely tied to the level of interest rates, unemployment rates, housing appreciation and economic demand. If interest rates and unemployment remain low, it is reasonable to expect continued expansion of community lending. An economic downturn could have substantial adverse effects on CRA lending activity.

Metropolitan Area Factors

The *Baseline Report* also showed that while there was an increase in mortgage lending by CRA-covered institutions and their affiliates to LMI borrowers and areas in *most* metropolitan areas, there was wide variation in the magnitude of increases – as well as some declines – among metropolitan areas. Among the factors that may affect metropolitan area variation are economic and demographic factors (*e.g.* homeownership rates, housing prices, income levels, etc.); lending industry factors (degree of consolidation in the lending industry, degree of lending by non-covered institutions), the presence and sophistication of non-profit housing developers and financial intermediaries who seek to advance CRA-type lending, public sector participation, and the quality of relationships among these public and private sector participants. Chapters III and IV undertake more detailed qualitative and quantitative analyses to better understand these metropolitan dynamics.

Public Policy Factors

While the FMA contains the most significant recent policy changes affecting the banking industry, other policy changes and regulatory issues could also affect the level of CRA activity in the near future. These include increases in the affordable and underserved-area goals for Fannie Mae and Freddie Mac and potential statutory and regulatory proposals to limit predatory lending at either the federal or state levels that might have unintended consequences for CRA lending. Other factors include state-level action (such as proposals to extend the state CRA obligations to mortgage companies in Massachusetts) and the continued refinement and interpretation of the CRA regulations by regulators and banking institutions alike. New federal initiatives to enhance community development and small business activities, like the New Markets Initiative, could also provide new investment vehicles and incentives for private sector investment in community lending activity.[12]

Lending Industry Factors

All eight banking and thrift institutions included in our interviews set their internal CRA goals through an analysis of market demographics and peer lending performance, together with demand from local non-profit and for-profit partners. In turn, each institution's compliance staff gathers internal performance data from firm-wide management information systems.

Three trends in the financial services industry have had profound effects on CRA lending in the 1990s and their effects on CRA activity are likely to continue in the 21st century. First, sweeping merger and acquisition activity among depository institutions resulted in the dramatic consolidation of assets and market share and increased competitive pressures among a limited number of large national depositories. Rapid consolidation among financial institutions occurred throughout the 1990s; the FMA may facilitate further consolidation across the financial services industry by removing barriers for banks to acquire or participate in insurance and securities services.

Second, independent mortgage and finance companies that are not covered by CRA requirements have been very active in LMI lending -- primarily in the subprime part of the market.

A third trend has been the steady migration of financial assets away from depository institutions covered by CRA to investments in stocks, mutual funds and other forms of investments in institutions that are not covered by CRA. Based on the Federal Reserve's Flow of Funds historical data, in 1945, banks and thrifts together accounted for 63 percent of all financial sector assets (specifically of credit market assets held by the financial sector) in 1999, the proportion fell to 29 percent. Despite this reduction in the *relative* share of overall financial intermediary assets, total assets of all banks and thrifts nonetheless have continued to climb, albeit at a lower rate than the growth of assets in such other intermediaries as mutual funds. As these trends continue, the share of the overall sector available to support CRA lending will shrink, but the total volume of resources will not (because the overall financial sector continues to expand with the growth of the economy). Taking account of these trends, the rise in the absolute levels of lending motivated by CRA over the past several years has been somewhat remarkable.

---

[12] The New Markets Initiative creates new tax credits and tax-preferred investment vehicles for companies investing in low-income census tracts.

Institutional Business Strategies and Management Philosophies

A final set of factors affecting CRA performance apart from the FMA are the prevailing business strategies and the management philosophies of lenders with respect to CRA activity. There is substantial variation among large banks in their business strategies. Some institutions are moving aggressively into securities and insurance lines of business that are facilitated by the FMA, while others are continuing to focus on their core banking business activities. Some are ceding all or part of their mortgage business to mortgage company and government sponsored enterprise competitors, and focusing primarily instead on commercial and small business banking opportunities. Others are focusing on the development of internet banking strategies, while others attempt to expand their "brick and mortar" branch coverage.

These variations in business strategies could have significant impacts on CRA strategies and outcomes. For example, a bank that chose to move more aggressively into commercial lending and downplay mortgage activity could experience a substantial decline in mortgage lending to LMI communities. Some research indicates that the overall level of mortgage lending does not decline in areas where such gaps are created by bank consolidation activity, though several interviewed for this project did not concur with this view.[13]

Finally, there is substantial variation in the degree to which the management of some institutions appears involved and committed to CRA activities. For example, according to a synthesis of a recent series of discussion groups focused on CRA issues, corporate culture plays a key role in whether an institution vigorously pursues an "Outstanding" CRA rating or merely seeks a "Satisfactory" rating.[14] Future CRA performance could depend on the extent to which the top management of evolving financial services institutions—with banking, securities, or insurance at their core—understand and value community reinvestment activity and make it an institution-wide priority.

Projected Effects of the FMA on CRA Activity and Performance

Interviews with senior CRA officials at each of the eight bank and thrift institutions focused on two kinds of likely effects of passage of the FMA: (1) the specific provisions modifying or otherwise influencing the CRA and how it affects proposed mergers; and (2) likely utilization of the FMA's expanded powers, and the implications for CRA activity and performance. In addition, those interviewed identified a series of other issues not directly resulting from the FMA that could affect future CRA performance.

As mentioned previously, it is important to note that this report provides a very early snapshot in the thinking and evolution of these firms after the enactment of the FMA. Many of the most significant regulations implementing the FMA are not yet in place. Many participants in the interviews indicated that the larger corporate strategies of their institutions were still evolving, and decisions about new opportunities or obstacles would follow from those macro

[13] Avery, et al. 1999
[14] Belsky, et al. August 2000

business strategy decisions.[15] Clearly, a longer time horizon will be necessary to more fully understand the impacts of the FMA on overall corporate strategy, and on CRA activity.

The FMA contains three provisions that specifically modify or otherwise impact the Community Reinvestment Act: (1) the so-called Sunshine provision triggering reporting requirements for financial institutions and non-governmental groups when certain types of contacts are made and agreements are entered into; (2) provisions requiring that all bank subsidiaries have a "Satisfactory" CRA rating in order for a bank holding company to elect to become a financial holding company, and for a financial holding company or bank to utilize the FMA's "expanded powers" authority;[16] and (3) provisions relaxing the CRA examination schedule for banks with assets under $250 million, depending on their prior CRA rating.

These provisions are explained in more detail below. A discussion of the anticipated effects of each, based on interviews with executives of large banks, follows the description of each provision. It is important to note that the views expressed here may not reflect the influences of the FMA on smaller banks.

Sunshine Provisions

Section 711 of the FMA requires insured depository institutions and their affiliates and certain nongovernmental entities and persons that are parties to CRA-related agreements and have contacts related to the CRA, to file such agreements and annual reports with the appropriate regulatory agency. The agreements and reports would then be available to the public. Federal regulators adopted final regulations implementing the Sunshine provision in December 2000. These regulations will become effective in April 2001.

Nearly all of those interviewed at the eleven institutions stated that the Sunshine provision would have the most significant effect of the FMA on their CRA operations (but not their performance). The institutions all reported that the Sunshine provision would involve some additional reporting burdens and staffing costs or shifts. However, most organizations did not believe that the Sunshine requirements would undermine their commitment to CRA, nor affect the level of CRA activity that their institutions would undertake.

Burdensome Reporting Requirements. All of the financial institutions interviewed indicated that the Sunshine requirements would impose an additional reporting burden. Nearly all institutions expressed concern about the breadth of the coverage of the Sunshine regulations and both the type of information required to be reported and the cost of compiling information that was not already in automated management information systems. For example, some banks mentioned the challenge of tracking CRA contacts that might trigger reporting requirements, particularly among those line staff not specifically dedicated to CRA activities (for instance, a small branch manager approached by a local small business support organization). Many also

[15] The seven commercial bank holding companies that were included in our interview sample have filed with the Federal Reserve Board to become financial holding companies, the requirement for taking advantage of the expanded financial service under the FMA. The eighth is a unitary thrift holding company and already has the ability to conduct securities and insurance activities.
[16] That is, to enter into the securities or insurance businesses.

expressed concern that the information being reported would yield little new and useful information to regulators or to the public. Several bank officers noted that the Sunshine requirements represented movement away from the 1995 CRA regulations' emphasis on "performance, not paperwork."

Perhaps because of their recent entry into the field, the non-traditional banking institutions expressed little or no concern for the reporting burden associated with the Sunshine provisions. Instead, they expressed greater concerns for the burdens that would fall on the non-profit organizations with which they entered into agreements.

While the banks were nearly unanimous in their concerns about the burden of additional Sunshine reporting, their plans for coping with the additional burdens varied. Four of the banks indicated that they would add more staff in order to comply with the reporting requirements. Other banks indicated that additional workload would have to be absorbed with existing CRA staff. Several financial institutions indicated that the added workload would reduce staff time devoted to analyzing CRA market opportunities in specific metropolitan areas or in developing new CRA products or partnership opportunities.

Possible "Chilling Effect." During the legislative deliberations preceding enactment of the FMA, many CRA advocates warned that the Sunshine provisions would have a "chilling effect" on the nature of the relationships between community-based organizations and financial institutions. The interviews reflected a range of opinions about whether the Sunshine provision would change the dynamics between financial institutions and non-profit and for-profit entities and individuals involved in community lending. Several institutions indicated that they already made all of their agreements with local and national groups available to the public. These institutions insisted that the Sunshine provision would have no effect on their partnerships with community groups.

Several other institutions suggested that the Sunshine provision would reinforce an already-existing trend away from negotiating agreements with community groups.[17] Instead, institutions stated that they would work with community groups as partners in attempting to meet unilaterally established, publicly announced CRA performance goals or to simply attain a high level of CRA performance. One institution indicated that the Sunshine requirements could have a significant impact on the nature of its arrangements with its non-profit partners. This institution indicated that if information about fees paid for homeownership recruitment and counseling services paid to certain non-profits were made public, other groups would seek similarly generous fees. This institution nevertheless indicated that it fully expected to continue these types of partnerships with national and local groups. It also said that fees, interest rates, and contributions were common knowledge anyway; therefore disclosing the now-private information would have no real effect on performance or relationships.

No Reduction in Commitment to CRA. Despite the added Sunshine reporting requirements and the potential for changed dynamics with partners, CRA officials at the

[17] For a variety of reasons, several of the largest financial services institutions began refusing to negotiate city-by-city agreements in recent years, and instead confer with local sources and unilaterally announce nationwide or regionwide financial commitments.

institutions interviewed did not believe that the new reporting requirements or the new dynamics between their institutions and their CRA partners would have adverse effects on overall performance of their institution's CRA activity, or operations and structure. At the same time, these interviewees mentioned that competitive issues, character of regulatory oversight, and internal strategic considerations were leading them to change their modes of operation, the breadth of products offered or the emphasis they placed among lending, community development, and investments. Their institutional commitment to CRA activity, and the performance-based regulatory framework, would result in a maintenance-of-effort—and expansion—despite the new Sunshine requirements.

"Satisfactory" Rating for Conducting New Financial Activities

Federal law and regulation subject depository institution and holding company mergers and acquisitions to a formal review process by bank regulators and require that such reviews take CRA performance into account. These laws and regulations encourage community and civic organizations, and other members of the public to express their views about a bank's CRA performance before examinations and during application processing periods. In the case of large, complex mergers, regulators can schedule public hearings to address the implications of the mergers on various issues, including competition, financial and managerial resources, and "convenience and needs" of the community under the CRA. This review process is widely believed to have contributed to heightened CRA activity during the 1990s, as many acquiring banks made substantial CRA pledges or agreements in order to avoid any delays – or even denials – of proposed mergers if their performance was considered unsatisfactory.

Under the FMA, bank regulators will continue to conduct the same review in evaluating proposed mergers and acquisitions of other *depository institutions*. In addition, a firm may to become a financial holding company, or expand into new lines of business, such as insurance, securities, and other financial activities newly authorized under the FMA, if it can satisfy a substantive three-part test rather than the procedural requirements above. All depository institution subsidiaries must be well-capitalized and well-managed and have received at least a "Satisfactory" rating on their most recent CRA exam.[18]

Most, but not all, of the institutions included in the interview sample consistently retained "Outstanding" CRA ratings over the last five years.[19] Their commitment to "Outstanding" ratings appears to come out of institutional culture and commitment, the civic culture of their headquarters city, or an interest in eliminating CRA-related delays in mergers and acquisitions. As a result, the FMA's provision requiring the maintenance of a "Satisfactory" rating should not be a meaningful obstacle to the exercise of future expanded powers by these institutions, because the achievement of a "Satisfactory" rating was a foregone conclusion in their operations. Despite their "Outstanding" ratings, however, several contacts said that given their institution's interest in expanded powers and the need to meet the new three-part test, maintenance of a "Satisfactory"

[18] The same requirement applies if a national bank wishes to engage in newly authorized activities through a financial subsidiary.

[19] In some cases, the largest of the of the institution's subsidiary depository institutions received an "Outstanding" rating, while smaller subsidiaries, particularly those based outside the headquarters city, received "Satisfactory" ratings.

rating is now a crucial component of broader strategic considerations. Indeed, more than one institution that had in the past aimed for and received a "Satisfactory" rating indicated that they will seek an "Outstanding" rating, just to ensure that they receive at least a "Satisfactory." They said that the risk of missing the mark and earning a "Needs to Improve," for instance for a small subsidiary with a separate charter on the other side of the country, could have serious consequences. Three institutions noted that the standards used in the CRA examination process were too fluid for them to confidently predict the rating that would be assigned in any given examination, reinforcing the prudence of aiming for an "Outstanding." (Several CRA officers did note, however, that aside from good publicity, there was very little institutional benefit from getting an "Outstanding" rating as opposed to a "Satisfactory" rating.)

Three of the institutions interviewed had an extensive array of charters and legal entities. Two institutions noted that tracking CRA performance was more difficult with large numbers of depository institution charters, and that the risk that a small separately chartered entity could receive a rating lower than "Satisfactory" had consequences that were disproportionately severe. Despite the resulting incentive to consolidate charters, the officials indicated that decisions about the structure of charters were driven by factors other than CRA, mainly business strategy, costs and tax consequences.

Relaxation of Small Bank Examination Schedule

The FMA includes a provision to relax the schedule for CRA examinations for adequately performing small banks (those with assets of less that $250 million). Small banks rated "Outstanding" will be examined once every five years, while those rated "Satisfactory" will be examined every four years. Small banks with a less-than-"Satisfactory" rating will be examined on a more frequent schedule, at the discretion of the regulatory agencies. In addition, regulators can choose to examine higher-performing banks at more frequent intervals with reasonable cause. Regulated institutions will continue to be subject to examination in connection with an application for a deposit facility.

Proponents of this provision argued that relaxation of the CRA examination schedule would provide necessary regulatory relief to smaller institutions that were performing adequately. Some CRA advocates believed that the extended examination schedule would weaken the performance between the examinations, and that institutions would intensify their CRA-related efforts only in the period immediately preceding scheduled examinations.

The representatives of the large national institutions included in our sample were asked to comment, but since the provisions had little applicability to their very large institutions, they had little insight. One interviewee noted that since the rating would be based on activity conducted during the entire four- or five-year period, pressure would remain to perform satisfactorily during the full period.

Effects of New Financial Powers and Other Broader Provisions on Community Lending Performance

One of the principal purposes of the FMA was to make it easier for commercial banking companies to offer new financial services to customers, including insurance and securities services. The interviews explored whether and how depository institutions intended to apply their community lending experience with CRA in formulating products or organizing initiatives in these new lines of business not covered by CRA.

While financial institutions are just beginning to take advantage of the FMA's new authority, several already had broad financial services capacity due to earlier statutory or regulatory authority. In one such case, a CRA officer experienced a situation in which the firm's community lending staff had already collaborated with staff from an insurance or securities subsidiary to compete for business or meet the needs of a low-income community. This firm anticipated future collaborations of this sort, driven by business opportunity and market conditions.

Nevertheless, all of the CRA officers interviewed were specifically focused on meeting the regulatory requirements of the CRA, and had not been asked to address how these efforts might apply to new lines of business. Such efforts to develop new products or strategies for serving their LMI communities may evolve as their companies become more actively involved in the new business lines authorized by the FMA. None of the financial institutions indicated that it had changed their CRA strategy or products as a result of the implementation of the FMA.

Financial institution representatives indicated that aggressive "cross-selling" of products to all customers, including LMI customers, was an integral part of their business strategy. Many institutions were engaged in wide-ranging marketing efforts, including direct mail, telephone sales and internet-based marketing to offer the full range of financial products and services to their customers. These products included credit cards, home improvement loans, auto loans and 401(k) investments. Several institutions noted that LMI customers were particularly targeted in these efforts because they were more likely to rely on the institution that provided their home mortgage for a range of their other financial services needs. Others conceded that all direct marketing efforts are targeted to specific income and usage profiles, so not all material would go to all customers. One institution reported that it believed that providing multiple products and services to LMI customers generated healthy profits. Another institution indicated that LMI customers were more likely than higher income customers to utilize a range of products because higher-income customers have already been aggressively targeted for financial services by a broad range of financial service providers including securities firms, investment managers and other banks.

No banks reported the development of special pre-packaged products combining a firm's core business with new insurance, securities or banking products targeted at LMI customers; however, one bank representative stated that efforts are underway at his/her bank to acquire the necessary licenses and train staff to offer pre-packaged products to all customers, including LMI customers. Of the non-traditional banking entities, several reported relying heavily on marketing of new banking services to the existing client base from their insurance or securities activities.

Increased Competition for CRA Activity by New Entrants Into CRA-Covered Businesses

The FMA may bring into the banking arena firms that have not traditionally focused on banking services, though many insurance and securities firms have established or have acquired depository institutions (primarily thrifts) in recent years independent of the FMA. The survey included one example of a company taking advantage of FMA powers: Charles Schwab Corp., a large securities firm which recently acquired US Trust. While some decisions to enter the CRA-covered businesses occurred prior to the passage of the FMA primarily through purchases of thrifts, it is possible that more non-bank companies could enter the banking domain and have new CRA obligations as a result.

One of the consequences of both new entry into banking services and the broader consolidation in the banking industry is the increasing competition for CRA-related loans and investments. A number of financial institution representatives indicated that growing competition with other large banks for this business would make maintaining "Outstanding" ratings more difficult to achieve on an ongoing basis, as very high quality service becomes more commonplace, or as prices for these loans are bid down to sub-market levels. For example, one bank representative said that competing banks were now utilizing direct mail and telephone marketing, and credit scoring innovations for small business loans that this company had originally introduced. As traditional and non-traditional competitors catch up, it becomes increasingly difficult for the company to maintain its large market share in key CRA categories.

CRA Management and Structure

All eight of the traditional depository institution holding companies interviewed for this report underwent substantial merger and acquisition activity in recent years. In some instances, mergers joined large national banks and their respective and respected community lending operations. The survey results suggests that mergers tend to result in the need to rationalize and institutionalize one management approach to CRA out of those of the predecessor entities. In most cases, this process takes time, and it can interrupt the loan review and decision making process. At the same time, merger announcements are frequently accompanied by large CRA lending commitments or agreements, so short-term operational disruptions are often countered by larger or more responsive long-term lending activity.

A variety of structures emerges from the eight institutions with regard to the manner in which they organize their CRA activity. In some cases, a single institution might combine more than one of these structures in its operations. Some of the features of the organization of CRA activities can be characterized by the matrix below:

	Decision-making/Goal setting	Operations
Centralized	▪ CRA staff set goals with executive committee/Board signoff ▪ CRA staff involved in top-level management and decision-making on overall corporate strategy	▪ Large portion of "CRA" business done by specialized entities within the firm ▪ CRA staff responsible for CRA performance ▪ Unique compensation system
Decentralized	▪ CRA staff advise lines-of-business on goals, but conventional business managers decide ▪ CRA staff address issues identified by conventional lines of business at the corporate level	▪ Lines-of-business responsible for CRA implementation ▪ Few CRA Officers in the field ▪ Line staff responsible for CRA performance, with compensation based on commission or on salary and bonus.

In fact, most of the firms engage in a "matrix management" approach to CRA-related business. Typically a centralized CRA team identifies, evaluates and manages complex deals and prototypes, while a broader CRA staff team assists the line managers as they implement their businesses consistent with CRA obligations and goals. For instance, special affordable mortgage, small business, and community development products might be developed by a centralized entity for use in all branches and regions of the country, with limited ability for variation at the local level. At the same time, CRA officers might assist decentralized lines-of-business managers in setting goals, developing strategies to meet them, and creating special initiatives when performance comes up short. In one case, each line of business has a CRA committee responsible for reviewing compliance and performance issues. With one exception, all firms required regular performance reporting to the executive committee and in some cases to the Board, generally reporting monthly to the senior CRA officer and quarterly to the executive committee.

The senior CRA staff member generally is a member of the firm's executive committee and generally is responsible for functions beyond CRA compliance and operations, including, for instance, community relations, foundation or corporate giving, public policy and lobbying, environmental policy, corporate relations, internal consulting or strategic development. In some firms, a separate profit-and-loss statement has been created for the community lending portion of the business.

In most cases, the general counsel staff appears to be a high-level and key component of overall CRA compliance and performance as well. In some cases, CRA staff described situations in which the general counsel staff was the first to identify a potential problem in a line-of-business or a nascent corporate strategy. In one case, the general counsel is the member of the executive committee who wears the "CRA hat." Clearly the general counsel staff provides a useful safety net to those managing CRA and fair lending policy and compliance.

In this highly acquisitive environment, one of the great challenges for all the traditional banking institutions interviewed was rationalizing CRA products, personnel procedures and corporate CRA culture across newly consolidating entities, particularly in the case of large acquisitions. There appears to be a tendency to collapse charters, which, while not driven by CRA compliance requirements, would reduce the number of and time devoted to CRA examinations. As institutions acquire new lines of business, they face critical choices in how to implement consistent CRA policies across the new entities. Which special affordable products would be offered? How would programs that provide a "second-chance" review for mortgage applicants be administered consistently across all bank operations? What performance rating does the institution seek? How does a parent company infuse an acquired entity with its corporate culture and level of commitment to community reinvestment?

The three companies interviewed that were not traditionally engaged in banking had much less developed CRA infrastructures than the traditional banking entities. The more limited infrastructures did not necessarily reflect a lower commitment to CRA activities, but rather their early stage in the development of CRA programs. In each of these institutions, CRA officers indicated that community commitment was an important institutional priority, not just for the banking portion of the institution (in part through CRA), but for the larger parent institution as well.

This review of a limited number of large national financial institutions indicated that a wide range of operational models was in place, and that these varying models could each produce "Outstanding" CRA ratings. Individual institutions had established CRA programs that were particularly geared to the level of management commitment, the corporate structure, and the business strategy of the institution. All of the institutions appeared to be investing significant effort to achieve consistent CRA performance across many entities after a rapid merger and acquisition period.

Industry-wide Pressures and Competition Affecting CRA Activity

While the interviews with the highest level CRA representatives of large financial institutions focused on the effects of the FMA on CRA activity, other issues that affect their current and future CRA performance also surfaced.

Emerging Emphasis on Internet and Technology

Technological innovation and the rise of the internet involve sweeping changes for the banking and financial services industry. The rise of both the internet and ATMs has dramatically shifted the way the most basic banking transactions are conducted and, among other pressures, has facilitated the reduction of full-service branches nationwide. Internet marketing was a central ingredient of the business plans of several of the new non-traditional banks, and all of the institutions in our sample were taking steps to offer a wide range of customer services through the internet.

There seemed to be a split in opinion and strategy among those interviewed as to the extent to which the internet will complement or reduce the need for brick and mortar branches. Several of the institutions included in the sample believed that, particularly in low-income communities, branches would remain just as important as in the past for attracting and retaining full-service customers. Moreover, they believed that full-service branches now do and could continue to serve as the financial hub of the community development strategies so consistent with the original purpose of CRA.

Other institutions anticipate placing a greater emphasis on the internet as the key way of meeting the needs of their customers. In LMI neighborhoods, this approach is often complemented by a charitable giving initiative centered on household computers. Firms like these argued that while CRA fits logically in a community lending model with neighborhoods at its core, the future of financial services is likely to link directly to the customer through the internet, through his or her workplace, and through other approaches not directly linked to the local neighborhood.

Institutions are using technology in novel ways to meet their CRA goals. Several firms reported making innovative investments and partnerships to increase access to the internet because they are convinced that the digital divide will hinder LMI customers in their ability to access new programs and services. Another firm is in the process of developing a local partnership to provide community groups in the metro area surrounding their headquarters with 500 computers, discounted internet access, and a substantial education and training program for using them. Finally, another institution is beginning to use business-to-business applications of the internet to allow non-profit organizations to benefit from the bank’s bulk purchasing discounts.

Subprime Lending

Long standing research suggests that poor credit history, lack of down payment, and lack of income are the three obstacles to homeownership for lower income households.[20] Subprime lending can help meet the credit needs of these households, as their higher risk is balanced by higher rates or fees. Predatory lending, in which lenders follow practices or charge rates and fees that go far beyond the needs of the legitimate market, can weaken neighborhoods and cause serious financial harm to the borrowers. As a result, the issues of subprime and predatory lending are closely intertwined with obligations under the CRA.

Virtually all institutions in our sample had engaged in some subprime lending activities, although at least three of the financial institutions in our sample closed or sold major subprime affiliates within the last year.[21] In all cases, bank officials indicated that these transactions were driven by business decisions rather than by public concerns about any predatory lending practices that might have occurred within them.

[20] Roberto et al., 2000.

[21] For example, First Union has closed down its Money Store operation; Bank of America has sold its NationsCredit subsidiary, though it continues to operate EquiCredit as a major source of subprime credit; and Bank One sold its Bank One Financial Services Corp.

Several institutions stated that they were actively taking steps to ensure that the subprime lending that they were engaged in was responsible, risk-based lending that did not utilize predatory practices. Officials noted the challenge in developing an effective framework of characteristics or practices that are predatory. They fear that efforts to constrain "predatory" lending could expand into responsible sub-prime lending, and reduce the availability of credit for individuals and households with poor credit histories.

Referrals Within Financial Institutions

In years past, customers entered a bank, asked for a loan, and were given a product that met their needs at a rate consistent with their risk, or they were rejected. With the removal of barriers to affiliations among types of financial services firms, customers have more options, but lenders can face greater complexity matching a customer's needs to the right product. That is, if a customer with a high credit score applied for a loan from a finance company rather than its related bank, does the institution have procedures in place to ensure that the customer knew about and was directed to a lower-cost prime-credit product?

There was substantial variation in how institutions referred customers among affiliates. Some banks said they had effective policies and procedures in place to ensure that customers received the lowest cost credit product they qualified for, regardless of whether they applied for a loan from a bank or one of its affiliates. They were able to ensure that customers were both "upstreamed" to better credit products and "downstreamed" to subprime products, depending on the borrower's creditworthiness. Several other firms indicated that "graduating" customers to the best credit product for which they qualified was a priority for them, but that they had not yet worked out the internal procedures to accomplish this goal. One institution indicated that it did not have such procedures in place and did not have plans to put them into effect, in part because of the difficulty of managing across business lines.

New Marketing Channels

New competitors using a new array of channels for offering banking services could also heighten CRA competition in many markets. For example, State Farm is utilizing its extensive network of insurance agents to offer new banking products and services to current insurance policy holders. Internet banking is a new channel for the issuance of financial services, and it has already dramatically enhanced consumer access to a much broader array of mortgage and small business loan products.

It is not clear that new channels for offering banking services will enhance the availability of products for financing community development. Community development financing is generally more complex than mortgage or small business transactions, frequently requiring more direct interaction with bank personnel and more specialized underwriting.

Conclusions

Interviews with officials at large financial institutions yielded the following conclusions about the likely effects of the FMA on the effectiveness of the CRA.

First, institutions reported that their approach to CRA activities has not been significantly affected by the passage of the FMA. The institutions have not modified their CRA activities since the enactment of the FMA, though some institutions believe that the FMA requirement of a "Satisfactory" CRA rating as a precondition to expansion will cause them to raise their CRA goals.

Second, the Sunshine provisions are likely to impose new and burdensome reporting requirements. Institutions are nearly unanimous in their concerns about the added reporting burden under the FMA's Sunshine provisions. Compliance with the Sunshine provisions will require additional staff time and information system management challenges. At the same time, institutions did not believe that the requirements would fundamentally alter their relationships with their national and community-based partners who helped them to achieve their CRA performance goals or impact their CRA commitment or performance.

Finally CRA programs appear to be shaped by a range of strategies and structures that are unique to the corporate structure, business strategy, and management philosophy of each institution's most senior executives. There is tremendous diversity among management models of effective CRA strategies.

Chapter III
Benchmarking Home Purchase Lending Performance of CRA-Regulated Institutions

This chapter describes the lending to CRA-eligible populations by CRA-covered lenders over the period 1993-99—one year longer than the period covered in the *Baseline Report*. Unlike the earlier report, which included data on all types of lending, this updated analysis concentrates on residential home purchase lending and to a lesser extent on residential refinancing lending over the 1993-1999 time period.[22] Here, the focus is on a narrower universe of loans for several reasons:

- Detailed systematic national data on lending other than residential mortgage originations are unavailable over the 1993 to 1999 time period. For instance, data on small business and community development lending by CRA-covered lenders are available only from 1996 forward. Moreover, information on consumer finance loans is not collected at all.

- Regulators tend to emphasize home purchase loans because, to a greater degree than refinance loans, they represent an *expansion* of credit. Additionally, home purchase loans reflect the access to credit of first-time homebuyers who frequently have the greatest difficulty qualifying for a mortgage and hence are the most likely to be helped by lending stimulated by CRA.

The concentration on mortgage lending in this report can still provide significant guidance as to CRA activity in LMI areas and to LMI borrowers. Lending for home purchases and refinances represented approximately 75 percent of the CRA-eligible lending completed by CRA lenders in 1998, including small business and community development lending but net of multifamily originations. Consequently, the analysis here focuses on what is by far the largest category of CRA-eligible lending. In addition, the 1993 to 1999 time period spans the enactment of new, performance-based evaluation criteria in CRA exams. For the purposes of determining whether the FMA will have an impact in the future, evidence on the effects of the CRA as currently implemented are important.[23]

LMI borrowers, and borrowers who live in LMI areas, and loans to such persons, are referred to in this report as "CRA-eligible borrowers," "CRA-eligible loans," or "CRA-eligible lending" respectively.[24] By this definition, borrower race has no impact on whether or not a borrower is CRA-eligible. Consequently, while race is considered in this report because of

---

[22] Records on individual loans were drawn from the HMDA database, and these records were supplemented with additional characteristics about the lending institutions from the Federal Reserve Board's lender file, and with demographic and economic characteristics about the MSA where the loan originated, from government and trade association data.

[23] For a complete discussion of the strengths and limitations of the Home Mortgage Disclosure Act data used in this report, the reader is referred to Appendix B of the *Baseline Report*.

[24] Under regulations issued by the Federal Financial Institutions Examination Council for CRA Examinations, LMI borrowers are those borrowers with household incomes that are less than 80 percent of the local median family income of their metropolitan area (low income borrowers, in particular, are those with incomes of less than 50 percent of the area median). LMI areas are defined as census tracts have median family incomes of less than 80 percent of the median family income of the metropolitan area in which they are located.

longstanding interest in its possible independent influence on mortgage credit flows, the term CRA-eligible is based strictly on reported borrower income levels or estimated neighborhood income levels. It is also important to note that financial institutions subject to CRA requirements receive CRA credit only for CRA-eligible loans made in their assessment areas. These areas generally correspond to communities where they have a branch office or deposit-taking ATM.

The *Baseline Report* indicated that significant variation in CRA lending performance across metropolitan areas provides an opportunity to test for the effect of CRA and to reveal factors that contribute to successful CRA lending. Chapter IV presents the results of a statistical study of the factors contributing to metropolitan area variation in CRA lending. This chapter and Chapter IV are intended to help policy makers, financial institutions, and the public at large understand the factors that are important in determining the CRA performance of institutions covered by the Act and to place future performance in its proper historical context. Together, the evidence indicates that the main determinants of CRA lending performance of CRA lenders and their non-bank affiliates[25] in a given metropolitan area are:

- the strength of its underlying economy,
- the affordability of its housing,
- its racial and ethnic composition,
- the strength of FHA's presence,
- its level of secondary market mortgage purchase activity,
- the extent to which loans made in it fall within the assessment areas of CRA-regulated institutions,
- the level of community and civic engagement,
- the extent of non-profit and for-profit capacity in low and moderate income communities,
- the nature and extent of state and local housing and community development programs and funding, and
- the level of media or public examination of disparities in lending to minority and LMI community and borrowers.

To gain greater insight into the role of CRA lenders in particular, this chapter benchmarks the home purchase lending performance of CRA lenders and their affiliates against the performance of independent mortgage banks and credit unions. These "non-CRA covered" lenders accounted for about one third of all CRA-eligible lending during the 1993-99 period. Using this group as a benchmark roughly controls for economic and other changes that might also explain the expansion in overall CRA lending. Because both groups were influenced by the same changes in the marketplace, but independent mortgage companies and credit unions are not subject to the CRA regulations, the comparison has the potential to highlight the independent effects of the CRA.

[25] Non-bank affiliates are financial institutions that are owned by the same holding company that also controls regulated banks and thrifts, but that are not covered by federal deposit insurance and thus are not subject to the same regulations as banks and thrifts. Nevertheless, affiliate lending may be considered for CRA performance evaluation purposes. However, the decision to include or exclude affiliate-lending activity is left to the discretion of individual banks and thrifts.

CRA-eligible mortgage lending activity, measured by *numbers* of loans, expanded considerably over the 1993 to 1999 period. For home purchase and refinance originations combined, the CRA-eligible origination shares of CRA lenders and their affiliates increased from 24.5 percent in 1993 to 34.3 percent in 1999. For home purchase loans, the share rose from 31.5 to 35.0 percent and for refinance loans it rose from 20.8 to 33.4 percent.[26]

Similarly, over the same period, the total number of CRA-eligible mortgage loans (home purchase loans plus refinanced loans) originated by CRA lenders and their affiliates rose by 55.5 percent. Home purchase loans by these lenders grew 93.7 percent. However, because 1999, unlike 1993, was not a peak refinance year, the growth in refinances measured between 1993 and 1999 is not large. Part of the increase in reported CRA lending was driven by the acquisition after 1993 by banks and thrifts of mortgage companies not covered under CRA. Net of acquisitions of mortgage company affiliates identifiable using Federal Reserve Board data, CRA lenders and their affiliates as of 1993 increased their total CRA-eligible mortgage originations between 1993 and 1999 by 44.0 percent; home purchase originations by 78.0 percent; and refinance originations by 39.1 percent from 1993 to 1998.

While CRA appears to have increased the provision of credit to LMI borrowers and areas by CRA-covered institutions, other factors were also at work. Both CRA lenders (and their affiliates) and "non-CRA covered" lenders benefited from an expanding economy, falling unemployment, steady real home price appreciation, secondary mortgage market expansion, strong income growth, and technological innovations in mortgage finance.

Two measures of CRA lending performance are used throughout this analysis. These measures were carefully selected because they reflect the standards applied to evaluating CRA mortgage lending performance since a lending performance test was instituted in CRA exams in 1995.[27] One is the *share of total home purchase originations* issued by CRA lenders and their affiliates that is eligible for CRA credit (referred to here as the CRA-eligible origination share). The other is the *rate of growth in the number of CRA-eligible home purchase loans by CRA lenders and their affiliates* (referred to here as CRA-eligible lending growth rates). Although it is left up to banks and thrifts whether to report on the activities of particular affiliates for the purposes of CRA examination, these choices are not electronically captured, and coding these selections manually was beyond the scope of this study. Therefore, the activities of these non-bank affiliates are included with banks and thrifts, though the activities of those acquired after 1993 are netted out in some of the results to provide alternative data points that do not confuse changes due to acquisitions with changes due to changes in lending practices.

The report focuses on home purchase originations rather than total originations because CRA examiners typically express the most interest in home purchase loans when applying the lending test. Regulators evaluate the growth in CRA lending, changes in CRA origination shares, and other activities.

---

[26] The CRA-eligible origination shares for refinance loans rose less but still very significantly between the two refinance boom years of 1993 and 1998, from 20.0 to 26.2 percent.

[27] Specific lending test regulations were issued by the FFIEC on May 4th, 1995 to provide guidance to regulators in the evaluation of banks' record in meeting the credit needs of their assessment areas.

The first of the performance measures is also used in chapter IV when modeling metropolitan area variations in CRA lending performance. In practice, regulators evaluate the activities of CRA lenders and their included affiliates against those of their peers in each metropolitan area in which they operate. Therefore, modeling metropolitan area variations in home purchase origination shares of CRA lenders and their affiliates closely matches the manner in which the CRA lending test is applied in practice.

As discussed in greater detail below, *CRA lenders increased their CRA–eligible home purchase lending faster than non-CRA lenders,* after controlling for differences in mortgage product specialization between the two groups of lenders over the 1993 to 1999 period. Even after netting out acquisitions of non-bank affiliates acquired after 1993, CRA lenders still increased their CRA-eligible lending at a more rapid pace than non-covered institutions.[28]

Acquisitions of non-bank lenders by banks and thrifts over the period complicate the benchmarking analysis. CRA lender acquisitions of independent mortgage companies since 1993 apparently boosted their rates of increase in CRA-eligible lending and their CRA-eligible origination shares by some amount. But just how much they have done so is unclear. Using HMDA data and other records it is possible to identify non-bank affiliates that were acquired by banks or thrifts after 1993, but only if the acquired institution retained a separate HMDA reporting number. As a result, affiliate acquisitions that resulted in the termination of the acquired institution's HMDA reporting identification number are not traceable. This suggests the available data underestimate the share of any increase attributable to acquired affiliates. On the other hand, many banks transferred greater and greater shares of all of their home lending activities to their affiliates over the period—including affiliates purchased after 1993. That would tend to *overstate* the share of the increase attributable to acquired affiliates. The estimate of the share of lending contributed by acquired affiliates is therefore imperfect, and it is impossible to determine with available data whether it is an over or under estimate. Nonetheless, the fact that even after netting out the activity of these recent acquisitions, to the extent possible, CRA lenders and their affiliates grew their CRA lending by product faster than non-covered lenders, suggests that CRA has had a positive effect on bank and thrift CRA-eligible lending.

In addition to benchmarking performance, this chapter examines the timing of increases in CRA-eligible home purchase lending, the timing of increases in minority lending, the changing central-city share of CRA-eligible home purchase lending, and the changing product mix of CRA-eligible lending. The timing of increases presented suggests that regulation and enforcement of CRA and fair lending laws has increased CRA lending as has public attention to public disclosure and scrutiny of mortgage application denials by race and ethnicity.

---

[28] Although the origination shares of CRA-eligible loans among CRA lenders and affiliates (inclusive as well as net of acquired affiliates) grew at a slower pace than for non-CRA lenders, this was because the CRA-regulated lenders and their affiliates grew their non-CRA-eligible lending (to borrowers over 80 percent of median income purchasing in higher income areas) so much faster than non-CRA lenders. Independent mortgage companies specialize in loans that meet the conforming-market loan limits imposed on purchases by Fannie Mae and Freddie Mac. Thus, these lenders were less likely to grow their non-CRA-eligible lending as fast as CRA lenders who are more active in the nonconforming market.

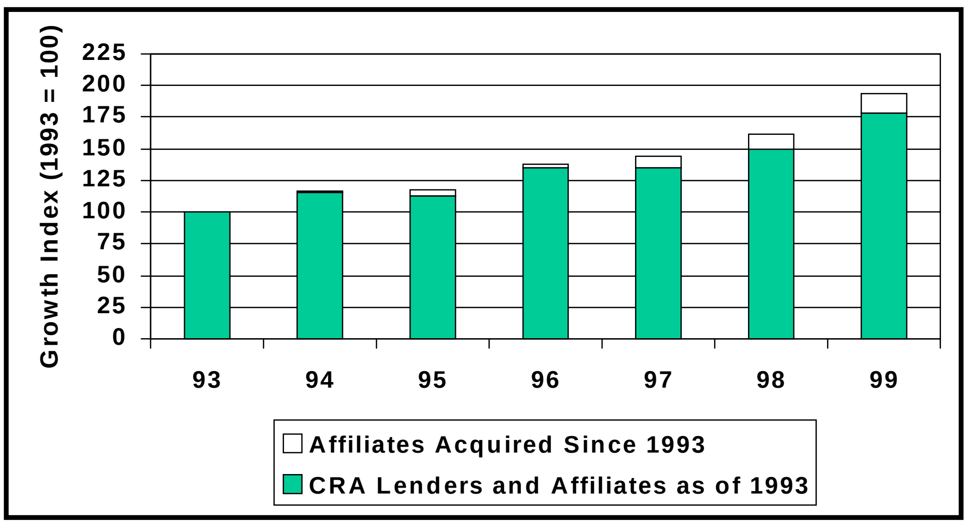
Meanwhile, the geographic dimensions of CRA-eligible lending reveal a clear trend towards suburbanization of low-income homebuyers, and the product mix changes show a clear shift towards subprime and manufactured home purchase loans over the period, though these remained a small fraction of total CRA-eligible lending even in 1999.

CRA Lenders' CRA and Minority Lending Performance

CRA-eligible home purchase loans originated by CRA lenders and their affiliates expanded at an annual rate of 12 percent over the 1993 to 1999 time period (Exhibit 1). By 1999, CRA-eligible loans from CRA lenders and existing plus recently acquired affiliates were 94 percent higher than in 1993. CRA originations did not expand between 1994 and 1995, and increased only slightly between 1996 and 1997. However, these two time-periods were slow ones for the housing market as a whole, and single family starts actually declined during each period. Overall, sales of new and existing homes increased only 36 percent over the 1993 to 1999 time period, so CRA-eligible loan origination growth considerably outpaced the expansion in home sales.

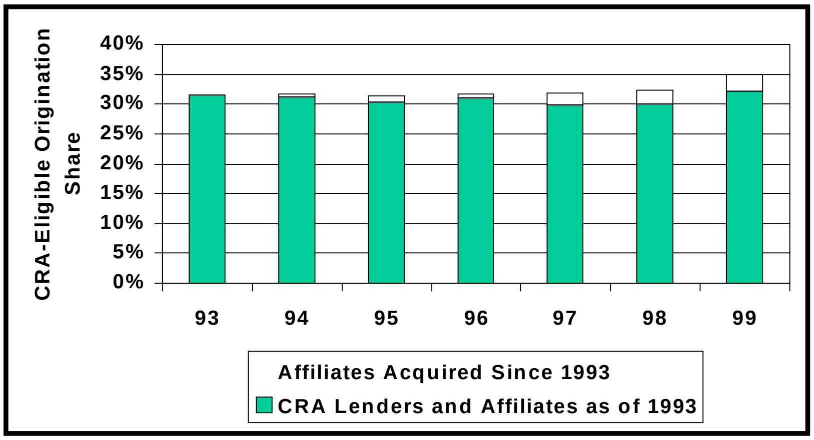
CRA affiliates, including those that we know were acquired after 1993, accounted for some of the growth in CRA-eligible home-purchase lending that was observed over the period. Sixteen percent of the observed growth in total CRA-eligible lending by CRA lenders is attributable to independent mortgage banks known to have been acquired by CRA lenders over this period.

Exhibit 1: CRA lenders and affiliates nearly doubled their originations of CRA-eligible home purchase loans from 1993 through 1999.



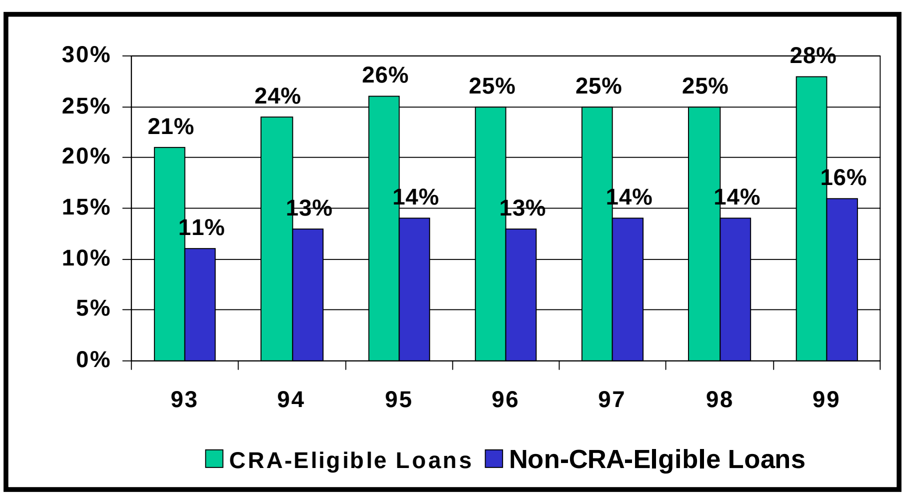
The CRA-eligible home purchase origination *share* of CRA lenders and their affiliates also increased from 1993 to 1999, with nearly 80 percent of the total increase occurring between 1998 and 1999 (Exhibit 2). All of the increase, in fact, came after 1995 -- the year in which new CRA regulations were enacted which focused evaluations on the actual performance of banks and thrifts. Overall, CRA-eligible home purchase loans expanded from 31.5 percent of CRA lenders' home purchase originations to 35.0 percent of their originations. Once again, acquired affiliates made meaningful contributions to the observed expansion in origination share (Exhibit 2). In particular, the affiliates that we know were acquired during this period accounted for fully 80 percent of the observed increase in origination share.

Exhibit 2: CRA lenders and their affiliates increased their CRA-eligible home purchase loan origination shares between 1993 and 1999, mostly between 1997 and 1999.



The most noteworthy shift in the composition of CRA-eligible home purchase loans over the period was towards LMI *minority* borrowers. The percentage of CRA-eligible minority borrowers increased from 21 percent to 28 percent over the period (Exhibit 3). Most of the increase took place in just two years, from 1993 to 1995. At that time, as a result of new analysis of Home Mortgage Disclosure Act data only recently made publicly available, media attention to mortgage lending discrimination was at its peak, and the Department of Justice increased its fair lending investigations and lawsuits. Minorities also gained share of non-CRA-eligible lending during that time.

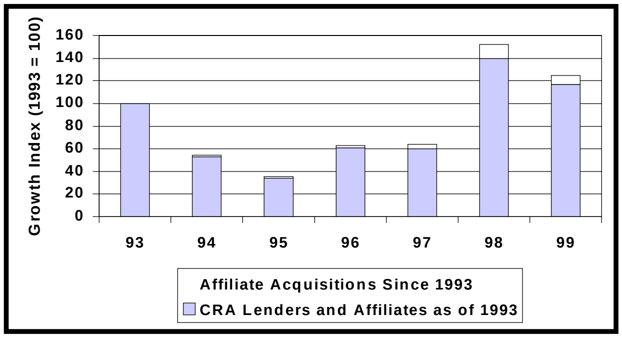
Exhibit 3: The proportion of CRA-eligible home purchase loans originated by CRA lenders and their affiliates to minorities increased from 1993 to 1999, especially 1993- 1995.

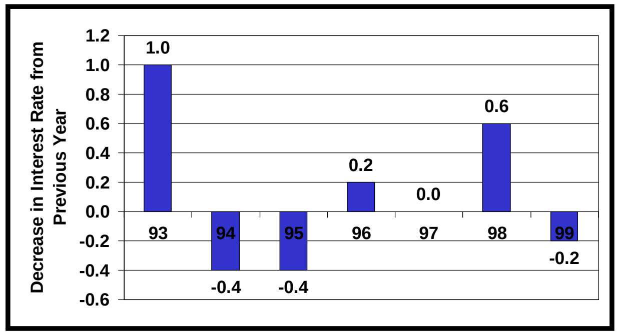


The data for refinance loans also show growth by CRA lenders and their affiliates. Refinancing data show a trend both towards surging CRA-eligible lending by CRA lenders and growth in CRA-eligible refinance origination shares for these lenders. With the growth of subprime refinancing by non-covered institutions, CRA lenders lost market share in refinancing. Examining the record for refinancing loans is more complicated than examining the record for home purchase loans, however, because the former are much more interest rate sensitive than the latter. Significant drops in interest rates typically trigger heavy refinance activity. As a result, refinance activity over the period is more volatile.

The two peak years for refinancing were 1993 and 1998, corresponding to years where interest rates dropped sharply from the previous year. CRA-eligible refinancing did increase by 51 percent between the first and second peak financing years despite the fact that the 1998 decline in interest rates was only a fraction of the 1993 decline (Exhibit 4).

Exhibit 4: CRA lenders' and their affiliates ability to grow CRA-eligible refinancing loans depends on the interest rate.

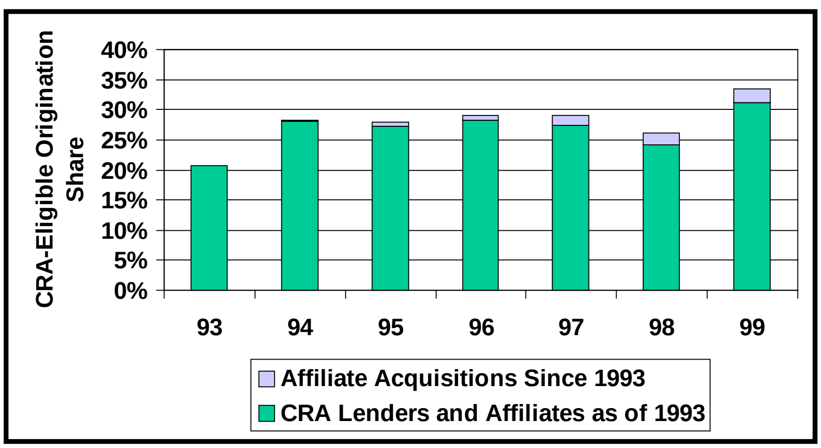




Affiliates acquired after 1993 that were identified accounted for about 24 percent of the observed growth in CRA-eligible refinances between 1993 and 1998, with most of the increased acquired affiliate activity occurring in 1998.

The share of CRA lender refinancing going to CRA-eligible borrowers is also influenced by interest rates (Exhibit 5). When interest rates dropped (Exhibit 4), the share of CRA lender refinancing to CRA-eligible borrowers tended to decline because the rate of increase in refinancing for higher income borrowers (and on a larger base) exceeded that of LMI borrowers. This evidence is consistent with studies showing that LMI borrowers are less likely than higher income borrowers to refinance when interest rates drop (Van Order & Zorn 2000). Nevertheless, CRA lenders' CRA-eligible refinance shares were higher in the latter refinance boom than the early one. Indeed, in 1993, 21 percent of CRA lender refinances were CRA-eligible loans, while in 1998 that percentage rose to 26 percent. Acquired affiliates accounted for about 40 percent of the observed increase in refinance loan origination share over this time period.

Exhibit 5: CRA-eligible origination shares for CRA lenders and their affiliates' home mortgage refinances increased from 1993 through 1999.

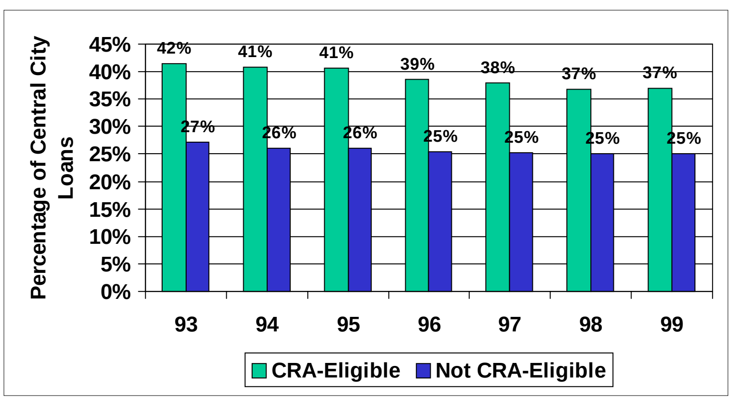


Geographic and Product Changes in CRA-Eligible Home Purchase Loans

Over the course of the 1990s, an increasing proportion of CRA-eligible lending occurred outside of central cities (Exhibit 6). In particular, between 1993 and 1999, the percentage of CRA-eligible lending accounted for by central city borrowers and neighborhoods declined from 42 percent in 1993 to 37 percent in 1999. Central-city CRA-eligible lending grew at 9.5 percent annually, while suburban CRA-eligible lending grew at 13.5 percent annually. There was a less-pronounced suburbanization trend in non-CRA-eligible lending. Consequently, this research suggests that the expansion of CRA-eligible lending in suburban areas may have been fueled, in part, by the relocation of LMI borrowers to suburban markets. This trend is reflected in the case studies of four metropolitan areas as well, with those interviewed citing a range of contributing the migration of CRA-eligible borrowers to suburban areas.

These findings are consistent with others who have examined the spatial dimensions of home purchase lending. Stuart (2000) presents data indicating that two-thirds of minority homebuyers in Boston over the 1993-98 period purchased homes outside of the central city. The Joint Center for Housing Studies (2000) reports a similar finding for the share of minority (61%) and low-income (66%) borrowers that purchased homes outside central cities in all the metropolitan areas of US in 1998. These shares were nearly as high as those for all borrowers.[29]

Exhibit 6: The proportion of CRA-eligible home purchase lending by CRA lenders and their affiliates in central-city locations declined from 1993 through 1999.

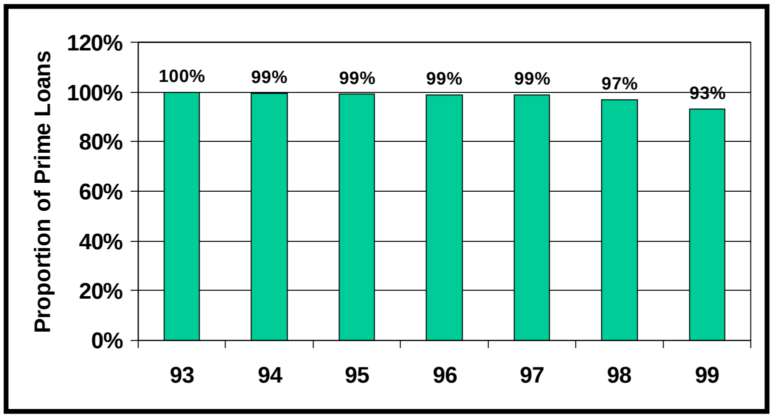


Another significant shift in the composition of CRA-eligible mortgage loans made by CRA lenders and their affiliates is from prime lending to subprime and manufactured lending (Exhibit 7). Accelerating in 1998 and 1999, CRA lenders began to purchase non-bank subprime

[29] Stuart (2000) reports that 70 percent of minority homebuyers in Boston over the 1993-98 period purchased homes outside of the central city, compared with 73 percent for whites, and 72 percent for high-income people. It is noteworthy, however, that suburbanization is not tantamount to integration. Stuart finds that nearly half of black and Hispanic borrowers purchased homes in just 7 of the 126 towns in metropolitan Boston (excluding the City of Boston itself), and Immergluck (1998) finds increasing levels of segregation by race among African-American home purchasers in Chicago. Duda and Belsky (2000) also report differences in the intra-metropolitan area spatial patterns of home buying between non-Hispanic whites and minorities, and between higher- and lower-income borrowers.

lending specialists as it became increasingly clear that these specialists were taking over significant shares of the home mortgage market, especially the refinance market, and that the profit margins on subprime loans were richer. However, 93 percent of loans to CRA-eligible borrowers were still made by prime lenders in 1999.

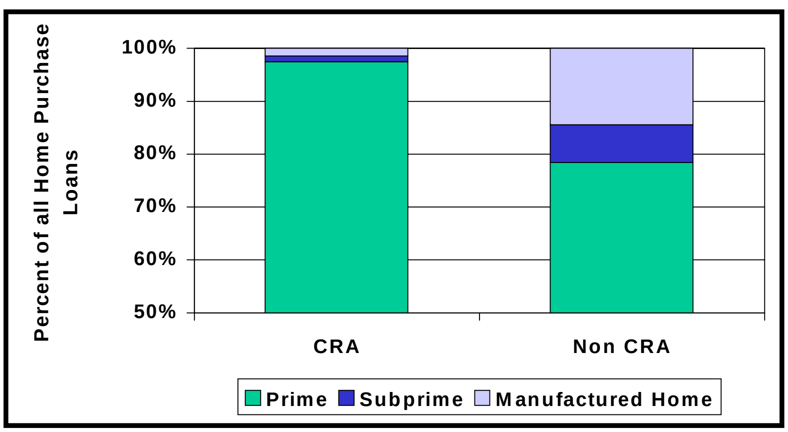
Exhibit 7: The proportion of CRA-eligible home purchase loans originated by CRA lenders and their affiliates that were classified as prime has declined since 1997.



Note: Non-prime loans are defined here as loans made by lenders classified by HUD as subprime or manufactured home lending specialists. HMDA does not require lenders to report on the credit scores or on interest rates charged to mortgage borrowers so it is impossible to use HMDA data to identify non-prime loans.

Over the 1993 to 1999 time period, CRA lenders and affiliates specializing in subprime and manufactured home lending increased their CRA-eligible home purchase market share of such specialists from 7 percent to 30 percent. However, they remained much less specialized than other lenders in these types of lending (Exhibit 8), and most of their loans to CRA-eligible borrowers over this period were made by prime lending specialists.

Exhibit 8: CRA lenders' and affiliates' loans to LMI borrowers and areas were much more likely than non-CRA lenders to be made by prime lending specialists, 1993-1999.

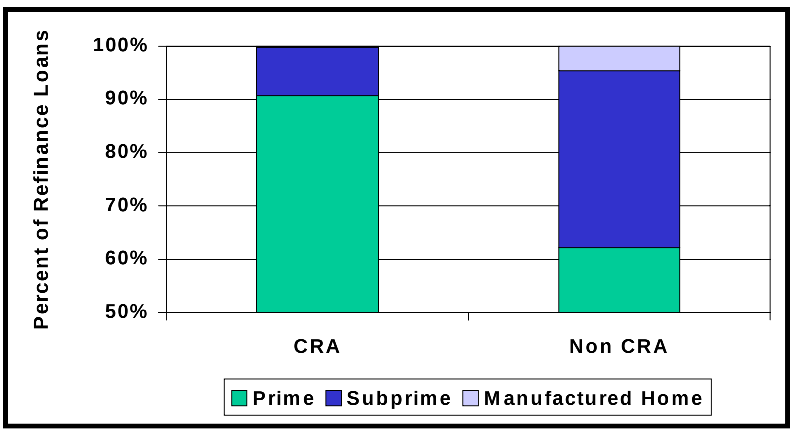


Note: Non-prime loans are defined here as loans made by lenders classified by HUD as subprime or manufactured home lending specialists.

This growth in subprime lending has received considerable attention since 1998, in large measure because so much of the increase in subprime lending, especially on the refinance side, is concentrated in minority communities. For example, the 1998 data indicate that, while just 12 percent of all refinance lending is conducted by subprime specialists, fully 42 percent of refinance loans made in predominantly minority communities were made by these lenders. In low-income predominantly minority areas, subprime specialists' share rises to 46 percent, against a more modest 18 percent in predominantly white low-income areas. Similarly, 30 percent of refinance loans in high-income predominantly minority areas were advanced by subprime lending specialists, against only 6 percent in high-income predominantly white areas (Joint Center for Housing Studies 2000).

As with home purchase loans, CRA lenders and affiliates are much less likely than non-CRA lenders to specialize in subprime and manufactured home refinance lending to LMI borrower or area (Exhibit 9). Indeed, from 1993 through 1999, more than 90 percent of loans made to LMI borrowers and areas by CRA lenders and affiliates were made by prime lenders, while only about 60 percent of loans made to such borrowers by non-CRA- lenders were made by prime lending lenders.

Exhibit 9: Refinance loans by CRA lenders and affiliates to LMI borrowers and areas were more likely than non-CRA lenders to be made by prime lenders, 1993-1999.

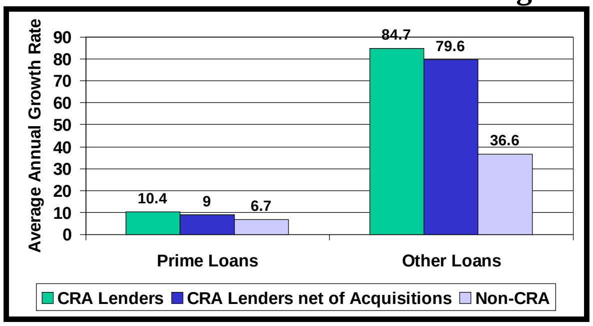


Benchmarking Home Purchase Loans Made by CRA Lenders and Affiliates Against Loans Made by Non-CRA Lenders

Benchmarking the CRA lending performance of CRA lenders and their affiliates against non-CRA lenders requires controls for significant differences in product specialization. CRA lenders have historically not engaged in subprime lending, for several reasons. First, such lending entails higher risks, and until recently there were no statistical scoring models of subprime mortgage loan performance. And second, federal regulators have urged banks and thrifts to be cautious in making such loans. Mortgage companies are subject to state regulation and are not subject to the capital requirements imposed on banks and thrifts.

Looking at prime and other product types separately reveals dramatic differences in average annual growth rates between CRA lenders and independent mortgage banks. (Exhibit 10). CRA institutions and their affiliates outperform independent mortgage banks in each distinct category of loans.

Exhibit 10: CRA lenders grew CRA-eligible home purchase lending faster than non-CRA- lenders in each of three sub-categories of lending.

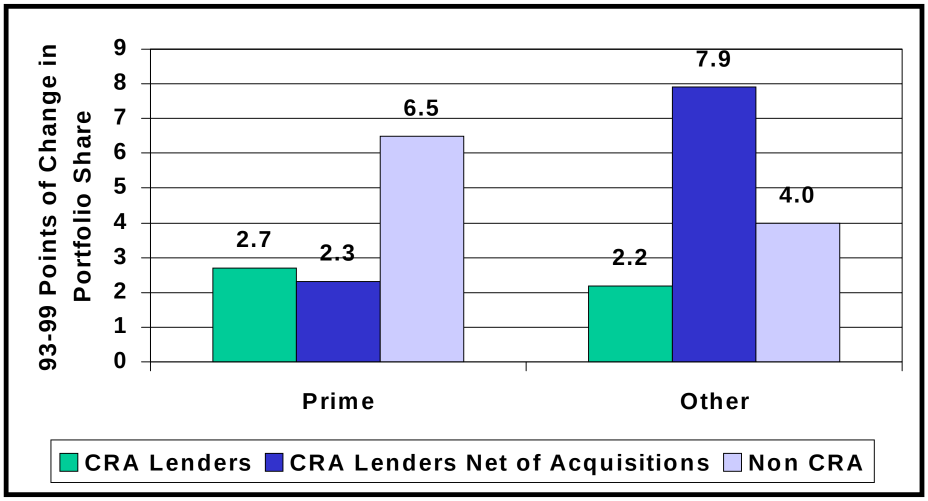


Note: CRA lender and affiliate growth rate for "other" loans is large at least in part because of the very small base of that lending that was observed in 1993.

CRA lenders and affiliates performed so much stronger in the two loan categories that even when acquired affiliates are excluded from CRA lenders and affiliates, CRA lenders still demonstrate superior growth rates. For example, even net of acquired affiliates, CRA lenders still grew prime loans at 9.0 percent per year, a higher rate than the 6.7 percent per year rate that was achieved by the non-CRA lenders. CRA lenders also expanded their subprime and manufactured home loans at significantly higher growth rates.

Because CRA lenders started from a larger base of prime home purchase lending and expanded their non-CRA prime lending more rapidly than independent mortgage brokers, CRA-lenders did not increase the share of their prime home purchase loans to CRA-eligible borrowers as fast as non-CRA lenders (Exhibit 11). The reason for this difference, however, reflects the much more rapid expansion of home purchase credit by CRA than non-CRA lenders to *non-CRA-eligible loan markets*. Over the 1993 to 1999 period, CRA lenders and affiliates grew non-CRA-eligible home purchase loans at 8.8 percent per year. Over the same period, independent mortgage banks grew non-CRA-eligible home purchase lending by only 3.5 percent per year. With those widely different growth rates, it is not surprising that the relevant home purchase portfolio shares of CRA lenders did not grow as fast as those of independent mortgage banks.

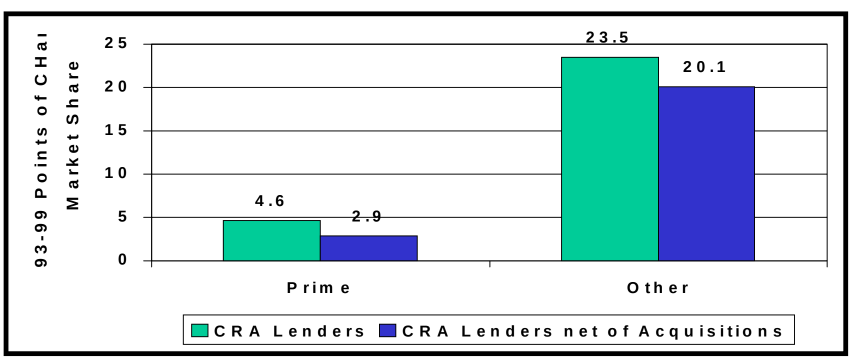
Exhibit 11: Origination shares of CRA-eligible home purchase loans increased more for independent mortgage banks than for banks and thrifts.



Bank and thrift purchases of non-bank affiliates after 1993 increased prime loan growth rates and subprime plus manufactured housing ("other") shares. Known acquired affiliates had higher CRA-eligible loan origination shares than the acquiring CRA lenders and affiliates.[30] From 1993 through 1999, the CRA-eligible share of originating loans averaged 32 percent for CRA institutions and their pre-1993 affiliates, and 38 percent for the affiliates known to have been acquired since 1993. Interestingly, known acquired affiliates had higher CRA-eligible origination shares (38 percent) than other non-CRA institutions (36 percent). This suggests that some banks and thrifts may have considered the CRA performance of non-bank affiliates at least to some degree in choosing which ones to acquire. Although the decision to acquire affiliates was almost certainly dominated by profit considerations, CRA may have exerted a marginal influence.

In both prime and "other" loan product categories, and overall, market share for CRA institutions and their affiliates increased over the 1993 to 1999 time period whether or not known acquired affiliates were included with CRA institutions (Exhibit 12).

Exhibit 12: CRA lender market shares increased significantly from 1993 through 1999.



[30] Known acquired affiliates are those affiliates that are known to have been acquired since 1993.

Conclusions

On balance, the benchmarking comparisons in this chapter support the view that CRA has expanded available credit to LMI borrowers and neighborhoods by CRA-covered lenders and their affiliates. Controlling for product differences between CRA institutions and non-CRA institutions, growth rates of CRA-eligible lending can be seen to be higher for CRA institutions than for non-CRA-covered-institutions. It is important to note however, that the growth could represent true credit expansion to LMI borrowers and neighborhoods, or it could represent a shifting of loan originations from non-CRA lenders to CRA lenders and affiliates.

Lower origination share gains for CRA lenders compared to origination shares for non-CRA lenders are explained for the most part by relative CRA lender gains in the non-CRA-eligible section of the market, though it is worth noting that both types of lenders increased these shares appreciably. Another words, because CRA-lenders grew non-CRA lending so much more effectively than non-CRA lenders, the proportion of their lending which was CRA-eligible did not increase as rapidly. With respect to CRA-eligible lending, CRA lenders increased their lending much faster than non-CRA lenders.

One way to quantify the importance of CRA in the home purchase segment is to consider how much overall CRA-eligible home purchase lending by CRA lenders and their affiliates would have been reduced over the 1993 to 1999 time period if CRA lenders had grown CRA-eligible lending at the same rate as non-CRA lenders. Exhibit 10 presents the average annual growth rates for each of three types of loans, under the condition where acquired affiliates over the 1993 to 1999 time period were excluded from the CRA lending totals. Exhibit 10 showed that CRA lenders grew each category faster than their non-CRA lending counterparts. *Using the slower non-CRA growth rates of CRA-eligible lending and applying them to the 1993 levels of CRA-eligible lending originated by CRA lenders and their affiliates implies that CRA-eligible home purchase lending originated by CRA lenders would have been about one-fifth lower.*

It is more difficult to interpret performance with refinancing loans, because interest rate fluctuations drive refinances to a significant degree, but there is little doubt that CRA-eligible lending expanded between 1993 and 1998, which are two peak refinancing years.

These findings indicate that CRA is encouraging CRA lenders to increase access to home mortgage credit for LMI borrowers and areas. The findings are not conclusive because they do not fully control for differences between CRA and non-CRA lenders unrelated to CRA that may have caused their growth rates to diverge. For instance, differences in the geographic composition of their activities may explain some of the differences in growth rates because CRA-eligible loan growth varies significantly across metropolitan areas. In addition, there is some degree of measurement error in classifying acquired affiliates that did not retain a separate HMDA identifier. These caveats underscore the importance of controlling for cross-MSA variations in economic conditions, demographics, and mortgage industry structure in assessing the impact of CRA on mortgage lending.

Chapter IV
Statistical Analysis of Metropolitan Area Variation in CRA Lending

It is clear that a number of factors as well as the CRA affect lending to LMI individuals and communities. Those factors include economic and housing market conditions, secondary mortgage market activity, FHA market share, and demographic characteristics. The challenging issue is to disentangle the effects of the CRA from the effects of these other factors. This chapter describes the results of an econometric analysis that uses least squares regression to attempt to identify the impacts of the individual factors that affect lending to LMI individuals and communities, including the CRA.

The objective of the econometric modeling performed in this study is to determine if the CRA, independent of other factors, has worked to promote bank and thrift lending to LMI individuals and communities. Taken literally, the econometric analysis produces very specific quantitative estimates of how changes in factors directly related to the CRA affect lending to LMI individuals and communities. However, such a literal interpretation does not appropriately recognize that attempting to assess and control for the relevant factors (variables) is fraught with difficulty and subject to measurement, variable, and other errors. Thus, in the results that follow, emphasis is placed on whether the variables that represent the forces that may be driving CRA lending performance have the expected signs and are statistically significant, and not on the magnitude of the effects implied by the coefficients.

The model that follows suggests that, other things equal, CRA had increased the flow of credit to LMI borrowers and areas by CRA-covered lenders and their affiliates over the period studied. Thus, the econometric analysis suggests that CRA has helped to expand access to home mortgage credit for LMI borrowers and neighborhoods. In addition, the model suggests that most factors that one might expect to drive CRA lending probably do influence it in the expected directions. The econometric results give further weight to other evidence presented in this report that CRA continues to make a difference. It supports both the benchmarking results that precede it and the metropolitan area case studies that follow it.

Few previous studies have modeled geographic variations in mortgage credit flows. Megbolugbe and Cho (1993) model these variations at the metropolitan level. Evanoff and Segal (1996) review a handful of other studies that have modeled these flows at the census tract level (Ahlbrant 1977; Hutchinson, Ostas, & Reed 1977; Avery & Buynak 1981; Bradbury, Case & Dunham 1989; Shlay 1988; Shlay 1989; Holmes & Horvitz 1994; Perle, Lynch, & Horner 1993).[31] Most of the studies at the census tract level have focused on a single metropolitan area. In these previous studies, the dependent variables most commonly modeled are levels of

[31] Evanoff and Segal (1996) are the only authors to publish a study modeling a direct measure of CRA lending performance. The hypothesize that one effect of increased regulatory enforcement would be to increase the overall volume of lending, as lenders, responding to CRA and related legislation, target and service borrowers that they were previously passing over. They construct a series of models of the quarterly change in mortgage originations as a function of economic variables and dummy variables intended to capture any structural shifts in lending patterns occurring after 1990 and subsequent years. None of their year dummies suggest that statistically significant changes in lending patterns occurred after any of the cutoff years they tested. This study, however, did not have the advantage of the additional years of data that we were able to use in the analysis report here.

mortgage lending, expressed as number of loans or dollar volume. The dependent variables are often divided by the number of owner-occupied homes in the tract or metropolitan area to standardize for variations in level of mortgage demand by tract. The independent variables typically used to account for variation in cross-MSA or cross-tract volumes of total mortgage credit flows in these studies focus on economic, demographic, housing supply, mortgage supply, and housing demand. The most common economic variable included the analyses is median household income. Housing market variables include the number of building permits issued, vacancy rates, and share of owner-occupiers. Measures such as number of branch offices and total amount of deposits are used to capture the influence of mortgage supply in the area. Typical demographic variables include shares by race, shares of different family types, shares by age of household head, and median household size.

Unlike these previous studies, the dependent variable here focuses directly on CRA lending performance: the CRA-eligible home purchase origination share of CRA lenders and their affiliates, net of those affiliates acquired after 1993 in each metropolitan area.[32] This variable was selected because it is one of the measures that bank examiners have used since 1995 under the CRA lending test to evaluate CRA lending performance of banks, thrifts, and their reported non-bank affiliates. Modeling metropolitan variations in this measure for CRA lenders and their affiliates closely models the approach taken by regulators. Regulators implicitly acknowledge that variations in economic conditions, regulatory impacts, and other factors across metropolitan areas render comparison of the CRA lending performance of individual CRA lenders to national benchmarks as inappropriate. As a result, regulators compare performance of individual CRA lenders to a peer group drawn from comparable lenders in their communities (Belsky, Lambert, & von Hoffman 2000). Typically, these peer groups are other CRA lenders. Thus, the modeling approach followed here parallels the regulatory process and presents an opportunity to test for the influence of CRA, economic conditions, demographics, loan reselling activity and other factors on the CRA lending performance of CRA lenders and their affiliates.

This econometric analysis of home purchase lending patterns at the MSA level treats the experience in each MSA as a separate observation. An important statistical concern that arises with this approach is that estimates of performance measures will be based on more observations in the case of large MSAs and fewer observations in the case of smaller MSAs. However, because this analysis is based on a large data set, even measures for smaller MSAs are based on thousands of loans. Thus, the estimates of performance measures used here should be reliable across all of the MSAs.

MSA-level regressions of mortgage credit flows are also subject to spatial aggregation bias, which may be particularly problematic for examining home mortgage loan flows to LMI neighborhoods.[33] While the models used examine the influence of MSA-level factors on credit flows at the MSA level, the supply and demand for mortgage credit varies down to the census

[32] Including the known acquired affiliates makes the modeling more difficult, since the growth rate and origination shares would then reflect a “relabeling” of lending as well as behavioral changes of existing institutions.

[33] This is bias introduced by using too large or small a spatial unit of aggregation to capture the process being modeled. Because mortgage markets are segmented by neighborhoods at the metropolitan level, using metropolitan areas as the unit of aggregation averages values of the variables in the model across variations in neighborhood mortgage markets, potentially biasing estimates of model coefficients.

tract level. For this reason, the effects of factors that influence credit flows at the census tract level could be lost when averaged over an entire MSA. Such factors would then erroneously appear not to affect the MSA-level measures of credit flows that constitute the dependent variables in the models. Similarly, estimates of the coefficients on independent variables may be biased. Investigating the impact and direction of spatial aggregation bias on our results would require building similar models at lower levels of geographic aggregation. The results of these models would then have to be compared against the observed importance of the various factors in each set of models, as well as with what is known about the determinants of credit flows from existing research. For these reasons, further research in the area covered by this study is warranted.

Modeling Metropolitan Variation in CRA Performance Measures

The modeling effort presented below attempts to account for the variation in CRA performance for CRA lenders and their affiliates, net of known acquired affiliates, across metropolitan areas. Affiliates that retained their HMDA identifier after acquisition and thus known to have been acquired after 1993 are netted out because they have important impacts on reported CRA-eligible origination shares.

The average proportion of lending by CRA lenders and affiliates that is CRA-eligible is referred to as their “CRA-eligible origination share.” Exhibit 13 shows the mean and standard deviation for this performance measure. The mean and standard deviation are not weighted by MSA size (in other words, each MSA observation counts equally in the calculation of the average and variance).

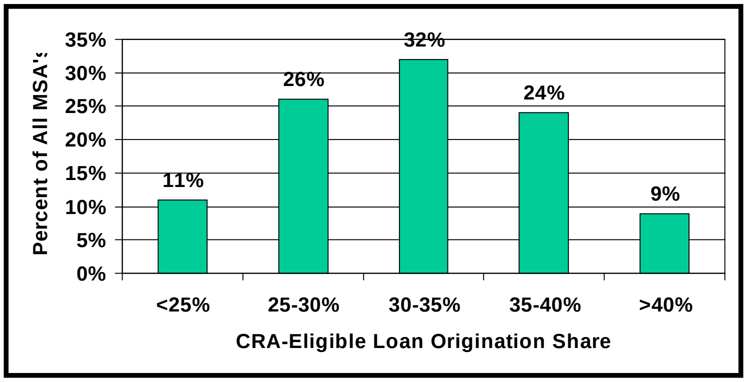
Exhibit 13: Descriptive Statistics on the Dependent Variable

	Average Value	Std Deviation	Number of observations
CRA-eligible origination share	31%	6%	1260

The 1,260 observations in the origination share dependent variable result from looking at origination share over seven time periods (1993, 1994, 1995, 1996, 1997, 1998, and 1999) in a pooled cross-section time-series framework. Theoretically, there would be 306 observations for each of the seven time periods (1 for each MSA for each year), resulting in 2,142 observations. However, use of a potent housing affordability measure in the models restricted the number of metropolitan areas to 180.

Another way to look at the variation in the dependent variable is to chart its distribution (Exhibit 14). Origination share appears to be normally distributed.

Exhibit 14: The CRA-eligible loan origination share ranges from less than 25% to over 40%



Interpreted as a performance measure, higher values of the dependent variable indicate stronger CRA lending performance.[34] Thus, the modeling effort is designed to identify which independent variables have positive coefficients, indicating that higher values of the independent variables drive higher values of the performance measure.

Model Specification

In theory, a variety of factors including (1) economic conditions, (2) housing market conditions, (3) demographic characteristics, (4) regulatory influences, and the (5) industrial organization of mortgage markets (including product specialization and historic levels of services of different types of institutions in different areas) should influence the CRA home purchase loan performance of CRA lenders and their affiliates.[35] Our econometric analysis attempts to take these factors into account. This chapter describes some specific measures for each of these influences and the expected relationship between these influences and the CRA lending performance of CRA lenders and their affiliates. We use some, but not all, of the independent variables used in used in previous studies, as our dependent variable differs from the dependent variable of other models.

To maximize the use of available information, cross-sectional data on 180 metropolitan areas were pooled for the years 1993 through 1999. Individual year dummies were included to control for the fixed effects of time on the origination share levels. Because of the small number of observations after controlling for fixed effects of time and the because of the lack of priors about the structure of the error term, no corrections were made for the possible presence of heteroskedasticity. Correcting for its presence might result in smaller standard errors, yielding more efficient estimates. As a result, the statistical significance of the variables reported below is likely understated, producing conservative estimates of significance. The model also does not control for possible serial correlation because the number of observed time periods is too small to support meaningful testing and correction.

[34] This stronger performance could either indicate an overall expansion of credit to low and moderate income borrowers and neighborhoods or a diversion of originations from non-CRA lenders.
[35] See the case studies in chapter V for a more detailed review and discussion of many of these factors in the four MSAs.

For the origination share model, CRA lending performance (P) in metropolitan area (i) in a particular year (t) is modeled as a linear function of a vector of economic variables (E), housing market variables (H), demographic variables (D), regulatory treatment variables (R), industrial organization variables (I) and an error term (e).[36]

$$P_{it}=f(E_{it}+H_{it}+D_{it}+R_{it}+I_{it+}T)+e.$$

In this formulation T is a variable that measures trends in the independent variable over time that are not explicitly measured in the other independent variables.

The variables that fall within each of the vectors in the simple linear model are listed in Exhibit 15, along with their mean values and standard deviations across metropolitan areas.

Exhibit 15: Variable Definitions and Descriptive Statistics

Independent Variable Name	Mean Value for 93-99 Time Period	Std. Deviation for 93-99 Mean Values	Expected Sign in Origination Share Model
Economic Variables			
Median Household Income (000's) in Time Period t	44.359	8.437	Positive
Average Unemployment Rate in time period t	0.054	0.027	Negative
Housing Market Variables			
Average Level of Housing Affordability in time period t	69.367	13.621	Positive
1990 Average Level of Home Ownership	0.638	0.066	Positive
Demographic Variables			
Proportion of loans to black borrowers in time period t	0.055	0.049	Ambiguous

[36] In a methodological contribution on the modeling of credit flows across spatial units (census tracts), Galster (1992) concludes that both linear and double-logarithmic regression models are consistent with some "minimal theory" of geographic variations in homes-sales and lending processes. Following this guidance, the econometric models presented here are linear. Hula (1992) also uses a linear model, though his variable specifications are criticized by Galster (1992), who also critiques the semi-log models of Shlay, Goldstein, & Bartelt (1992). Furthermore, it is important to note that, while Galster additionally suggests standardizing by some measure of the number of properties that *could* be bought with a mortgage when modeling variations in loan *volumes*, because the models presented here are of variations not in levels but in the *ratio* of CRA-eligible loans to other loans and within-areas rates of increase, they are not directly subject to this caution. While it is important to control for variations in homeownership opportunities, these variations are controlled for by including the metropolitan area homeownership rate as an independent variable, rather than by dividing the dependent and several of the independent variables by the potential number of for-sale homes as Galster suggests.

Proportion of loans to Hispanic borrowers in time period t	0.068	0.111	Ambiguous
Proportion of loans to black borrowers in time period t Squared	0.006	0.010	Ambiguous
Proportion of loans to Hispanic borrowers in time period t Squared	0.017	0.069	Ambiguous
CRA Variables			
Presence of lending agreement during part or all of the 93-99 time period	0.285	0.452	Positive
Share of CRA lender Loans which are inside performance evaluation assessment areas in time period t	0.590	0.157	Positive
Industrial Organization and Control Variables			
Share of MSA loans repurchased by GSE's in time period t	0.256	0.075	Positive
Proportion of non-conventional loans (FHA, VA, FMHA) in time period t	0.244	0.117	Positive

In most cases, the specification of the variables selected and their reasons for inclusion are straightforward. A discussion follows of the variables, the reason for their selection, their functional forms, and their expected relationships to the dependent variables. Important omitted variables include a more direct measure of mortgage lending risk, which is concentrated among borrowers who make low down payments (though an unemployment rate variable proxies for it), and more precise measures of differences in unemployment and income growth rates by race and income in each metropolitan area.

Economic Variables

The economic variables used to model CRA lending performance are the average levels of median household income and unemployment.

Median Household Income. Median household income is postulated to influence the CRA-eligible origination share variable because the credit scores of higher income borrowers are generally higher than those of lower income borrowers. Because LMI cutoffs are defined with reference to metropolitan-wide median incomes, higher median incomes may well translate into lower mortgage risks without leading to smaller proportions of borrowers falling below LMI cutoffs. Therefore, in the origination share equation one would expect median household income to come in with a positive sign. Galster (1992) suggests using median household income in cross-sectional models of geographic credit flows and Megbolugbe and Cho (1993) use it in their models of variations in conforming loan credit flows across MSAs.[37] We control for cost of living by using a housing affordability proxy.

[37] They do not find median household income to be a significant determinant of the flow of what they call "low conventional loans" -- conventional loans below the conforming loan limits. Modeling at the tract level in Detroit,

Local Unemployment Rate. One would expect , all other things equal, CRA lenders in MSAs with lower prevailing unemployment rates will have higher CRA loan origination shares because more LMI borrowers are likely to apply and more are likely to be approved. In general, high unemployment as well as rising unemployment typically hit those in lower wage and salary positions harder and has a more significant impact on their capacity to qualify for a mortgage because they are closer to the margin of qualification anyway.

Housing Market Variables

The housing market variables used to model CRA lending performance are the average of National Association of Home Builders' (NAHB) Housing Opportunity Index over the 1993 to 1999 period and the homeownership rate in 1990.

Housing Affordability. One would clearly expect, all else equal, that CRA-eligible loans would be easier to originate in areas where housing is more affordable. That is because LMI borrowers, who are closer to the margins of qualifying for a mortgage than other borrowers, would find it easier to qualify for loans to buy homes that are less expensive relative to their lower incomes. Consequently, affordable MSAs should exhibit higher CRA-eligible loan origination shares. The specific measure of housing affordability used is NAHB's estimate of the share of homes in an MSA that are affordable to a median income household.

Home Ownership Rates. Home ownership rates measure the availability of rental housing stock in an MSA and the demand for homeownership there. Insofar as rental housing is readily available, CRA-eligible borrowers have viable non-purchase alternatives and may be more likely to view renting as a more attractive option than owning. On the other hand, the homeownership rate is correlated with housing affordability. But because affordability is separately controlled for, one would expect the homeownership to have a direct rather than an inverse relationship with CRA performance measures.

Demographic Variables

The demographic variables used here to model CRA lending performance are measures of the proportion of MSA-wide lending to black and Hispanic borrowers. Both Megbolugbe and Cho (1993) and Perle, Lynch and Horner (1993) suggest including the proportion of the population that is young and therefore might be more likely to have low incomes and be in the market to buy their first homes. However, including the share of the population aged 25-34 in the models tested revealed miniscule effects on the dependent variables that were not statistically significant. As a result, they were dropped from the models.

Minority Population Share. The expected influence of minorities' shares of the population and their geographic concentration within metropolitan areas on CRA lending performance is ambiguous because, among other things, minority shares are correlated with

---

Perle, Lynch & Horner (1993) find median income significant in a variety of models where the dependent variable, lending volume, is specified as the total for the tract and as the log of the total.

many of other independent variables, such as unemployment rate. Thus, estimates of the race effects may be biased and priors about the direction of its effects difficult to establish. It may be the case that, because of the locations of minority populations or loan offices, or because of product differences in the loans minorities select, CRA lenders and their affiliates will have differential success serving minority and white populations. In particular, these effects could lead to in inverse relationship between the measures of minority share and concentration, and the CRA lending performance measure.

It may also be the case that, because minority populations have historically been underserved, relatively large or concentrated minority populations in an MSA create opportunities for CRA-eligible loan expansion. It is important to note that this effect will not necessarily be related to the overall minority population of the MSA, and could instead be related to the degree to which the minority population is concentrated and segregated, suggesting greater historical discrimination in housing markets. In either case, these effects could lead to a positive relationship between the minority demographics and the CRA lending performance measure.

Some effort was made to test for different specifications of the racial and ethnic variables because, as Galster (1992) persuasively argued, the effects of these variables may be nonlinear. [38] It may be, for example, that only as the population proportions reach threshold levels do the effects on CRA lending performance come into play. Since there is no *a priori* method for establishing cutoffs for categorical dummies to capture these nonlinearities, models were run with squared and cubic forms of the race and ethnic variables. The specification that used squared terms had the greatest statistical significance and is reported below.

CRA Impact Variables

Two measures of the CRA regulatory impact are used in this analysis. One is the share of CRA lender originations to LMI borrowers and areas that are made inside CRA assessment areas in a metropolitan area. The other is the presence or absence of lending agreements between lenders and community groups to promote CRA-eligible lending. These variables are not ideal measures of the true impacts of CRA, and are fairly weak in some respects. The lending agreement variable, in particular, has deficiencies because it does not capture the timing or size of agreements in place. In addition, and even more importantly, it is possible that lenders sign CRA agreements in places where they know they can meet these commitments. Therefore it is possible that signed agreements are an effect rather than a cause of CRA performance. Nevertheless, for reasons discussed below, a plausible case can be made that agreements are signed as a result of pressure brought to bear or the threat of a problem when applying to merge or acquire another bank or thrift. Certainly, this is what the four detailed metropolitan cases that follow this chapter suggest.

Measures of merger activity in each MSA over the relevant time period would be another way to test for CRA treatment effects, since the greater the number of mergers and acquisitions the greater the number of opportunities for CRA performance to have a direct impact on bank and thrift plans. However, creating such a measure is difficult and was beyond the scope of this

[38] Because there is reason to believe that the influence of race might be different from ethnicity, black and Hispanic shares of home purchase loan originations were entered separately into the model.

study. A measure that would perhaps be even more desirable would be the number or share of merger applications from institutions doing business in each MSA that were challenged or conditioned over the period. This would be a direct measure of demonstrated effect of CRA-related merger and acquisition problems in the metropolitan area. Such measures were unavailable, however.

Assessment Area Lending. The principal measure of CRA impact used here is the proportion of CRA lender and affiliate lending that takes place in the institution's performance assessment areas. As a proxy for detailed definitions of performance areas, a loan here is considered assessment area lending if it is originated in an MSA where the lender has a branch office. If CRA is having an effect, it is reasonable to expect that CRA-eligible origination shares will be higher in MSAs where a greater proportion of the lending takes place inside assessment areas, because it is only in these areas that they receive credit for CRA-eligible lending. In addition, growth may also be faster for those MSAs where a greater proportion of all lending takes place inside assessment areas. Therefore, we expect this variable to be positively associated with CRA origination share levels.

Presence of Lending Agreements. The National Community Reinvestment Coalition publishes *CRA Commitments*, which documents known agreements between CRA lenders and local community groups. For modeling purposes, any MSA where there was evidence of a lending agreement in place during part or all of the 1993 to 1999 time period was flagged as having an agreement presence. In such cases the variable is set to 1, and it is set to set to zero for all other MSAs. One would expect that MSA's with lending agreements to have better CRA performance as measured both by higher CRA-eligible loan origination shares. Whether or not the agreements are cause or effect of this performance, one would expect the sign on this variable to be positive in both equations.

Industrial Organization and Control Variables

The industrial organization and control variables used to model CRA lending performance include the MSA-wide proportions of non-conventional lending (FHA, VA, FMHA) and loans resold to Fannie Mae and Freddie Mac.

FHA/VA/RHS (non-conventional) lending. The proportion of lending that is non-conventional (principally FHA lending) is used as an explanatory variable because in MSAs where the non-conventional percentage is higher, one might expect higher CRA loan origination shares because the government insurance programs reduce the riskiness of originating CRA-eligible loans. However, it is less likely but it could also be argued that the effect could be a negative one, because non-CRA lenders use FHA insurance more intensively than CRA lenders. Indeed, where FHA's presence is greater so too are the market shares of mortgage companies. Consequently, higher FHA shares across the MSA could result in weaker CRA lender origination share performance.

Resold Loans. Lenders have the option of reselling the loans they origniate to other institutions, primarily to Fannie Mae and Freddie Mac for prime, conventional conforming loans and to private label companies for subprime loans. The existence of a secondary market should increase originiations, as the sale of the loans can free up capital for the originator.[39] Beginning in 1993, the Department of Housing and Urban Development (HUD) established affordable housing and central city goals for the purchase of mortgages by the GSEs. In 2000, HUD revised and increased these goals in an attempt to encourage the GSEs to purchase more loans made to low- and moderate-income borrowers and in low- and moderate-income neighborhoods.

The study finds that higher CRA lending performance for a given metro area tends to correlate with higher secondary market purchases. The study does not reach any conclusion about whether higher origination levels are yielding more loan sales, or vice versa.

[39] The complex relationships between the primary and secondary markets, and the difficulty making causal attributions about them is underscored by a recent study by Hueson, Passmore and Sparks (2000) on mortgage interest rates. While some have argued that higher levels of securitization decreases the mortgage interest rate, Hueson, Passmore, and Sparks argue the reverse, that lower mortgage rates drive higher levels of securitization.

Exhibit 16: Model Coefficients and T-Scores for
CRA Lender's CRA-Eligible Home Purchase Loan Share Regression

	Coefficient	T Value
Intercept	-.117	-5.31
Average Housing Affordability 93-99	.00169	14.04
Household Income	.00234	11.89
Unemployment	-.392	-6.09
Home Ownership Rate in 1990	.19143	8.28
Loan Resell Rate	.18032	8.69
Existence of Lending Agreements	**.01243**	**3.83**
Share of Lending inside Assessment Area	**.03102**	**3.29**
Share of FHA Lending	.14818	10.52
Percentage of Loan Originations to Black Borrowers	-.403	-4.95
Percentage of Loan Originations to Hispanic Borrowers	-.176	-5.04
Percentage of Loan Originations to Black Borrowers Squared	1.922	4.92
Percentage of Loan Originations to Hispanic Borrowers Squared	.39749	8.83
Dummy Variable for 1994 Observations	.02888	5.70
Dummy Variable for 1995 Observations	.03711	7.08
Dummy Variable for 1996 Observations	.02324	4.49
Dummy Variable for 1997 Observations	.01289	2.49
Dummy Variable for 1998 Observations	.00604	1.20
Dummy Variable for 1999 Observations	.02863	5.26
Adjusted R-Squared	49	
Observations	1,260	

Conclusions

Subject to the caveats about the statistical analysis outlined at the beginning of this chapter, econometric testing supports a finding that CRA has had a positive independent affect in expanding access to home mortgage lending for LMI borrowers and areas. The testing also supports the view that economic and housing market conditions have had the most potent impact on levels of CRA-eligible lending.

Chapter V
Metropolitan Area Case Studies

To obtain a more nuanced understanding of how the CRA has affected lending by institutions covered by it, this chapter explores the evolution and performance of community lending during the past decade in four metropolitan areas—Boston, Denver, Detroit and Houston. While the interviews explored small business, multi-family housing, community development, and traditional mortgage lending issues, this chapter concentrates on mortgage lending in particular, because the CRA-related data are richest for these kinds of loans.

These four case studies – described in greater detail in Appendix C – suggest three key points, which appear consistent with the findings of the financial institution interviews, regression analysis, and CRA benchmarking.

- First, passage and implementation of the Community Reinvestment Act drove much of the performance described in these case studies, especially in the early 1990s, according to nearly all lenders and those closely observing the field in these metro areas;

- Second, the CRA is a very flexible, performance-driven requirement that has proven to be effective in varying civic and corporate cultures and through a wide range of corporate structures. Its flexibility also enables it to be delivered through thousands of financial services vehicles and products.

- Third, when institutions consider merging, acquiring or being acquired, they are particularly likely to undertake greater community lending commitments and performance, whether driven by internal strategic concerns or external pressures.

After providing a brief description of the community lending dynamics in each of the four metro areas, this chapter analyzes the range of factors that emerge consistently across the metro areas. These factors – economic and market factors, demographics, characteristics of the lending institutions, and characteristics of the advocacy community – parallel the independent variables of the regression analysis in Chapter IV.

The four metropolitan areas were chosen because of their different experiences with CRA lending. These experiences were characterized by the changes in the portfolio shares of CRA-covered institutions of mortgage loans to LMI borrowers from 1993-98 relative to the national average.[40] Two areas – Detroit and Houston – had substantially better performance in this regard; the other two areas – Boston and Denver – were closer to the national average. A range of secondary factors also were considered in selecting the areas, including geographic and demographic diversity, housing market and broader economic conditions, and the presence of community reinvestment advocacy organizations.

---

[40] The 1993-98 period was chosen because, as discussed in the *Baseline Report*, CRA-related data were most comprehensive for this period at the time this study was undertaken.

The metro area analysis and findings are based on interviews with a broad range of stakeholders involved with the provision of mortgage, small business, community development and other credit and investments.

The objective of the interviews was to assess the following: 1) the size and scope of services and products that firms and organizations provide under CRA; 2) the strategies that have been developed to increase the effective provision of credit and services under CRA; 3) the significance of other factors, such as characteristics of the market, operating practices, and internal and external institution structures; 4) characteristics of the advocacy community; 5) the role of the civic leadership and local media; 6) the obstacles and opportunities in providing credit and services to LMI borrowers in these areas; and 7) changes (if any) in CRA activity and effectiveness that have occurred or are anticipated with the passage of the FMA.

A broad range of community reinvestment stakeholders – typically staff from a range of financial institutions, banking analysts, regulators, academics, banking services advocates, community development corporation directors, local officials, journalists and others – were interviewed in each metro area. In addition, the public sections of local institutions' CRA examinations were reviewed.

The following are thumbnail sketches of the evolution of CRA lending in each metro area, based on interviews in each of the areas.[41]

- In Boston, early CRA-based advocacy and research by community groups and the Federal Reserve Bank of Boston were essential to galvanizing the strong commitment to community lending and performance that most financial institutions there exhibit. Recent dramatic increases in housing prices and corresponding declines in affordability have made the purchase of homes by lower income households more difficult.

- CRA mortgage lending in Denver increased at about the same pace during 1993-98 as it did throughout the rest of the country. At the same time, however, lenders subject to the CRA in the Denver metro area had the highest proportion of home purchase and refinance lending to LMI borrowers and areas in both 1993 and 1998 among the 39 largest metro areas that received particular review in the *Baseline Report*. In 1993, the Denver metro area was in the full swing of recovery from a devastating real estate collapse in the late 1980s. This left housing prices low, and as recovery began large numbers of renters became homeowners. During the early 90s, a community reinvestment advocacy coalition drew attention to the community lending performance of several Denver area banks. After substantial consolidation, Denver banks responded with stepped-up community lending efforts, and worked closely with community-based non-profits to expand community reinvestment efforts.

- In Detroit, various factors contributed to a sharp increase in community lending during the mid-90s: robust economic performance; particularly in the automobile industry; new municipal leadership which established a more collaborative approach to private sector

[41] Again, more detailed descriptions of each of the metro areas can be found in Appendix C.

investments in the city; the continuing presence of a strong community reinvestment advocacy coalition; a high level of merger and acquisition activity in the lending industry; and assertive leadership by the banking and business sectors to invest in revitalization efforts.

- In Houston, the economic dislocation spurred by declining oil prices and the collapse of the real estate market in the early- to mid-'80s seems to explain why the low levels of mortgage lending to LMI households found through the early '90s were among the lowest in the country. A spurt of acquisitions of local banks by large national institutions, together with regulatory changes approved in 1995 seem to have brought to Texas both new community lending staff and a higher institutional commitment to CRA – explaining the healthy increase in CRA mortgage portfolio shares in the area during the 1993-98 period.

Factors Contributing to CRA Performance in Metro Areas

The four metro areas had widely varying practices, traditions, and partnerships with respect to their CRA activities. Yet each one had an above-average share of loans to LMI borrowers and areas in its 1998 lending portfolio. The four case studies taken together provide evidence that a variety of approaches can yield above-average CRA performance levels. Nevertheless, these four metro areas share several common characteristics.

- The lender and advocate/CDC communities have strong collaborative relationships;
- The level of sophistication among lenders and community organizations is quite high;
- The financial services industry in each region has undergone significant consolidation in recent years;
- Each metro area has a city government with generous homeownership assistance programs in place; and
- High metropolitan CRA performance results from a combination of regular business activities and special lending initiatives and products.

At the same time, the interviews indicated that the effects of a range of other factors that could be expected to impact CRA performance varied widely across these four metro areas.

- Market forces (housing market, immigration, income dynamics, population dynamics);
- The role of secondary mortgage markets;
- Lender characteristics (including mortgage market penetration and competition);
- Lender consolidation;
- Characteristics of nonprofits, civic leaders and other government or private actors; and
- Relationships among all of these factors.

Market Forces

Interviews in the four communities clearly suggested that a range of market forces including metropolitan housing prices, the influx of immigrants, strength of the local economy, income levels, demand for multifamily housing, and neighborhood characteristics play a key role in determining the level of CRA lending in a given area.

Housing affordability – a significant factor affecting community lending performance – is composed of two components: home prices and household income. In Boston and Denver, steeply rising housing prices resulted in slowing mortgage lending to low- and moderate-income households. For example, the Boston area housing market is now among the most expensive in the country, and several lenders there attributed recent declines in lending to LMI borrowers to this phenomenon.[42] As housing prices increased at an annual rate of over 10 percent in the city of Boston in 1999, the incomes of area households increased at a slower pace, and those of lower-income households have tended to *decline* in recent years.[43] Likewise, sharp increases in Denver home prices since 1999 appear to have put a brake on mortgage lending to LMI borrowers during this period.

In contrast, much sharper increases in LMI loans occurred in Detroit and Houston where housing prices have grown slowly or modestly. In particular, low home prices linked to the deep economic recessions in those areas in the late 1980s enabled many low-income households to purchase homes during the economic recovery in the mid-1990s. Although the average price for an existing home in Houston averaged $153,600 in mid-2000 (an increase of about 8 percent over the prior year),[44] numerous homes are available for $75,000 in central city neighborhoods. Meanwhile, demand for Houston's downpayment assistance grants (often matched with CRA-eligible loans from area lenders) reached their all-time peak in August, 2000.[45] Some interviewees in Houston argued that the collapse of the conventional single family home (SFH) market in the early '90s drove dozens of for-profit developers away from the luxury market and into the affordable housing field (fueled also by the City's $9,500 downpayment assistance grant for new homes). Private development combined with city-run downpayment assistance programs helped to generate Houston's dramatic increase in loans to LMI households during that time. While the Boston market exhibited similar shifts in reaction to the downturn in the area's economy in the late-'80s, interviewees there did not mention these dynamics in discussing community lending activity there.

In addition to housing prices, it appears that some metro areas experienced dampening effects on LMI single-family housing lending as a result of increases in construction costs and supply bottle necks. One interviewee in Houston linked the construction boom in the commercial sector in the mid-90s, after the local economy had recovered, to labor and supply shortages in the housing market that lengthened construction times and decreased deal flow. In Denver, rapid increases in land prices have forced non-profit developers to shift their focus from single-family homeownership to multifamily activity.

Gentrification

Gentrification, or the displacement of lower income households by higher income households, has exacerbated the availability problem for single-family residences in some

---

[42] Boston ranked 142nd out of 192 cities in the National Association of Homebuilders Housing Affordability Index in the 2nd Quarter of 2000.
[43] See *The Road Ahead: Emerging Threats to Workers, Families and the Massachusetts Economy*, Andrew M. Sum et al., Massachusetts Initiative for a New Commonwealth, 1999.
[44] 2Q2000 Metro/Study Symposium, Houston Housing Market Update, Michael Inselman, American METRO/STUDY Corporation, mimeo, August, 2000, p. 40.
[45] Personal communication, Sarah Randel, Housing Opportunities of Houston, September, 2000.

communities, particularly in Boston and Denver where housing prices have been rising rapidly in recent years. Some long-time affordable neighborhoods among the four metro areas face gentrification and the resulting increase in home prices, which reduce the opportunities for LMI households in communities commonly served by community reinvestment activity in the past. For instance, the Roxbury neighborhood of Boston has seen a 15 percent increase in average sale prices between 1998 and 1999, after a 32 percent rise the previous year.[46] Similarly, neighborhoods in Denver were experiencing rapid price appreciation and gentrification.[47]

Gentrification has several consequences directly related to CRA performance. First, much of the mortgage financing in gentrifying neighborhoods qualifies for CRA credit, even long after the neighborhood becomes gentrified. This occurs because the CRA definitions for low-income areas are set by the decennial Census and are thus adjusted only once every ten years. Lending to higher income households in certain neighborhoods therefore may qualify for CRA credit even after the low-income character of the neighborhood has changed. Second, with the gentrification of inner-ring affordable neighborhoods, lower income households often move to outlying areas for affordable homes, or forego homeownership entirely, while the need for more complex affordable multi-family housing development and lending increases.

The Secondary Market

Interviewees consistently mentioned the importance of the secondary market in facilitating lending by primary lenders to LMI households, multifamily housing developers, and small businesses. In both Denver and Detroit, the interviewees said that the secondary market played an important role in introducing new affordable mortgage products and automated underwriting technology among local lenders. Houston contacts said that lenders uncomfortably held essentially all LMI loans in portfolio until the early to mid-'90s, when Fannie Mae and Freddie Mac, prompted by new federally-mandated goals for LMI lending, adjusted their underwriting criteria and began to purchase more of these loans. The secondary market (along with other factors), was regularly cited as a key factor in the increase in single family LMI lending in Houston.

Conversely, lenders and CDCs in Boston argued that the secondary market's lack of interest in financing two- and three-family ("triple decker") homes, which are particularly prevalent in the lower-income neighborhoods of Jamaica Plain, Dorchester, and Roxbury, poses an obstacle to effective lending there. The portfolio diversification and liquidity benefits of secondary markets are clear to all involved in the four metro areas, and the lack of such products for multi-family housing and small business lending clearly dampens these tools for LMI neighborhoods and business owners. In 2000, HUD made specific revisions to the GSEs' housing goals in order to encourage the GSEs to be more active in purchasing these types of loans.

Lenders and Mortgage Markets

---

[46] *Real Estate Trends, Annual Report, 1999*, p. 1; *Real Estate Trends, Revised Annual Report, 1998*, p. 1.
[47] Center for Affordable Housing and Educational Quality, "Housing in Denver, Problems, Needs and Opportunities," University of Colorado at Denver, 1999, pp. 22-23.

Lenders organize their community lending activity in varying ways. Some create targeted entities and offices that are specifically dedicated to serving the CRA market. Most larger banks and thrifts develop a community lending staff that works with the heads of the business lines to develop and then meet internal CRA goals, thus providing technical assistance and networking as appropriate. Some lenders attempt to standardize products across metro areas, while others have developed special products to meet the needs of specific markets, thus leaving the decision making to regional or metro-level managers.

Some lenders rely less on special affordable mortgage products and instead lend to LMI borrowers and areas as part of their conventional business. For instance, one large thrift in the Detroit metro area captured a substantial portion of its CRA qualifying loans through routine business operations. This institution administers its own homeownership counseling program and a full range of special mortgage programs, but the vast bulk of financing is provided through conventional mortgage products.

As discussed earlier in the study, no one model of lending came through in the interviews as being the most effective nor most commonly used. In fact, several major lenders have switched back and forth between strategies. The common elements among most bank staffs in these metro areas are their strong capacities, collaborative working relationships, and interest in developing a range of products that provide LMI borrowers with credit, consistent with safety and soundness standards.

In Boston and Houston, CRA-covered lenders came together with community advocates, private developers, and CDC representatives via formally established organizations to develop strategies to increase community lending. This occurred in Boston after the release of the 1991 Boston Fed study,[48] and in the early '90s in the case of poor-performing Houston. In both cases, new SFH and MFH products were developed, prototyped, monitored, and standardized over time. Working relationships were developed and business niches were formed and filled. In both Boston and Houston, working collaborations were developed with the city government   These collaborations involved soft-second loans in Boston and downpayment assistance in Houston.

Several lenders interviewed reported that as a result of commitments to community organizations or city-wide coalitions, they entered into new lines of busienss or new locations they later found to be quite profitable. For instance, one interviewee mentioned his bank's decade-long commitment to providing extended bank hours in certain neighborhoods. He reported that, today, extended hours are commonplace in these and other neighborhoods, and institutions, in addition to his own, now recognize that the extension of hours results in additional profits.

Product Developments

Interviewees also mention the importance of trading information among their colleagues at both the local and national level about mortgage and small business products and business

---

[48] The study found that "even after controlling for financial, employment, and neighborhood characteristics, black and Hispanic mortgage applicants in the Boston metropolitan area are roughly 60 percent more likely to be turned down than whites," p. 2.

innovations. They reported that new products created to fit a niche or need are often prototyped within an institution and then standardized and expanded nationally. In other cases, secondary market players might standardize a product and drive it down into the various markets around the country.

Product-based competition and collaboration among lenders appear to have contributed to improved performance in a number of metro areas. In Houston, lenders organized a network of homeownership counseling agencies that prepare renters for the mortgage application process and the demands of homeownership. These organizations funnel bankable loans (often from minority households) to lenders and mortgage companies, and sometimes perform informal loan servicing after the fact.

Bank Consolidations

Institutions in each of the four markets have undergone extensive consolidation in recent years. In some instances, observers believe that consolidation has clearly improved community lending. In many cases, larger national banks with strong CRA records have acquired smaller local or regional banks with less aggressive community lending efforts. In these cases, those interviewed for this study believe that the consolidated firms offer a better range of CRA products, and bring a greater commitment of staff and larger investments and contributions to their communities. This was especially the case in both Houston and Denver.

Some sources, however, noted some adverse consequences of consolidation. In Denver, non-profit groups argued that the acquisition of local banks by national institutions has led to more rigid and less timely underwriting of loan applications, especially for more complex multifamily projects. Underwriting functions were being performed by centralized bank staff in other parts of the country, who were not as familiar with local conditions and took longer to process loans. Moreover, in the extremely hot housing market in the Denver metro area, land acquisition is an important priority for non-profit groups. Staff from larger institutions who needed approvals from out-of-state headquarters frequently could not meet deadlines as effectively as local banks. In addition, consolidation sometimes brings higher staff turnover, a problem in the Denver area, where non-profits said relationships with lender staff needed to be forged and then re-forged.

Community Groups

The passage of the CRA in 1977 was spearheaded by Sen. William Proxmire, and by a network of community-based organizations and civic leaders, concerned about lender “redlining” in inner-city neighborhoods. Since enactment of the CRA, a wide variety of community-based groups have continued to play active and diverse roles in community lending in metropolitan areas across the country. These groups include advocates for greater levels of community lending and bank services, monitors/watchdogs to ensure that financial institutions uphold their goals or agreements, and CDC partners that bring deals to lenders and focus institutions on ensuring that they meet their community lending goals. The roles of these various participants have changed over time, in different manners in different places.

For example, in Boston, aggressive community lending and bank services advocacy in the 1970s evolved into a more “mature” network of CDCs in the 1990s. A prominent anti-redlining group formed in the late 1970s in the Jamaica Plain neighborhood in Boston, and was among the few organizations in the nation attempting to bring attention to the CRA during this time when HMDA data disclosures were limited and regulators had not yet formed a coherent approach to assessing performance.

By the early 1990s, the role of CRA advocacy was assumed by the growing and sophisticated network of community development corporations (CDCs). This network began by concentrating on the city of Boston and its neighborhoods rather than the metro area, but gradually expanded with the creation of statewide association of CDCs. In recent years, this association has been the “traffic cop” managing the annual community lending negotiations with key Boston area lenders,[49] including those undergoing mergers and those willing to participate in the negotiations.

While Denver does not have a cultural tradition of grassroots advocacy that is found in many eastern and mid-western cities, such efforts appeared to have some effect on community reinvestment activity in the early 1990s. Following on the footsteps of the publication of the Federal Reserve Bank of Boston study in 1992, a coalition of academics, students, non-profit groups and African-American and Latino activists formed an alliance. The alliance prepared analyses of racial patterns in lending in the Denver metropolitan area and led a challenge and protests against a number of bank mergers in the early- to mid-1990s. The alliance worked in partnership with the City to help develop and monitor a “linked deposit” program, in which the City committed to deposit its funds only in firms that met certain lending and performance criteria.

By the mid-1990s, a number of the non-profit community development organizations believed that the banks had made commitments that were responsive to community needs, and welcomed the opportunity to work more closely with banks to meet their community lending goals. It now appears that CRA officers and the CDCs in the Denver area have very effective and collaborative working relationships. However, one experienced community development professional in Denver expressed concern that CDCs had become too comfortable in their relationships with banks, and that the absence of a tougher advocacy presence relieved the banks of pressure to raise their community lending performance.

Detroit has a very strong community-based advocacy presence with one particularly large coalition of more than 100 civil rights organizations, churches, community organizations and labor unions, which formed in response to a series of articles regarding lending discrimination in the city. The coalition negotiated a series of agreements with the six leading banks in Detroit. Each agreement committed banks to specified dollar levels of lending and procurement goals for minority vendors throughout the city. Representatives of the coalition meet with bank executives to monitor agreements on a semi-annual basis.

Many lenders in Detroit acknowledged that the activities of the coalition, while controversial, have likely raised their overall lending efforts in the city. Several maintained,

[49] These agreements are now negotiated every three years.

however, that they would have undertaken an equal amount of activity without the presence of the coalition.

Detroit's CDCs and other non-profit housing developers are not integral players in the coalition. Instead, they cultivate relationships with local lenders through other channels including serving on bank community advisory councils, participating in a community development collaborative that is a capacity-building effort sponsored by lenders and foundations, and participating in other community functions. While there are some successful non-profit housing developers, the overall capacity of the CDC community in Detroit seems limited compared to the other cities in this report.

Finally, Houston's non-profit CRA groups are perhaps the shortest lived of those in the four metro areas studied. As noted above, the lending community in the Houston metro area was not focused on CRA obligations during the mid- to late-'80s, and early '90s. Until the creation of a ward-specific community development corporation, the activities of a national community development intermediary,[50] and the later expansion of the faith-based and neighborhood-based CDC community, there was little CDC capacity or activity in the area. To date, no organization has attempted to negotiate a commitment or formal agreement with a lender in the area. Instead, Houston lenders organized a coalition of their own, which has worked to develop homeownership counseling and downpayment assistance programs, and meets regularly with local CDCs to discuss specific projects and operational issues.

Political Leadership

Civic leadership on the issue of community reinvestment likewise varies widely among the four metro areas. All four cities have funded flexible or forgiveable second mortgages ("soft seconds") and downpayment assistance programs. In all four cases, city and state and federal funds, for example CDBG funds, are frequently key ingredients in complex multifamily housing and economic development projects.

While Houston does not directly fund homeownership counseling efforts, its downpayment assistance program requires that participants complete a counseling course. These courses are organized by a range of non-profits with a variety of funding sources. Houston's downpayment assistance program today assists primarily non-white families to finance homes outside the inner city. Over 60 financial institutions and mortgage companies are on the city-approved list, and information from August, 2000 suggests that a wide range of both types of firms participate in the effort. The city also put in place programs that complement CRA activities on the part of lenders.

City leadership played a visible role in Denver, as well. In 1993, the city initiated an innovative contracting effort for city banking services that established bank commitments to community reinvestment lending in the city as a criteria for a contract award. While winning

[50] Gill, Dee, "Another Chance/Law changes push lenders toward renovation projects," *Houston Chronicle*, May 13, 1990, p. A1.

banks quickly exceeded the goals that were established, this effort clearly signaled the lending community that city leadership was focused on bank community lending efforts.

Civic Culture

The involvement of local and state governments can be an important factor in contributing to or detracting from the success of CRA. Massachusetts is among the most active states in advancing community lending policy and practice at the state level. Two years ago, the state instituted "insurance CRA," which requires both property and casualty, and life insurance firms to contribute 1 percent of pre-tax profits to a community lending fund. More recently, the Legislature has considered a proposal that would apply the state-level CRA law to mortgage companies as well.

Many interviewees also cited the civic *culture* of a metro area in describing the evolution of community lending in it. They noted that Boston has a centuries-old expectation that its business leaders will give both funding and political muscle to high-priority city initiatives. Observers attributed the financial industry's productive reaction to the highly critical Boston Fed study in the early 1990s. Likewise, more than one Houston observer thought that the approach to CRA there was based on Houston's collaborative culture rather than conflict-ridden culture, which, for instance left it unscathed by the race riots in the 1950s and 1960s that hit Dallas so hard. "In many ways, Houston is a company town to the oil and gas industry," said one lender. "In the old days when the industry needed something, the city fathers would go behind closed doors and get it done. That 'we-can-handle-this-ourselves' approach operates to this day."

Regulatory Expectations

Although economic and cultural factors may vary across different metro areas, federal and state regulators do not appear to expect or demand different CRA performance of one area from another.[51] In all four communities, portions of the regulatory community were quite active in the community lending arena, co-sponsoring community lending conferences, or meeting with banking organizations about interpretation of new regulations.

At the same time, interviewees felt that the regulators' CRA ratings, and the attendant costs and benefits of those ratings, clearly affect community lending performance. More than one lender in the interviews mentioned that the provision of the new FMA banning expanded powers for firms with "Less Than Satisfactory" ratings has led their firms to focus much more management attention on CRA. Several firms indicated that this provision led them to seek "Outstanding" rather than "Satisfactory" ratings, just in case they miss the mark. And one Boston lender mentioned that his firm's rating went from "Outstanding" to "Satisfactory" after the implementation of the 1995 regulatory changes, a downgrade that shocked the management into taking aggressive action to regain a top ranking.

---

[51] Interviewees did mention, from time to time, slight differences among regulatory agencies' interpretation of the regulations, and different emphases over time. One lender interviewed mentioned that examiners include references to areas of work that need improvement *within* one of the four lending tests used by regulators for the CRA exams, and that the firm incorporates that feedback into the next year's workplan.

In communities with advocacy groups focused on banking services and products, such as Boston and Detroit, institutions frequently pledge to increase their performance beyond the *status quo* in advance of a potential review of an application. Some institutions also stated that they would elevate their level of CRA activity in response to a formal comment on an application.[52] Several interviewees said that the FMA provision, which requires institutions intending to pursue expanded powers have a minimum of a "Satisfactory" rating, has had the effect of raising the bar for CRA performance at their institutions. They reported that in order to ensure that their institutions retain a "Satisfactory" rating – and thus the flexibility to pursue expanded powers in the future – they seek to achieve an "Outstanding" rating, which ultimately results in improvements in the institutions' overall level of performance.

Media and Academics Play an Important Role

Media accounts of lending disparities have played a key role in the evolution of CRA activity in three of the four metro areas examined. In large part, these activities have drawn on the widely publicized analysis of fair lending issues in a national publication, which helped reframe mortgage lending to minorities and other disadvantaged groups nationwide. In three of the four metro areas studied in this report, local journalists reported routinely covering the annual release of HMDA data (and the release of reports written by national organizations that include city-level HMDA data), and helping to publicize apparent disparities among lending to borrowers of different races that emerge from this data.[53]

As already noted, a series of newspaper articles in a Detroit newspaper about lending discrimination in the city catalyzed major new activity around community reinvestment lending there in 1988. Press coverage of community lending issues continues in Detroit on a much more sporadic basis. In 1999, for instance, a series of articles was published on racial disparities in lending, particularly among higher income blacks.[54]

In Boston, researchers at the Federal Reserve Bank of Boston contributed greatly to the local and nationwide debates about fair lending and community reinvestment when releasing "Mortgage Lending in Boston: Interpreting HMDA Data." In recent years, a report by the Massachusetts Affordable Housing Coalition, which tracks the percentage of lenders receiving "Outstanding" ratings compared to past years has generated an annual media story. Likewise, a report by University of Massachusetts Professor Jim Campen commissioned by the Massachusetts Community and Banking Council offers detailed racial and geographic analysis of HMDA data for the City of Boston and its surrounding towns for both banks and mortgage companies.[55] Since regulators began requiring the disclosure of small business lending data in

---

[52] A Boston contact felt these commitments were easier to secure when banks already in the region—rather than from outside the region—acquired a local lender. These local lenders understand the market, know the negotiators, and have a personal commitment to community lending in the area, while those from outside the region might not.

[53] See, for instance, "Minorities Denied Home Loans, ACORN Says," Jenalia Moreno, *Houston Chronicle*, Sept. 29, 2000, p. Business 2.

[54] T*he Detroit News*, "The Race Gap in Lending," February 7, 1999.

[55] *Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston, 1990-1998*, Massachusetts Community and Banking Council, Boston, December, 1999. A staffer at one Houston bank reported that when hired specifically to improve his firm's CRA rating, he mounted a similar detailed internal competitive analysis to inform his efforts.

1995, Campen has completed a comparable report on small business for the Council, which is comprised of bankers and community representatives.[56]

Houston interviewees reported that there were no locally-based researchers examining data at the metro level to inform local debate. However, Consumers Union issues regular reports at the state level (some of which include city-level data) on lending practices, and the Houston press generally picks up these stories.

The Bulk of CRA Lending: Central Cities and Suburbs

Although, by definition, CRA loans include those made to households of low-and moderate-income, according to the HMDA data, the majority of loans to LMI households by CRA-covered lenders within each metro area financed housing outside central cities. This is consistent with the fact that housing growth is greatest outside the city core as well. Nationally, 37 percent of loans to LMI households by CRA-covered lenders within metro areas financed homes within central cities. Among our four case study cities, the figures ranged between 19 percent of loans in Detroit and 46 percent in Houston (down from 53 percent in ’93 and ’94).[57] In Houston, 90% of city-funded downpayment assistance grants assisted in the purchase of homes outside “the Loop.”[58] In the Boston metro area, approximately one-fifth of all HMDA-reported loans by CRA-covered and non-covered institutions to LMI households financed property in the city of Boston in 1995, gradually declining to one-sixth of all loans by 1998.[59]

According to a close observer of housing trends in Detroit, many LMI homebuyers living in the city buy homes in inner-ring suburbs because they can’t find the type of home they seek in the city. The city of Detroit lacks homes with the specific features that the many young families in Detroit are seeking: newly constructed housing (not older or rehabilitated homes), with attached garages (to prevent car theft or damages). Interestingly, many inner-ring suburbs have achieved a high degree of racial integration not found in the city or outer-ring suburbs.[60]

Relationships Among The Various Participants

A common factor across all metro areas examined was the generally productive and collaborative relationship among the vast majority of those working on CRA issues. In each case, participants in our interviews could describe conflicts and heated negotiations that had occurred between parties. And in each case, there remains at least one entity or personality wholly unsatisfied with the performance of lenders. Nonetheless, the various participants involved seem to have developed a trust over time that has allowed them to transcend past animosities to develop effective, institutional working relationships.

---

[56] *Patterns of Small Business Lending in Greater Boston*, Jim Campen, Department of Economics and Mauricio Gaston Institute for Latino Community Development and Public Policy, University of Massachusetts, Massachusetts Community and Banking Council, June 2000.
[57] Data from the Joint Center for Housing Studies, Harvard University.
[58] Personal communication, Marshall Tyndall, LISC-Houston, September, 2000.
[59] Campen, Table 22-A.
[60] Personal Communication with David Dworkin, Fannie Mae Partnership Office Director, September 14, 2000.

In the case of Boston, that collaborative tradition succeeds a much more combative relationship between lenders and community advocates. In Houston, the relationship has been much more collaborative from the beginning of serious commitment to CRA in that market. The collaborative spirit in Denver is represented by a new consortium of lenders, foundations, the city government and non-profits that was recently created to help address the growing local affordability crisis. Even in Detroit, where a longstanding advocacy coalition aggressively negotiates performance agreements with area lenders, lenders and advocates each seemed to fully understand their institutional roles. For example, that coalition has on occasion supported Detroit lenders in contentious merger applications opposed by other community-based organizations.

However, it is important to note that several lenders argued that the Sunshine provision in the FMA could serve as a wedge between lenders and their community lending colleagues, potentially eroding this hard-won trust. They felt that the requirement to disclose agreements among lenders and others will require additional paperwork and monitoring of conversations in far-flung field networks.

The character of the relationships reviewed here appears to stand on several factors:

- First, in all four markets, those working on CRA have been in the field in some capacity for some time, a natural development as the community lending field has defined itself and matured. In many cases, these staff have worked together in the same market for long periods.

- Second, in two of the four markets, there has been significant shifting of roles over the years, with lenders moving to the CDC or community organization side, and advocates and CDC staff moving to the lender side. Over time, the cultural and substantive interests and capacities of these players have converged substantially, reducing conflicts and misunderstanding, and increasing the analysis of true risk on all sides.

- Third, contacts in two of the four cities mentioned that lenders formed consortia in the early years of the CRA to consider deals. Over time, however, these consortia were bypassed, and were eventually dissolved, due to increased capacity and better information regarding project risks on the developer and lender sides.

- Fourth, a substantial portion of CRA lending activity is now generated out of mainstream bank business practices rather than special CRA programs. Special CRA activity – special affordable housing products and marketing, targeted small business outreach to minority businesses, complex financing of multifamily housing and other community development activity – supplements these mainstream business activities.

- Fifth, the CRA portfolio is now considered a profit center, no worse than some other, or a fact of life, but neither an optional line of business *nor* an obligation to be lobbied against. In contrast to the climate in the CRA's earlier years, the question seems not to be "if?" the law will be in place next year but rather "how?" to meet the CRA's requirements.

In all four metro areas lenders and CDC directors report that there is no lack of credit for community lending: creditworthy deals are funded, and those with problems are left on the table. One experienced community development professional in Denver expressed concern that CDCs had become too comfortable in their relationships with banks, and that the absence of a tougher advocacy presence relieved the banks of pressure to raise their community lending performance. At the same time, a number of CDCs bemoaned the tight underwriting standards used and lenders' unwillingness to take on more risk in financing community development deals.

But there is no easy and replicable way to determine the real size of these markets and the appropriate level of risk for lenders to take on. Are there no more creditworthy deals out there? Or is the community lending network simply handling all the deals brought to the table by those sitting around the table? In fact, lenders and community organizations (including CDCs) appear to have developed a symbiotic relationship in some of these markets.

Homeownership Counseling

As noted earlier, lenders have supported homeownership counseling efforts of home-grown organizations and national agencies operating in their markets. In Houston, lenders often provide organizational funds for these services, either on a grant basis or on a renewable contract basis, and in some markets, pay fees for hard-to-close loans. Because these agencies are involved up-front in the counseling phase with individual borrowers, portfolio managers sometimes go back to them for servicing assistance if the loan is delinquent later, and rely on the social services connections these agencies have for support in work-outs.

Lenders supporting the counseling efforts often receive significant shares of the ultimate mortgage business, but there is usually not a direct link between the counseling agency and the lender to those counseled. Among borrowers who received counseling and support from the city of Houston's downpayment assistance program, the lender is chosen by the borrower from among a list of 60.

In Boston, the top ten mortgage lenders forego the city's soft-second program, however, and prefer to work with national non-profits with counseling efforts in many cities, or they avoid the paperwork of these complex financing deals altogether. Some non-profit staff interviewed lamented the trend some see in which nationwide lenders are working through nationwide intermediaries rather than tailoring products that fit the needs and resources in each local market.

In Boston, the CDC community also has provided integral market research for lenders by identifying new markets and developing and prototyping new products and services. For instance, in the early '90s, lenders and community advocates both focused on first-time homebuyers, and urged the creation of the 5 percent-down payment program managed by the state. In recent years, there has been little innovation in the SFH market. Recognizing that debt capital is more available now for MFH and small business deals, and equity capital is more difficult to secure, a Massachusetts association of CDCs included $38 million in commitments for equity capital in its most recent multi-lender agreement.[61] In the past, such commitments

[61] *Summary of 1999-2000 MACDC Community Reinvestment Agreements*, mimeo, undated.

have translated into research and prototyping efforts, the closing of several deals, careful monitoring of the portfolio so that good risk data can be developed, and then standardization and expansion over time. Again, the symbiotic relationship translates into CRA performance for both the lenders and the community.

Conclusions

While Boston, Denver, Detroit, and Houston were selected for study based on their apparent diversity, we found through the interview process that these cities and their traditions regarding community reinvestment activity are both more similar, and more diverse than anticipated. For instance, Boston, Denver and Houston all emerged from serious economic setbacks in the early 90s, and their housing prices were more affordable than they had been in years. In Detroit, already-affordable home prices were matched by strengthening incomes during the period. All four markets saw significant consolidation within the financial services industry during this time. Nevertheless, the roles, structure and operation of lenders, city officials, regulators, the private sector, advocates and CDCs varied substantially among the four cities. Yet each produced strong CRA lending performance during the period.

Several factors appear to have influenced CRA lending patterns in these four cities, some of which are beyond the control of those operating within them and some of which might be replicable.

Factors Subject to Market Forces

The housing price/income ratio. When housing is more affordable, either because of lower housing prices or higher incomes, it appeared easier in these four cities to provide homeownership opportunity to LMI households.

Market-driven consolidation in the financial services industry. Especially when combined with regulatory pressures to perform well in advance of merger approvals, consolidation appears to offer new opportunities for improved performance in mortgage, small business and community development areas.

Factors That Can Drive the Activity of Local Lenders, Advocates, CDCs and Others

The presence of CDCs and/or lending advocates. The strength of banking services advocates and CDC infrastructure in the four metro areas varied. Some operated combatively and some operated in a more collaborative manner. But in each case, the non-profit community was instrumental in at least one function—in making performance demands during the merger process, in bringing small business or community development deals to the lending community, in suggesting new products needed to meet niche needs, or in organizing downpayment assistance and credit counseling efforts. In each metro area, the non-profit sector enabled the community reinvestment system to function more effectively.

The capacity of staff within the lender community. At present, staff in all four cities are quite seasoned and strong, and at the metro level, they cover the range of niches community lending requires. For instance, in Houston, not every lender was deeply experienced in construction lending or small business lending or multi-family housing lending, but at least one lender *did* cover that niche very effectively.

Capacity or leadership at the city level. Some of the four cities had strong leadership on community lending issues but weaker programmatic capacity, while others had very effective city programs in place to support community lending strategies and deals, but the issue was not at the top of the civic agenda. Either way, the hard value of resources brought to the table by city government was significant.

Strategies to overcome homeownership barriers, including credit problems and downpayment shortfall. In all four cities, credit counseling and downpayment assistance programs, whether funded by lenders, by cities or by other means, constitute a meaningful portion of total lending to LMI households. In the City of Boston, between 1994 and 1998, just over 30% of all HMDA-reported loans to LMI households received assistance from a program addressing credit or downpayment issues.[62]

The character of the relationship among lenders, city officials, advocates, CDC leadership and regulators. In three of the cities the relationship among the various participants is productively collaborative, with organized productive councils with diverse representation to discuss, plan and address community lending issues.

Based on our four case studies, it appears that the CRA and its implementation have become an institutionalized facet of the financial and community development landscape. Far from a top-down regulation implemented in a cookie-cutter manner, the case studies suggest that the CRA produces results through a wide variety of means. Over the years, those working in the field in various roles have matured, just as the business itself has evolved and matured, and to good effect: nationwide figures for 1999 suggest that lending performance to LMI households and areas is stronger than ever.

[62] Campen, *Mortgage Lending*, Table 13.

Chapter VI
Conclusion

The FMA extended the activity authority of financial institutions, while also reaffirming the importance of compliance with the CRA and adding new disclosure and reporting requirements related to it.

Although it is too early to draw definitive conclusions as to how financial institutions are likely to treat their CRA obligations in the wake of the FMA, the interview evidence offered here suggests that CRA performance either will not change, or perhaps improve at some institutions. Furthermore, while the new reporting and disclosure provisions will increase costs at financial institutions, there is no evidence yet suggesting that these requirements will adversely affect the institutions' commitment to CRA activity.

The report also supplements evidence provided in the *Baseline Report* that CRA has contributed to the increased level of CRA lending – specifically home mortgage lending – since 1993. Institutions covered by the CRA have increased their CRA lending at a faster pace than institutions not covered by the Act. Statistical analysis, which controls for the influence of income, demographic and other factors unique to particular metropolitan areas, suggests that CRA has had an independent, statistically significant positive effect on CRA lending. Detailed interviews of knowledgeable individuals in four metropolitan areas provide further supportive evidence of the role played by the CRAS in those communities.

In short, CRA has been important in encouraging financial institutions to lend to CRA-eligible borrowers – those with LMI and to borrowers generally in LMI areas. There is no evidence so far that this conclusion will be changed by the FMA. We do recommend that a follow-up study be conduced in five years.

Appendix A

National and MSA level CRA Lender and Affiliate Performance Statistics

Exhibit A-1 Home Purchase Loan Performance Measures for All Lenders

Product Type	Statistic	1993	1994	1995	1996	1997	1998	1999
All Products	Growth Index for CRA-Eligible Lending	100	114	114	136	144	169	191
	Share of Originated Loans which are CRA – Eligible	30.8%	31.8%	32.3%	33.5%	34.0%	34.6%	36.4%
	Share of CRA-Eligible Market	100%	100%	100%	100%	100%	100%	100%
Prime Loans	Growth Index for CRA-Eligible Lending	100	113	109	128	134	151	169
	Share of Originated Loans which are CRA – Eligible	30.4	31.2	31.3	32.2	32.6	32.9	34.5
	Share of CRA-Eligible Market	97%	95%	93%	91%	90%	87%	85%
Other Loans	Growth Index for CRA-Eligible Lending	100	165	248	369	445	712	868
	Share of Originated Loans which are CRA – Eligible	52.9%	50.3%	53.5%	56.8%	54.5%	51.7%	55.1%
	Share of CRA-Eligible Market	3%	5%	7%	9%	10%	13%	15%

Exhibit A-2 Home Purchase Loan Performance Measures for CRA Lenders

Product Type	Statistic	1993	1994	1995	1996	1997	1998	1999
All Products	Growth Index for CRA-Eligible Lending	100	117	117	138	144	162	194
	Share of Originated Loans which are CRA –Eligible	31.5%	31.6%	31.4%	31.7%	31.8%	32.5%	35.0%
	Share of CRA-Eligible Market	62%	64%	64%	63%	62%	60%	63%
Prime Loans	Growth Index for CRA-Eligible Lending	100	117	116	137	143	158	181
	Share of Originated Loans which are CRA –Eligible	31.5	31.5	31.2	31.6	31.7	32.2	34.2
	Share of CRA-Eligible Market	62%	63%	64%	62%	62%	58%	59%
Other Loans	Growth Index for CRA-Eligible Lending	100	220	347	466	513	1,466	3,975
	Share of Originated Loans which are CRA –Eligible	48.8%	47.5%	50.0%	52.3%	48.6%	45.9%	51.0%
	Share of CRA-Eligible Market	0%	0%	1%	1%	1%	2%	4%

Exhibit A-3 Home Purchase Loan Performance Measures for Non-CRA Lenders

Product Type	Statistic	1993	1994	1995	1996	1997	1998	1999
All Products	Growth Index for CRA-Eligible Lending	100	110	108	133	144	181	187
	Share of Originated Loans which are CRA –Eligible	29.7%	32.1%	34.0%	37.0%	38.3%	38.3%	39.3%
	Share of CRA-Eligible Market	38%	36%	36%	37%	38%	40%	37%
Prime Loans	Growth Index for CRA-Eligible Lending	100	106	96	113	119	140	147
	Share of Originated Loans which are CRA –Eligible	28.2	30.7	31.5	33.7	34.9	34.5	35.1
	Share of CRA-Eligible Market	35%	32%	29%	29%	29%	29%	27%
Other Loans	Growth Index for CRA-Eligible Lending	100	161	241	362	440	659	649
	Share of Originated Loans which are CRA –Eligible	53.2%	50.6%	53.9%	57.3%	55.1%	52.7%	57.2%
	Share of CRA-Eligible Market	3%	4%	6%	8%	9%	12%	10%

Exhibit A-4 Refinancing Loan Performance Measures for All Lenders

Product Type	Statistic	1993	1994	1995	1996	1997	1998	1999
All Products	Growth Index for CRA-Eligible Lending	100	55	38	66	76	156	128
	Share of Originated Loans which are CRA – Eligible	20.0 %	28.5%	30.3%	31.8%	33.4%	28.5%	35.8%
	Share of CRA-Eligible Market	100 %	100%	100%	100%	100%	100%	100%
Prime Resold Loans	Growth Index for CRA-Eligible Lending	100	50	32	56	56	123	91
	Share of Originated Loans which are CRA – Eligible	19.8	27.0	27.6	29.2	29.1	25.3	31.2
	Share of CRA-Eligible Market	98	89	82	82	72	77	70
Other Loans	Growth Index for CRA-Eligible Lending	100	336	387	649	1,174	1,960	2,108
	Share of Originated Loans which are CRA – Eligible	46.1 %	50.6%	53.6%	54.7%	53.6%	49.2%	54.5%
	Share of CRA-Eligible Market	2%	11%	18%	18%	28%	23%	30%

Exhibit A-5 Refinancing Loan Performance Measures for CRA Lenders

Product Type	Statistic	1993	1994	1995	1996	1997	1998	1999
All Products	Growth Index for CRA-Eligible Lending	100	54	35	63	64	151	126
	Share of Originated Loans which are CRA –Eligible	20.8%	28.3%	27.9%	29.0%	29.0%	26.2%	33.5%
	Share of CRA-Eligible Market	66%	64%	61%	62%	55%	64%	65%
Prime Loans	Growth Index for CRA-Eligible Lending	100	53	34	59	57	135	105
	Share of Originated Loans which are CRA –Eligible	20.7	27.9	27.2	28.2	27.6	24.7	31.1
	Share of CRA-Eligible Market	65%	63%	57%	58%	49%	57%	54%
Other Loans	Growth Index for CRA-Eligible Lending	100	195	265	586	923	2,299	2,878
	Share of Originated Loans which are CRA –Eligible	49.0%	49.5%	48.3%	48.8%	49.9%	48.9%	53.3%
	Share of CRA-Eligible Market	0%	2%	3%	4%	6%	7%	11%

Exhibit A-6 Refinancing Loan Performance Measures for Non-CRA Lenders

Product Type	Statistic	1993	1994	1995	1996	1997	1998	1999
All Products	Growth Index for CRA-Eligible Lending	100	58	45	73	100	166	132
	Share of Originated Loans which are CRA – Eligible	18.6%	28.8%	35.0%	37.9%	41.0%	33.7%	41.0%
	Share of CRA-Eligible Market	34%	36%	39%	38%	45%	36%	35%
Prime Loans	Growth Index for CRA-Eligible Lending	100	44	29	49	52	98	64
	Share of Originated Loans which are CRA – Eligible	18.1	25.0	28.6	31.9	32.9	27.1	31.6
	Share of CRA-Eligible Market	33%	26%	24%	24%	22%	21%	16%
Other Loans	Growth Index for CRA-Eligible Lending	100	388	432	673	1,268	1,833	1,820
	Share of Originated Loans which are CRA – Eligible	45.2%	50.8%	55.0%	56.9%	54.7%	49.4%	55.3%
	Share of CRA-Eligible Market	1%	9%	15%	13%	22%	16%	19%

Exhibit A-7 MSA-Specific Performance Measures for CRA Lenders

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originate d Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Abilene, TX MSA	30%	58%	11.0%	18%	71%	19.5%
Akron, OH PMSA	32%	65%	1.9%	31%	65%	12.2%
Albany, GA MSA	31%	69%	9.9%	26%	64%	15.6%
Albany-Schenectady-Troy, NY MSA	31%	63%	7.3%	26%	64%	-3.6%
Albuquerque, NM MSA	34%	51%	15.3%	31%	48%	27.7%
Alexandria, LA MSA	25%	69%	10.2%	23%	61%	13.6%
Allentown-Bethlehem-Easton, PA MSA	33%	74%	5.6%	28%	75%	2.4%
Altoona, PA MSA	28%	80%	5.2%	21%	75%	17.3%
Amarillo, TX MSA	27%	59%	7.0%	18%	71%	12.0%
Anchorage, AK MSA	36%	32%	-0.8%	25%	53%	-9.0%
Ann Arbor, MI PMSA	37%	67%	12.5%	33%	73%	12.5%
Anniston, AL MSA	30%	66%	7.2%	23%	73%	11.6%
Appleton-Oshkosh-Neenah, WI MSA	30%	77%	1.9%	24%	74%	7.3%
Asheville, NC MSA	29%	51%	3.3%	26%	59%	12.5%
Athens, GA MSA	29%	72%	18.0%	25%	74%	25.1%
Atlanta, GA MSA	37%	60%	24.0%	33%	61%	14.8%
Atlantic-Cape May, NJ PMSA	25%	66%	16.1%	22%	67%	6.4%
Augusta-Aiken, GA-SC MSA	35%	70%	14.6%	28%	74%	11.3%
Austin-San Marcos, TX MSA	27%	43%	15.7%	21%	56%	18.0%
Bakersfield, CA MSA	31%	30%	16.5%	30%	50%	-0.9%
Baltimore, MD PMSA	37%	65%	10.4%	27%	63%	6.9%
Bangor, ME NECMA	39%	73%	22.3%	31%	73%	22.5%
Baton Rouge, LA MSA	34%	66%	13.5%	23%	58%	13.3%
Beaumont-Port Arthur, TX MSA	27%	54%	16.0%	18%	57%	17.5%
Bellingham, WA MSA	30%	81%	9.5%	28%	73%	3.3%
Benton Harbor, MI MSA	29%	71%	2.2%	24%	65%	10.0%
Bergen-Passaic, NJ PMSA	25%	62%	16.1%	21%	65%	8.2%
Billings, MT MSA	37%	52%	4.1%	28%	56%	12.8%
Biloxi-Gulfport-Pascagoula, MS MSA	24%	66%	11.9%	22%	66%	10.7%
Binghamton, NY MSA	37%	69%	15.2%	27%	62%	1.4%
Birmingham, AL MSA	30%	59%	11.5%	24%	59%	13.7%
Bismarck, ND MSA	31%	80%	8.0%	18%	78%	12.3%
Bloomington, IN MSA	40%	77%	0.7%	33%	72%	8.2%
Bloomington-Normal, IL MSA	46%	87%	10.8%	34%	87%	5.3%
Boise City, ID MSA	39%	67%	22.9%	31%	61%	28.1%
Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH NECMA	35%	77%	9.7%	26%	69%	6.9%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	Share of Originated Loans which are CRA – Eligible	Share of CRA-Eligible Market	Average Annual Growth Rate for CRA – Eligible Lending	Share of Originated Loans which are CRA – Eligible	Share of CRA-Eligible Market	Average Annual Growth Rate for CRA – Eligible Lending
Boulder-Longmont, CO PMSA	35%	53%	12.1%	31%	61%	15.0%
Brazoria, TX PMSA	30%	47%	16.9%	20%	45%	8.4%
Bremerton, WA PMSA	26%	59%	6.9%	22%	61%	4.7%
Brownsville-Harlingen-San Benito, TX MSA	19%	62%	13.7%	12%	58%	9.2%
Bryan-College Station, TX MSA	22%	58%	8.6%	13%	68%	0.6%
Buffalo-Niagara Falls, NY MSA	31%	71%	5.4%	21%	62%	2.5%
Burlington, VT NECMA	40%	78%	0.7%	32%	78%	2.4%
Canton-Massillon, OH MSA	36%	72%	5.8%	32%	67%	15.8%
Casper, WY MSA	41%	60%	-0.1%	26%	59%	7.9%
Cedar Rapids, IA MSA	36%	53%	12.3%	28%	60%	13.9%
Champaign-Urbana, IL MSA	36%	84%	1.5%	26%	86%	1.6%
Charleston, WV MSA	29%	67%	8.3%	25%	75%	16.4%
Charleston-North Charleston, SC MSA	26%	62%	14.3%	23%	65%	9.8%
Charlotte-Gastonia-Rock Hill, NC-SC MSA	32%	59%	13.3%	29%	61%	11.0%
Charlottesville, VA MSA	36%	68%	9.0%	34%	76%	4.5%
Chattanooga, TN-GA MSA	29%	54%	12.8%	29%	62%	8.5%
Cheyenne, WY MSA	45%	62%	-0.3%	34%	55%	22.7%
Chicago, IL PMSA	35%	66%	13.1%	29%	68%	9.7%
Chico-Paradise, CA MSA	22%	55%	12.6%	22%	68%	1.4%
Cincinnati, OH-KY-IN PMSA	37%	73%	4.1%	31%	76%	12.2%
Clarksville-Hopkinsville, TN-KY MSA	25%	75%	4.3%	20%	78%	14.0%
Cleveland-Lorain-Elyria, OH PMSA	35%	67%	5.5%	30%	64%	10.2%
Colorado Springs, CO MSA	34%	53%	3.6%	28%	46%	22.1%
Columbia, MO MSA	39%	78%	-0.1%	25%	84%	9.0%
Columbia, SC MSA	39%	53%	13.1%	31%	55%	7.9%
Columbus, GA-AL MSA	29%	59%	11.6%	29%	68%	21.3%
Columbus, OH MSA	35%	64%	5.1%	30%	67%	10.7%
Corpus Christi, TX MSA	24%	47%	5.8%	19%	53%	13.1%
Cumberland, MD-WV MSA	29%	77%	5.1%	25%	65%	15.0%
Dallas, TX PMSA	29%	50%	18.4%	22%	58%	11.9%
Danville, VA MSA	37%	67%	9.0%	31%	73%	16.8%
Davenport-Moline-Rock Island, IA-IL MSA	37%	72%	-1.9%	27%	73%	5.3%
Daytona Beach, FL MSA	31%	70%	16.5%	31%	71%	14.9%
Dayton-Springfield, OH MSA	38%	79%	4.6%	32%	67%	9.2%
Decatur, AL MSA	37%	58%	9.6%	29%	62%	23.5%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Decatur, IL MSA	37%	88%	8.1%	23%	67%	0.9%
Denver, CO PMSA	40%	44%	10.2%	35%	54%	21.2%
Des Moines, IA MSA	38%	58%	14.7%	30%	65%	18.6%
Detroit, MI PMSA	35%	57%	10.4%	29%	55%	10.3%
Dothan, AL MSA	28%	57%	8.1%	21%	74%	5.4%
Dubuque, IA MSA	34%	69%	-2.8%	25%	71%	4.4%
Duluth-Superior, MN-WI MSA	40%	83%	7.8%	28%	78%	17.4%
Dutchess, NY PMSA	32%	69%	9.7%	27%	57%	-7.7%
Eau Claire, WI MSA	30%	76%	0.7%	24%	76%	10.6%
El Paso, TX MSA	23%	44%	14.1%	17%	42%	31.7%
Elkhart-Goshen, IN MSA	40%	68%	8.1%	29%	65%	7.7%
Elmira, NY MSA	30%	79%	10.2%	20%	62%	6.8%
Enid, OK MSA	35%	93%	11.7%	25%	74%	19.0%
Erie, PA MSA	29%	72%	3.7%	20%	73%	8.5%
Eugene-Springfield, OR MSA	27%	73%	2.5%	25%	65%	11.5%
Evansville-Henderson, IN-KY MSA	35%	76%	2.4%	31%	62%	2.3%
Fargo-Moorhead, ND-MN MSA	39%	85%	4.5%	22%	83%	1.2%
Fayetteville, NC MSA	27%	54%	-8.5%	22%	51%	8.0%
Fayetteville-Springdale-Rogers, AR MSA	27%	85%	27.5%	21%	85%	36.4%
Flint, MI PMSA	40%	57%	11.9%	28%	50%	13.4%
Florence, AL MSA	32%	76%	5.6%	21%	75%	17.1%
Florence, SC MSA	36%	57%	12.5%	31%	65%	10.4%
Fort Collins-Loveland, CO MSA	33%	53%	6.7%	30%	59%	14.7%
Fort Lauderdale, FL PMSA	32%	62%	15.6%	30%	64%	11.8%
Fort Myers-Cape Coral, FL MSA	27%	72%	14.2%	28%	74%	7.0%
Fort Pierce-Port St. Lucie, FL MSA	31%	69%	14.7%	31%	80%	6.6%
Fort Smith, AR-OK MSA	26%	84%	3.8%	21%	83%	10.7%
Fort Walton Beach, FL MSA	27%	60%	2.7%	24%	64%	-1.2%
Fort Wayne, IN MSA	39%	73%	12.4%	33%	72%	14.2%
Fort Worth-Arlington, TX PMSA	33%	49%	18.6%	21%	58%	11.3%
Fresno, CA MSA	25%	36%	9.3%	24%	52%	-5.7%
Gadsden, AL MSA	28%	65%	7.8%	19%	56%	16.5%
Gainesville, FL MSA	36%	74%	11.3%	31%	67%	16.1%
Galveston-Texas City, TX PMSA	32%	58%	16.2%	23%	57%	7.3%
Gary, IN PMSA	30%	56%	7.2%	27%	59%	11.5%
Glens Falls, NY MSA	25%	71%	7.0%	18%	66%	4.6%
Grand Forks, ND-MN MSA	28%	84%	9.6%	19%	89%	5.7%
Grand Rapids-Muskegon-Holland, MI MSA	38%	63%	11.1%	30%	69%	7.5%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Great Falls, MT MSA	33%	83%	1.6%	24%	68%	10.1%
Greeley, CO PMSA	35%	54%	17.3%	30%	60%	23.2%
Green Bay, WI MSA	36%	81%	5.0%	28%	80%	9.4%
Greensboro--Winston-Salem--High Point, NC MSA	34%	59%	8.2%	29%	65%	8.1%
Greenville-Spartanburg-Anderson, SC MSA	32%	61%	8.5%	27%	68%	12.1%
Hagerstown, MD PMSA	32%	85%	11.5%	25%	78%	13.5%
Hamilton-Middletown, OH PMSA	38%	70%	3.4%	31%	72%	9.3%
Harrisburg-Lebanon-Carlisle, PA MSA	34%	72%	2.8%	27%	67%	3.9%
Hartford, CT NECMA	34%	70%	10.8%	23%	68%	-0.3%
Hickory-Morganton-Lenoir, NC MSA	33%	60%	17.8%	28%	64%	25.8%
Honolulu, HI MSA	28%	68%	14.4%	25%	63%	-4.8%
Houma, LA MSA	20%	74%	14.0%	16%	77%	18.6%
Houston, TX PMSA	31%	49%	19.8%	19%	55%	14.2%
Huntington-Ashland, WV-KY-OH MSA	29%	67%	6.6%	25%	81%	8.2%
Huntsville, AL MSA	38%	64%	10.6%	29%	68%	6.6%
Indianapolis, IN MSA	36%	71%	7.2%	30%	59%	12.1%
Iowa City, IA MSA	39%	74%	9.2%	26%	71%	0.1%
Jackson, MI MSA	32%	65%	12.8%	24%	64%	16.7%
Jackson, MS MSA	30%	61%	15.3%	24%	67%	4.9%
Jackson, TN MSA	26%	77%	11.4%	21%	69%	13.4%
Jacksonville, FL MSA	32%	62%	9.2%	31%	53%	15.5%
Jacksonville, NC MSA	20%	50%	-0.8%	13%	55%	8.9%
Jamestown, NY MSA	28%	79%	5.9%	18%	61%	7.9%
Janesville-Beloit, WI MSA	37%	84%	3.0%	29%	77%	17.6%
Jersey City, NJ PMSA	20%	65%	20.6%	18%	60%	17.1%
Johnson City-Kingsport-Bristol, TN-VA MSA	34%	65%	9.1%	34%	80%	10.0%
Johnstown, PA MSA	19%	78%	0.9%	15%	74%	9.5%
Joplin, MO MSA	31%	72%	16.4%	24%	76%	30.0%
Kalamazoo-Battle Creek, MI MSA	35%	73%	7.9%	31%	68%	12.5%
Kankakee, IL PMSA	30%	77%	5.7%	25%	70%	9.3%
Kansas City, MO-KS MSA	35%	63%	14.3%	30%	60%	14.4%
Kenosha, WI PMSA	25%	51%	5.6%	26%	67%	0.9%
Killeen-Temple, TX MSA	24%	62%	10.9%	20%	67%	28.5%
Knoxville, TN MSA	31%	47%	17.4%	31%	63%	17.0%
Kokomo, IN MSA	43%	83%	3.2%	38%	68%	7.6%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
La Crosse, WI-MN MSA	31%	80%	2.3%	24%	80%	6.7%
Lafayette, IN MSA	32%	85%	2.7%	26%	80%	4.3%
Lafayette, LA MSA	31%	71%	30.4%	31%	77%	31.0%
Lake Charles, LA MSA	27%	63%	13.6%	20%	61%	17.0%
Lakeland-Winter Haven, FL MSA	30%	65%	14.3%	30%	70%	11.6%
Lancaster, PA MSA	33%	78%	7.7%	24%	79%	-4.3%
Lansing-East Lansing, MI MSA	36%	66%	10.7%	26%	59%	3.7%
Laredo, TX MSA	33%	43%	15.2%	20%	69%	17.6%
Las Cruces, NM MSA	30%	53%	8.9%	27%	69%	20.0%
Las Vegas, NV-AZ MSA	28%	47%	34.5%	23%	50%	19.2%
Lawrence, KS MSA	30%	71%	4.0%	24%	78%	10.3%
Lawton, OK MSA	30%	75%	3.4%	25%	46%	12.3%
Lewiston-Auburn, ME NECMA	30%	49%	5.2%	18%	45%	2.6%
Lexington, KY MSA	31%	74%	7.0%	29%	78%	7.0%
Lima, OH MSA	32%	81%	4.7%	25%	74%	7.6%
Lincoln, NE MSA	41%	81%	11.5%	29%	82%	8.2%
Little Rock-North Little Rock, AR MSA	33%	72%	7.0%	26%	74%	2.5%
Longview-Marshall, TX MSA	30%	63%	12.1%	19%	74%	18.9%
Los Angeles-Long Beach, CA PMSA	23%	51%	18.2%	24%	54%	-5.0%
Louisville, KY-IN MSA	36%	74%	5.7%	31%	71%	13.9%
Lubbock, TX MSA	24%	59%	15.6%	17%	67%	11.2%
Lynchburg, VA MSA	29%	70%	20.8%	25%	77%	26.3%
Macon, GA MSA	32%	69%	10.4%	27%	69%	11.7%
Madison, WI MSA	35%	85%	4.4%	30%	85%	4.5%
Mansfield, OH MSA	29%	71%	2.8%	29%	68%	10.0%
McAllen-Edinburg-Mission, TX MSA	25%	63%	16.7%	21%	71%	12.1%
Medford-Ashland, OR MSA	25%	68%	4.8%	23%	63%	8.0%
Melbourne-Titusville-Palm Bay, FL MSA	40%	62%	13.0%	38%	68%	9.9%
Memphis, TN-AR-MS MSA	32%	70%	13.7%	24%	53%	9.6%
Merced, CA MSA	20%	38%	4.9%	22%	58%	-9.2%
Miami, FL PMSA	26%	52%	12.3%	25%	53%	20.1%
Middlesex-Somerset-Hunterdon, NJ PMSA	35%	60%	13.5%	27%	63%	5.5%
Milwaukee-Waukesha, WI PMSA	29%	74%	3.7%	24%	75%	7.2%
Minneapolis-St. Paul, MN-WI MSA	42%	64%	7.5%	31%	69%	13.9%
Mobile, AL MSA	23%	63%	8.3%	19%	69%	16.6%
Modesto, CA MSA	30%	46%	3.5%	27%	55%	-12.7%
Monmouth-Ocean, NJ PMSA	35%	61%	14.3%	27%	64%	9.4%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originate d Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Monroe, LA MSA	26%	72%	2.4%	22%	69%	-4.8%
Montgomery, AL MSA	38%	57%	12.2%	27%	72%	9.1%
Muncie, IN MSA	32%	65%	2.9%	33%	55%	15.6%
Naples, FL MSA	26%	82%	21.1%	26%	77%	9.7%
Nashville, TN MSA	32%	61%	12.0%	30%	64%	14.2%
Nassau-Suffolk, NY PMSA	29%	57%	14.1%	28%	56%	2.1%
New Haven-Bridgeport-Stamford-Waterbury-Danbury, CT NECMA	28%	74%	14.7%	18%	70%	5.2%
New London-Norwich, CT NECMA	29%	66%	14.3%	22%	64%	4.2%
New Orleans, LA MSA	28%	59%	4.9%	23%	59%	13.4%
New York, NY PMSA	13%	63%	19.7%	12%	49%	4.4%
Newark, NJ PMSA	26%	58%	15.4%	21%	59%	11.2%
Newburgh, NY-PA PMSA	31%	72%	19.4%	30%	67%	18.0%
Norfolk-Virginia Beach-Newport News, VA-NC MSA	32%	63%	5.4%	27%	62%	3.4%
Oakland, CA PMSA	25%	59%	19.8%	24%	59%	-0.3%
Ocala, FL MSA	25%	65%	18.1%	29%	76%	15.3%
Odessa-Midland, TX MSA	26%	57%	11.8%	14%	68%	26.8%
Oklahoma City, OK MSA	37%	67%	10.1%	28%	57%	18.5%
Olympia, WA PMSA	22%	72%	2.1%	20%	65%	9.4%
Omaha, NE-IA MSA	37%	66%	10.9%	30%	70%	11.9%
Orange, CA PMSA	26%	51%	19.1%	26%	55%	0.6%
Orlando, FL MSA	36%	64%	23.5%	33%	66%	14.5%
Owensboro, KY MSA	32%	76%	2.3%	23%	79%	10.9%
Panama City, FL MSA	26%	69%	7.8%	22%	56%	15.8%
Parkersburg-Marietta, WV-OH MSA	34%	89%	5.7%	29%	82%	14.3%
Pensacola, FL MSA	28%	68%	10.4%	25%	60%	12.3%
Peoria-Pekin, IL MSA	40%	76%	3.1%	29%	67%	3.1%
Philadelphia, PA-NJ PMSA	34%	64%	11.7%	26%	59%	4.6%
Phoenix-Mesa, AZ MSA	35%	58%	15.8%	27%	60%	17.5%
Pine Bluff, AR MSA	31%	68%	2.0%	21%	56%	18.6%
Pittsburgh, PA MSA	32%	73%	2.8%	25%	63%	18.0%
Pittsfield, MA NECMA	30%	72%	10.6%	26%	69%	12.8%
Portland, ME NECMA	34%	74%	16.5%	24%	71%	18.5%
Portland-Vancouver, OR-WA PMSA	29%	68%	7.8%	27%	62%	18.4%
Providence-Warwick-Pawtucket, RI NECMA	32%	76%	5.2%	21%	59%	3.8%
Provo-Orem,UT MSA	28%	55%	8.7%	19%	54%	14.2%
Pueblo, CO MSA	36%	74%	6.2%	31%	58%	27.9%
Punta Gorda, FL MSA	23%	69%	40.0%	28%	74%	48.5%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originate d Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Racine, WI PMSA	28%	66%	0.5%	27%	74%	2.1%
Raleigh-Durham-Chapel Hill, NC MSA	36%	62%	14.1%	31%	63%	13.7%
Rapid City, SD MSA	40%	79%	1.1%	25%	65%	7.9%
Reading, PA MSA	32%	74%	5.7%	24%	77%	-4.0%
Redding, CA MSA	23%	54%	10.6%	20%	64%	-6.2%
Reno, NV MSA	36%	54%	17.8%	26%	58%	12.2%
Richland-Kennewick-Pasco, WA MSA	31%	62%	11.2%	27%	70%	14.6%
Richmond-Petersburg, VA MSA	37%	68%	7.5%	32%	69%	8.3%
Riverside-San Bernardino, CA PMSA	28%	36%	24.0%	27%	48%	-1.6%
Roanoke, VA MSA	40%	85%	5.8%	35%	74%	12.7%
Rochester, MN MSA	52%	73%	5.4%	35%	74%	6.3%
Rochester, NY MSA	38%	62%	7.0%	28%	59%	7.1%
Rockford, IL MSA	39%	77%	4.4%	31%	83%	4.5%
Sacramento, CA PMSA	30%	56%	12.6%	26%	57%	-6.6%
Saginaw-Bay City-Midland, MI MSA	38%	77%	5.0%	29%	60%	3.6%
Salem, OR PMSA	24%	76%	8.3%	21%	69%	17.1%
Salinas, CA MSA	22%	62%	11.5%	21%	65%	-4.9%
Salt Lake City-Ogden, UT MSA	39%	55%	5.3%	29%	50%	18.9%
San Angelo, TX MSA	29%	77%	10.9%	19%	75%	16.6%
San Antonio, TX MSA	26%	46%	6.7%	19%	50%	20.9%
San Diego, CA MSA	22%	49%	18.1%	22%	54%	1.1%
San Francisco, CA PMSA	23%	73%	15.7%	23%	65%	6.2%
San Jose, CA PMSA	27%	62%	20.6%	25%	58%	9.4%
San Luis Obispo-Atascadero-Paso Robles, CA MSA	17%	60%	59.0%	18%	67%	48.6%
Santa Barbara-Santa Maria-Lompoc, CA MSA	25%	57%	14.7%	23%	62%	2.6%
Santa Cruz-Watsonville, CA PMSA	22%	64%	13.7%	22%	66%	1.7%
Santa Fe, NM MSA	33%	58%	15.3%	30%	62%	19.4%
Santa Rosa, CA PMSA	20%	60%	18.8%	21%	58%	-3.1%
Sarasota-Bradenton, FL MSA	28%	75%	7.5%	30%	73%	3.6%
Savannah, GA MSA	28%	72%	16.6%	25%	65%	20.4%
Scranton--Wilkes-Barre--Hazleton, PA MSA	28%	78%	6.1%	24%	75%	13.0%
Seattle-Bellevue-Everett, WA PMSA	32%	62%	16.4%	29%	65%	9.3%
Sharon, PA MSA	27%	81%	-0.8%	22%	75%	16.0%
Sheboygan, WI MSA	32%	89%	6.6%	27%	91%	16.7%
Sherman-Denison, TX MSA	30%	54%	13.6%	24%	69%	15.7%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Shreveport-Bossier City, LA MSA	28%	62%	13.1%	24%	58%	16.7%
Sioux City, IA-NE MSA	35%	65%	7.2%	26%	68%	22.7%
Sioux Falls, SD MSA	40%	85%	7.5%	26%	83%	9.7%
South Bend, IN MSA	39%	70%	1.5%	33%	61%	10.4%
Spokane, WA MSA	33%	56%	8.7%	29%	56%	11.5%
Springfield, IL MSA	43%	88%	3.4%	28%	89%	10.6%
Springfield, MA NECMA	30%	73%	12.8%	19%	72%	-2.9%
Springfield, MO MSA	37%	75%	14.4%	31%	79%	27.7%
St. Cloud, MN MSA	33%	81%	0.6%	22%	79%	8.3%
St. Joseph, MO MSA	36%	86%	5.5%	31%	70%	14.7%
St. Louis, MO-IL MSA	38%	66%	7.6%	29%	62%	11.6%
State College, PA MSA	24%	87%	3.8%	21%	78%	5.5%
Steubenville-Weirton, OH-WV MSA	33%	82%	8.6%	24%	71%	14.9%
Stockton-Lodi, CA MSA	29%	52%	18.1%	27%	56%	-9.5%
Syracuse, NY MSA	31%	58%	1.3%	23%	63%	-3.0%
Tacoma, WA PMSA	24%	59%	12.2%	22%	57%	7.5%
Tallahassee, FL MSA	35%	67%	7.2%	32%	70%	7.1%
Tampa-St. Petersburg-Clearwater, FL MSA	36%	66%	14.5%	36%	65%	8.3%
Terre Haute, IN MSA	41%	89%	7.4%	40%	80%	30.4%
Texarkana, TX-Texarkana, AR MSA	24%	69%	6.3%	16%	74%	10.4%
Toledo, OH MSA	35%	78%	1.5%	26%	70%	5.7%
Topeka, KS MSA	40%	51%	4.6%	29%	71%	7.9%
Trenton, NJ PMSA	33%	60%	11.2%	23%	61%	2.9%
Tucson, AZ MSA	31%	49%	16.8%	28%	56%	15.1%
Tulsa, OK MSA	32%	55%	6.5%	27%	61%	13.3%
Tyler, TX MSA	23%	56%	11.0%	14%	73%	-4.5%
Utica-Rome, NY MSA	28%	68%	1.0%	21%	62%	-2.4%
Vallejo-Fairfield-Napa, CA PMSA	23%	53%	21.3%	23%	54%	-6.5%
Ventura, CA PMSA	31%	54%	16.6%	31%	57%	0.4%
Victoria, TX MSA	33%	65%	5.5%	21%	75%	1.7%
Vineland-Millville-Bridgeton, NJ PMSA	35%	59%	7.2%	26%	64%	10.3%
Visalia-Tulare-Porterville, CA MSA	30%	44%	4.0%	24%	59%	-3.8%
Waco, TX MSA	28%	57%	4.7%	17%	71%	3.7%
Washington, DC-MD-VA-WV PMSA	43%	67%	16.3%	33%	64%	3.5%
Waterloo-Cedar Falls, IA MSA	39%	51%	-4.1%	24%	49%	14.0%
Wausau, WI MSA	33%	88%	2.9%	26%	90%	7.9%
West Palm Beach-Boca Raton, FL MSA	34%	69%	15.9%	31%	70%	6.5%

	Home Purchase Loans			Refinancing Loans		
	1993-99	1993-99	1993-99	1993-99	1993-99	1993-98
MSA	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**	**Share of Originated Loans which are CRA – Eligible**	**Share of CRA-Eligible Market**	**Average Annual Growth Rate for CRA – Eligible Lending**
Wheeling, WV-OH MSA	25%	89%	6.6%	20%	77%	14.6%
Wichita Falls, TX MSA	27%	81%	5.7%	22%	76%	21.4%
Wichita, KS MSA	37%	78%	12.6%	26%	76%	5.6%
Williamsport, PA MSA	27%	91%	5.0%	21%	79%	6.4%
Wilmington, NC MSA	29%	63%	15.6%	29%	70%	21.4%
Wilmington-Newark, DE-MD PMSA	47%	75%	11.9%	36%	65%	3.8%
Yakima, WA MSA	29%	73%	2.8%	27%	66%	17.5%
Yolo, CA PMSA	28%	51%	10.2%	30%	54%	-4.1%
York, PA MSA	32%	81%	6.4%	24%	78%	5.5%
Youngstown-Warren, OH MSA	34%	79%	9.8%	29%	75%	23.8%
Yuba City, CA MSA	24%	55%	16.5%	24%	66%	-5.4%
Yuma, AZ MSA	32%	68%	21.6%	35%	64%	11.5%
Grand Total (Weighted Averages)	**32%**	**63%**	**11.6%**	**27%**	**63%**	**8.6%**

Appendix B
The Four Metro Areas

The four case study sites – Boston, Denver, Detroit, and Houston – illustrate different approaches to community reinvestment over the past decade. While all four metro areas achieved above average levels of mortgage lending to LMI borrowers and areas relative to their total amount of mortgage lending in 1998 according to the *Baseline Report*, these achievements resulted from unique combinations of market factors, demographics, local culture, traditions, character of relationships, and customer needs.

Below is a data matrix for the four selected metro areas, with a brief description of each metro area and its history of community development lending.

METRO AREA	HOMEOWNERSHIP RATE[63] 1999	HOMEOWNERSHIP OPPORTUNITY INDEX[64] (2Q2000)	PORTFOLIO SHARE TO LMI HOUSEHOLDS AND AREAS IN 1998[65]	POVERTY RATE, 1990[66]
Boston	58.3%	44.3%	27%	12.8%
Denver	68.9%	51.3%	35%	9.7%
Detroit	74.2%	60.7%	31%	12.9%
Houston	57.4%	63.7%	26%	15.1%

Boston: Early Advocacy Led to Escalated Lending Before 1993; A Recent Affordability Crisis Has Led to a Slowing of Activity

Between 1993 and 1998, home mortgage lending (both home purchase and refinance loans) to LMI households and areas in the Boston metro area increased by 3 percentage points, matching the increase for the average metropolitan area nationwide. In 1993 in the Boston metro area, 24 percent of all mortgage loans closed by lenders covered by CRA went to LMI borrowers or to LMI areas. By 1998, the portfolio share in Boston increased to 27 percent, one percentage point higher than the average level for all metropolitan areas nationwide.[67] Home purchase loans made by CRA-covered lenders remained essentially flat between 1993 and 1999, varying between 39% and 41% of total home purchase lending by those institutions, according to Boston

[63] http://www.census.gov/hhes/www/housing/hvs/annual99/ann99t14.html
[64] Percentage of homes affordable to those with median incomes in the metro area; National Association of Home Builders, http://www.nahb.com/facts/hoi/2000_2Q/complete_alpha.htm.
[65] Litan, et. al.
[66] Persons below poverty, Missouri State Census Data Center, 1990 Extract Report—US Metro Areas, www.oseda.missouri.edu/mscdc/census/us/basictables/us.text/metro.areas/
[67] *Largest MSAs ranked by Share of Covered Depositories' Mortgage Lending Going to CRA Borrowers, 1998,* prepared for the U.S. Department of the Treasury by the Joint Center for Housing Studies, Harvard University, 2000.

MSA data elsewhere in this report. Meanwhile, rental and home prices increased in Boston by 10% in 1999, following on double-digit gains of the previous few years.[68]

The Boston area has a long history of community reinvestment advocacy, including protracted challenges to proposed mergers among the area's many large financial institutions. More recently, relations between community groups and lenders have become more collaborative. Given this shift from combative to collaborative activity, and the Boston area's complex and sophisticated lending and community development infrastructure, many would expect that mortgage lending to LMI borrowers in Boston would be higher than the national average. Many contacts in Boston were surprised to learn that they did not rank among the national leaders. But after expressing surprise at their average portfolio share compared to other metro areas, contacts in Boston painted a very consistent picture.

While community reinvestment lending escalated nationally in the mid-1990s, sharp increases in community lending in Boston occurred in the late 1980s and early 1990s. Boston's significant increases resulted from several years of aggressive CRA organizing by sophisticated community groups and in reaction to the well-publicized fair lending report completed by the Federal Reserve Bank of Boston in 1992.[69] The Boston Fed report quantified dramatic discrepancies in mortgage lending patterns among races in the area. Boston's financial services community responded with a multi-faceted program of ambitious community lending goals, increased staffing, programs to review borrowers whose initial loan applications were rejected, and the creation of the Massachusetts Community and Banking Council. The Council's task forces were headed by the CEOs of area banks, reinforcing the seriousness with which the firms took the charges of unfair lending practices. These actions led quickly to performance improvements, which put Boston lenders near the forefront of lending to LMI households nationally.

Beyond the early organizing, publication of research results and merger challenges, and decreasing housing affordability in the Boston market, several additional pressures and factors emerged from these interviews.

First, the significant consolidation among lenders in the Boston metro area has had the effect of increasing commitments to CRA lending, primarily because of merger-related agreements negotiated with representatives of up to a dozen non-profit community development organizations.[70]

Second, staff at the financial institutions experimented with several managerial models, and settled with a palette of approaches that work for them.

---

[68] *Housing Affordability, Annual Report 1999*, Department of Neighborhood Development, City of Boston, 3/16/99 (sic), page 6.

[69] *Mortgage Lending in Boston: Interpreting HMDA Data*, by Alicia H. Munnell, Lynn E. Browne, James McEneaney, and Geoffrey M. B. Tootell, No. 92-7, Federal Reserve Bank of Boston, 1992.

[70] The FMA contains a series of provisions requiring greater "sunshine" about the nature of merger-related agreements in the future.

Third, the community lending community is seasoned, pragmatic, and innovative. Individuals have frequently shifted back and forth between the for-profit and the non-profit sectors.

Fourth, there is brisk competition among lenders for well-conceived housing and economic development projects. Lenders and non-profits generally agreed that essentially all credible development deals are funded.

Fifth, predatory lending is re-emerging as an important issue in the region, with the City, regulators, and the Massachusetts Bankers Association each producing educational materials for local homeowners.

Denver: Average Gains in CRA Related Mortgage Lending, But From a Large Base

The Denver portfolio share for all mortgage lending to LMI borrowers increased from 34 percent of all such loans in 1993 to 35 percent in 1998. The single percentage point increase over this period was less than the average three percentage point change for all metropolitan areas across the country. Nevertheless, Denver is notable for having the largest portfolio share going to LMI borrowers and neighborhoods among the 39 largest metropolitan areas across the country during this period.

Throughout the 1990s, the LMI borrowers and areas have represented a relatively large share of the home purchase mortgage activity of Denver metro area lenders covered by CRA. The share of their metro area home purchases fell from 43 percent of all purchase loans in 1993 to between 39 and 41 percent for all years through 1999. At the same time, refinance loans to LMI borrowers and areas made by CRA-covered institutions grew sharply, from 28 percent to 40 percent of all refinancing loans.

Our interviews in Denver identified several key factors which have contributed to the community reinvestment performance in this area, roughly tracking the findings from the regression analysis: housing market and income dynamics that have allowed for high levels of lending to LMI borrowers and areas; a high level of consolidation in the banking sector, which focused attention on CRA performance as a necessary condition to avoid merger delays; an evolving role for community-based organizations from early advocacy to effective collaboration; and key roles played by state and local governments.

The housing market and population dynamics in the Denver metropolitan area have been instrumental to the strong level of CRA mortgage lending. Denver's economy overall, and its housing market in particular sustained a deep recession in the late 1980s. In 1989, there were thousands of FHA foreclosed homes in the Denver metro area and housing prices bottomed out.[71] Economic recovery, marked by job growth, population in-migration and rising home

[71] Personal Communication with Hernandez, formerly Secretary's Representative to the Rocky Mountain Region of the U.S. Department of Housing and Urban Development, 1994-1998. Hernandez is currently Director of the Denver Fannie Mae Partnership Office. August 22, 2000. He indicated there were 14,000 foreclosures in 1989 alone.

prices began in 1990, and was in full swing by 1993. Since 1993, economic growth has continued unabated. Unemployment rates have fallen sharply, from 5.3 percent in June, 1993 to 2.5 percent in June of 2000.[72] In-migration has been steady, with nearly 250,000 new residents moving into Denver's suburbs alone between 1990 and 1998.[73]

Throughout the 1990s, homeownership rates rose, from below 55 percent in 1990 to more than 68 percent in 1998.[74] Over the same period, national homeownership rates rose from 63.9 percent to 66.3 percent. Until 1999, Denver offered substantial amounts of affordable housing, though steep increases in housing prices since 1999 have recently reduced the available supply. In August 2000, there were only 50 listings in the entire metropolitan area for homes selling for less than $150,000, a price that would be affordable for a family with an income of between 80 and 100 percent of median in 1999.[75] Many of the interviewees expect that CRA performance will decline in the future because of the sharp increase in housing prices.

The generally favorable economic conditions in Denver during much of the 1990s were matched with a period of rapid consolidation in the banking industry. Fed in part by state relaxation of branch banking laws in 1994, the Denver metro area experienced a flurry of mergers and acquisitions during the mid-1990s. After the mergers, none of the largest banks in the Denver metro area are headquartered there. Some Denver observers believed that the rapid level of consolidation activity elevated CRA performance because banks feared that inadequate CRA performance could delay their merger efforts. Non-profit groups, on the other hand, expressed conflicting views about the benefits of consolidation.

The presence of a strong advocacy coalition in the early- to mid-90s intensified the pressure on merging banks to focus on CRA-related performance. The coalition, composed of CDCs, minority community activists, students and academics, published a series of studies on discrimination in home mortgage and small business lending which attracted a significant amount of media attention. In addition, the coalition organized protests around bank mergers in early- to mid-1990s. Banks took steps to improve their CRA performance and to engage in collaborative partnerships with local CDCs. By the mid-1990s, the coalition was wracked by internal strategic dissension, with many participating CDCs opting out of it and choosing instead to collaborate with banks directly rather than to mount protest-oriented advocacy efforts. Denver's strong core of non-profit housing developers now works closely with a broad range of Denver area lenders, and lenders compete to finance CDC housing development projects.

State and city efforts also appear to have contributed to the steadily stronger CRA performance of lenders in the region. The state housing finance agency has a range of programs to promote lending to LMI families and to small businesses, in which many Denver banks

[72] BLS, Local Area Unemployment data. http://www.bls.gov/top20.html.
[73] U.S. Department of Housing and Urban Development, Rocky Mountain Office, "Housing Trends Update," Presentation for Metro Mayors Caucus, February, 2000, p.2.
[74] U.S. Census Bureau, Housing Vacancies and Homeownership Annual Statistics: 1999, http://www.census.gov/hhes/www/housing/hvs/annual99/ann99t14.html
[75] Personal Communication with Myrna Hipp, Director of Housing and Neighborhood Development, Denver Community Planning and Development Agency. August 21, 2000. (The median income for the Denver metro area in 1999 was $58,600, according to the U.S. Department of Housing and Urban Development, Rocky Mountain Office, "Housing Trends Update," Presentation for Metro Mayors Caucus, February, 2000, p.3."

participate. In addition, the city of Denver has led an effort to increase bank investment and to revitalize downtown Denver. In 1993, the City issued an innovative contract proposal for city banking services that took into account normal factors of price and quality of services, but also responsiveness of the financial services firms to community reinvestment needs. Winning bidders were required to establish prospective 3-year targets for mortgage and small business lending within the city. The large local coalition referenced above played a central role in developing and monitoring the agreements. While the 3-year goals were achieved in the first year of the implementation, the request for proposal focused bank attention on community reinvestment as an important city priority.

Detroit: Economic Recovery, New Mayor, Corporate Commitment and Effective Advocacy Spark Sharp Increase in Community Lending

Detroit experienced a sharp increase in lending to LMI borrowers and areas in the mid-1990s. In 1993, 24 percent of metro area mortgage loans went to LMI borrowers and areas. By 1998, the metro area portfolio share of LMI borrower and area loans had increased by seven percentage points, to 31 percent.

The experience of the 1990s represents a sharp turnabout from previous decades in Detroit. In the 1970s and 1980s, Detroit suffered sweeping disinvestment driven by the retrenchment of the auto industry and the huge population out-migration from the city. This occurred against the backdrop of a city whose history was steeped in housing segregation and racial tensions.[76]

The turnaround on community reinvestment lending was catalyzed in 1988 with the publication of a series of newspaper articles in the *Detroit Free Press* entitled “The Race for Money.” These articles documented a pattern of racial discrimination in home mortgage lending, as well as serious problems in private sector financing for major development in the city of Detroit. Two important events followed from the publication. First was the formation of a large coalition of church, civil rights and labor groups which organized to negotiate community reinvestment agreements with major Detroit lenders. Second, a state banking regulator delayed a bid by a large bank to acquire a Texas bank until the large bank presented a two-year plan to improve lending in Detroit. This action sent a clear signal to financial institutions in Detroit that CRA performance would be closely monitored in future merger requests.

From this point forward, Detroit area banks negotiated a series of community reinvestment agreements with the coalition, which put Detroit banks on record to expand their lending in the city as well as to meet minority hiring goals and minority board representation goals, and to set purchase targets from minority businesses. Banks introduced a series of affordable mortgage products, supported affordable housing projects through bank Community Development Corporation investments in Low-Income Housing Tax Credits, and heavily marketed these products through homeownership fairs, sponsorship of homeowner counseling programs and other efforts.

---

[76] For a full accounting of these trends, see Thomas J. Sugrue, *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit*, Princeton, Universtiy Press, 1996.

The city government was a strong and successful proponent of lending and reinvest in the city. A critical component of the city's success was the organization of the Financial Institutions Committee (FIC), which successfully pooled and delivered $1.3 billion in investments from Detroit area financial institutions. The FIC was also important because it gave lenders a forum for sharing their ideas for reinvesting in the city and for removing barriers to successful revitalization.

Another major force spurring revitalization in Detroit was the resurgence of the local economy, led by the automobile industry and the dynamics of the Detroit housing market. From 1992 to 1998, the metro area unemployment rate fell from 8.5 percent to 3.4 percent.[77] Home prices in the city began to appreciate in the early 1990s, making new investments potentially profitable for homebuyers. Many Detroit lenders and observers reported a pent-up demand for home finance activity in the city for both purchase and refinance products.

Detroit's demographic data suggest that relatively large portions of lending activity are included in the CRA statistics. The homeownership rate peaked in 1999 at 74.2 percent, about 5 percentage points higher than the national average.[78] In addition, nearly 80 percent of census tracts in the city of Detroit qualify as LMI under CRA.

Three additional factors also contributing to Detroit's sharp rise in community reinvestment lending during the 1993-98 period, including a high volume of merger and acquisition activity. Lenders regularly reported that they consciously sought to ensure a high level of CRA performance to stave off any delays in merger proposals.

The second factor was the sharp rise in sub-prime lending, primarily by independent mortgage companies not covered by CRA. Between 1993 and 1998, loans by lenders not covered by CRA (independent mortgage companies) for LMI borrowers and areas increased by 189 percent. The share of all loans made by non-covered lenders to LMI borrowers and areas rose from 25 percent of their total portfolio to 40 percent.[79]

And the third factor was the widespread reports of predatory lending. While much subprime lending appropriately provides adjustments for credit risk, many Detroit stakeholders noted a sharp increase in the presence of predatory lenders who were aggressively marketing their extremely high interest rate products in many Detroit low-income neighborhoods.

Houston: Banks Focused on Survival, not CRA, in the early '90s; Later They Had Nowhere to Go but Up

[77] BLS, local area unemployment data.

[78] Census Bureau, Metro area homeownership data: http://www.census.gov/hhes/www/housing/hvs/annual99/ann99t14.html.

[79] For a further discussion of subprime lending in the Detroit metro area, see John T. Metzger, *The New Redlining?: The Secondary Mortgage Market, Credit Scoring and Subprime Lending,* presented Association of Collegiate Schools of Planning, October 21, 1999.

Houston experienced one of the strongest increases in portfolio share to LMI borrowers and areas among all metro areas between 1993 and 1998, with an eight percentage-point increase in mortgage originations and refinancings over the period.

Houston's financial services market is unusual, with more national lenders present than in any other Texas market. These large number of institutions in Houston are complemented by several very active regional and local lenders. The CDC community, with which lenders work in close collaboration now, did not begin to form until the early to mid-90s.

The community reinvestment story in Houston in the mid-1990s is framed by the economic devastation suffered there in the late 1980s. Plunging oil prices and real estate values, combined with mismanagement among many local financial institutions led to massive depository institution losses. Bank regulators were consumed with closing failing institutions, rather than carefully monitoring their performance under the CRA, where poor bank performance was the norm. There was no aggressive CRA organizing, and little capacity and less management pressure in the metro area to meet CRA obligations. As the market began to recover, national institutions bought out Texas-based banks. These institutions brought greater CRA capacity and focused attention on CRA, devoted staff and management resources to it, and raised CRA performance expectations.

As in Boston, staff at Houston's financial institutions and CDCs have now worked together for years, and shift from the non-profit side to the for-profit side and back. Also as in Boston, a lender-community development coalition evolved, and proved very effective at both funding deals and developing the tight and productive relationships across the community development arena that exist today.

The coalition spurred the formation of a network of homeownership counseling agencies, whose services are particularly in demand within the Hispanic community. Those who complete the fifteen-hour course are eligible for very generous downpayment assistance grants, which range between $3500 and $9500 for income-eligible households. The grants were conceived by the coalition.

More than any other city we examined, Houston's CDC community is expanding rapidly through the efforts of those in the faith-based community. African-American and white religious communities are founding CDCs at a rapid pace, backstopped by technical assistance provided by the nearby College of Biblical Studies.

While organized activity around CRA continues to focus on homeownership opportunities, commercial lending, multi-family housing construction and take-out financing, and other investments are all now quite common, with lenders finding and developing niches. Especially after the market meltdown of the early 1990s, the private sector development community was extremely interested in opportunities the affordable housing niche had to offer. Even today, Houston's housing market remains very affordable and the economy is strong, meaning that many LMI households have steady incomes to purchase homes, and small business financing is in heavy demand.

Bibliography

Avery, Robert B., Raphael W. Bostic, Paul S. Calem and Glenn B. Canner, “Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act,” *Federal Reserve Bulletin,* 85: 81-102 February, 1999.

Avery, R.B. & T.M. Buynak. 1981. Mortgage Redlining: Some New Evidence. *Economic Review.* Federal Reserve Bank of Cleveland (Summer), 18-32.

Belsky, Eric S., Matthew Lambert, Alexander von Hoffman, *Insights Into the Practice of Community Reinvestment Act Lending: A Synthesis of CRA Discussion Groups,* Community Reinvestment Act Working Paper Series CRA00-1, Joint Center for Housing Studies, Harvard University, Cambridge, August 2000.

Blackwell, Rob, “Merrill's Sweeps Give FDIC $19B Headache,” *AmericanBanker.com*, July 26, 2000.

Board of Governors of the Federal Reserve System, *The Performance and Profitability of CRA-Related Lending,* report submitted to the Congress pursuant to Section 713 of the Gramm-Leach-Bliley Act of 1999, July 17, 2000.

Bradbury, K.L, K.E. Case & C.R. Dunham. 1989. Geographic Patterns of Mortgage Lending in Boston, 1982-1987. *New England Economic Review* (Sep/Oct): 3-30.

Campen, James, *Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston, 1990-1998*, Massachusetts Community and Banking Council, Boston, December, 1999.

Campen, James, *Patterns of Small Business Lending in Greater Boston*, Massachusetts Community and Banking Council, June 2000.

Case, K.E. & M. Marynchenko. 2000. House Price Appreciation in Low and Moderate Income Markets. Low-Income Homeownership as an Asset-Building Strategy: *A Symposium on the Risks and Returns of Low-Income Homeownership; Harvard Joint Center for Housing Studies (Nov).*

Center for Affordable Housing and Educational Quality, *Housing in Denver: Problems, Needs and Opportunities*, University of Colorado at Denver, 1999.

Cho, M. & I.M. Megbolugbe. 1994. Risk, Race, & Redlining in Mortgage Lending. Paper read at AREUEA Conference, Boston, MA.

City of Boston, Department of Neighborhood Development, *Housing Affordability, Annual Report 1999*, 3/16/99 (sic).

Consumers Union and Austin Tenants’ Council, *Access to the Dream 2000*, Austin, April, 2000.

Dedman, Bill, et. al., "The Color of Money," The *Atlanta Journal* and the *Atlanta Constitution*, May 1-4, 1988.

Duda, M. & E. Belsky. 2000. Low-Income Homebuyers and Their Housing Choices. *Low-Income Homeownership as an Asset-Building Strategy: A Symposium on the Risks and Returns of Low-Income Homeownership; Harvard Joint Center for Housing Studies (Nov)* .

Hutchinson, P.M., J.R. Ostas, & J.D. Reed. 1977. A Survey & Comparison of Redlining Influences in Urban Mortgage Lending Markets. *AREUEA Journal* 5: 463-72..

Gill, Dee, "Another Chance/Law changes push lenders toward renovation projects," *Houston Chronicle*, May 13, 1990.

Immergluck, D. 1998. Progress Confined: Increases in Black Homebuying & the Persistence of Residential Segregation. *J. of Urban Affairs* 20(4): 443-57.

Inselman, Michael, *2Q2000 Metro/Study Symposium, Houston Housing Market Update*, American METRO/STUDY Corporation, mimeo, August, 2000.

Joint Center for Housing Studies, *39 Largest MSAs ranked by Share of Covered Depositories' Mortgage Lending Going to CRA Borrowers, 1998,* prepared for the U.S. Department of the Treasury, Harvard University, 2000.

Joint Center for Housing Studies, *State of the Nation's Housing: 2000*, Harvard University, Cambridge, 2000.

Litan, Robert E., *What Should Banks Do?*, Brookings Institution, Washington, 1987.

MacRae, D., M. Turner, & A.M. Yezer. 1982. Determinants of FHA Mortgage Insurance in Urban Neighborhoods. *Housing Finance Review* 55-71.

Megbolugbe, I.M. & M. Cho. 1993. An Empirical Analysis of Metropolitan Housing & Mortgage Markets. *J. of Housing Research* 4(2): 191-224.

Metzger, John T., *The New Redlining?: The Secondary Mortgage Market, Credit Scoring and Subprime Lending*, presented to the Association of Collegiate Schools of Planning, October 21, 1999.

Missouri State Census Data Center, *1990 Extract Report—US Metro Areas, Persons below poverty,* www.oseda.missouri.edu/mscdc/census/us/basictables/us.text/metro.areas/

Moreno, Jenalia, "Minorities Denied Home Loans, ACORN Says," *Houston Chronicle*, Sept. 29, 2000.

Munnell, Alicia H., Lynn E. Browne, James McEneaney, and Geoffrey M. B. Tootell, *Mortgage Lending in Boston: Interpreting HMDA Data*, No. 92-7, Federal Reserve Bank of Boston, 1992.

National Association of Home Builders, *Percentage of homes affordable to those with median incomes in the metro area*, http://www.nahb.com/facts/hoi/2000_2Q/complete_alpha.htm.

National Community Reinvestment Coalition, *America's Best and Worst Lenders*.

Quercia, Roberto G., Michael A. Stegman, Walter R. Davis, and Eric Stein, *Community Reinvestment Lending: Assessing the Risks of Affordable Mortgage Products*, paper prepared for presentation at the Symposium on Low-Income Homeownership, Joint Center for Housing Studies, Harvard University, November 14-15, 2000.

Perle, E.D., K. Lynch, & J. Horner. 1993. Model Specification & Local Mortgage Market Behavior. *J. of Housing Research* 4(2): 225-43.

Shafer, R. 1978. *Mortgage Lending Decisions: Criteria & Constraints* (2 vol.). Cambridge, MA: Joint Center for Housing Studies of Harvard/MIT.

Stuart, G. 2000. Segregation in the Boston Metropolitan Area at the End of the 20th Century. Harvard Civil Rights Project Paper (Feb).

Sugrue, Thomas J., *The Origins of the Urban Crisis: Race and Inequality in Postwar Detroit*, University Press, Princeton, 1996.

Sum, Andrew M. et al., *The Road Ahead: Emerging Threats to Workers, Families and the Massachusetts Economy*, Massachusetts Initiative for a New Commonwealth, 1999.
Summary of 1999-2000 MACDC Community Reinvestment Agreements, mimeo, undated.

The Detroit News, "The Race Gap in Lending," February 7, 1999.

U.S. Bureau of Labor Statistics, *Local Area Unemployment Data*. http://www.bls.gov/top20.html.

U.S. Census Bureau, *Housing Vacancies and Homeownership Annual Statistics: 1999*, http://www.census.gov/hhes/www/housing/hvs/annual99/ann99t14.html.

U.S. Census Bureau, *Metro Area Homeownership Data*, http://www.census.gov/hhes/www/housing/hvs/annual99/ann99t14.html.

U.S. Department of Housing and Urban Development, Rocky Mountain Office, *Housing Trends Update*, Presentation for Metro Mayors Caucus, February, 2000.

Van Order, R. & P. Zorn. 2000 Performance of Low-Income and Minority Mortgages. *Low-Income Homeownership as an Asset-Building Strategy: A Symposium on the Risks and Returns of Low-Income Homeownership; Harvard Joint Center for Housing Studies (Nov).*