Appendix A: Selected Bibliography and Abstracts

I. Lending Patterns in Central Cities in the 1990s

A. Residential Lending

1. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1999. "Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act,"** ***Federal Reserve Bulletin*** **85:81-102, 88-89 (February).** Finds that home purchase lending to low- income and minority borrowers in metropolitan areas increased at a faster rate than lending to other groups between 1993 and 1997 (31 percent to lower-income borrowers as compared to 18 percent to higher-income borrowers; 53 percent to minority borrowers as compared to 13 percent to nonminority borrowers). Attributes growth pattern to strong economy and job market, relatively low interest rates coupled with relatively modest changes in home prices that improved the affordability of homebuying, as well as the affordable home purchase lending programs and government-backed lending programs initiated since the early 1990s. (This article is also discussed in Section IV of the Appendix on effect of mergers).

2. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner. 1996. "Credit Risk, Credit Scoring, and the Performance of Home Mortgages,"** ***Federal Reserve Bulletin*** **82:621-48; 639-47 (July).** Examines how mortgage lenders assess credit risk, including use of credit scores, and how credit risk relates to loan performance, including the performance of loans made through nontraditional underwriting practices and affordable home lending programs. Finds that from 1992 to 1993 and from 1993 to 1994, the number of conventional home purchase loans extended to low- and moderate-income borrowers increased 38 percent and 27 percent, respectively. Over these same two years, lending to upper-income borrowers rose more slowly, increasing only 8 percent and then 13 percent.

3. **James T. Campen. 1998.** ***Changing Patterns V: Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods in Greater Boston, 1990-1997*****. Massachusetts Community and Banking Council (December).** Profiles home purchase mortgage lending to low- and moderate-income households and neighborhoods in Boston and 27 surrounding cities and towns between 1990 and 1997. Examines three categories of data: total Boston lending by race and income of households and neighborhoods; comparative performance of major types of lenders; and loans made under four multi-bank targeted mortgage programs. Finds that (i) over the eight-year period, general pattern is substantial increases in lending to traditionally underserved borrowers through 1993 or 1994, followed by relative constancy through 1996, and decline in 1997; (ii) denial rates in Boston increased slightly but remained low compared to their 1990 levels in Boston and nationwide; (iii) the biggest Boston banks made only one-quarter of all Boston home purchase loans in 1997 (lowest loan share of the decade), while mortgage company lenders for the first time accounted for more than one-half of all loans; (iv) the biggest Boston banks directed the substantially highest share of loans to traditionally underserved borrowers as compared to smaller banks and mortgage company lenders; and (v) after three years of rapid growth, the total number of targeted mortgage program loans made in Boston decreased 13.6 percent between 1996 and 1997.

4. **Glenn B. Canner and Wayne Passmore. 1995. "Home Purchase Lending in Low-Income Neighborhoods and to Low-Income Borrowers,"** ***Federal Reserve Bulletin*** **81:71-103.** Examines 1993 HMDA data to measure extent of home purchase lending in lower-income and other neighborhoods and to lower-income and other borrowers. In general, finds that the volume of home purchase lending in low-income neighborhoods and to low-income borrowers in the U.S. is small and is generated by only a small proportion of lenders. Finds the following. (i) 90 percent of the number and 92 percent of the dollar value of loans for the purchase of owner-occupied homes in 1993 were made in middle- and upper-income neighborhoods; (ii) The ratio of number of loans extended relative to the number of owner-occupied housing units was 2.7 in low-income tracts, compared with 7.2 in upper-income tracts. (iii) The loan-to-income ratio for the median borrower in each neighborhood income group is fairly uniform, ranging from about 189 percent to 200 percent. Loan-to-value ratios were significantly higher in lower-income neighborhoods, possibly reflecting the widespread use of government-backed mortgage programs in those neighborhoods. (iv) 1.1 percent of all home purchase loans were made in low-income neighborhoods. (v) For a significant number of lenders, the market share of home purchase lending in low- and moderate-income census tracts exceeded their market share in middle- and upper-income neighborhoods, suggesting a small number of competitors in these neighborhoods. Delineates the contrasting interpretations of the data as an example of efficient markets versus evidence of discrimination. Includes a brief history of the CRA, summary of the proposed revised CRA regulations, review of the business of banking and how the CRA might affect it, according to the efficient markets, discrimination, and externalities points of view.

5. **Glenn B. Canner and Wayne Passmore. 1994. "Residential Lending to Low-Income and Minority Families: Evidence from the 1992 HMDA Data,"** ***Federal Reserve Bulletin*** **80:79-108.** Examines 1992 HMDA data to analyze patterns of loan applications and their disposition. Finds that requests for home refinancing accounted for more than half of all home loan applications for 1992. White applicants accounted for 85.8 percent of refinancing applications; 90 percent of applications were for properties in middle- or upper-income census tracts; 64 percent were in noncentral city locations. Percentages of minority applicants broken down by income category are not tabulated. However, finds that HMDA data may indicate positive effect of targeted loan programs on homeownership by low- and moderate-income households. Number of conventional home purchase loans extended to applicants with incomes below the median family income for their respective MSA increased 27 percent from 1991 to 1992, compared to an increase of 10 percent for borrowers with incomes greater than 120 percent of the median family income. Number of conventional home loans extended to black borrowers increased 26 percent as compared to increase of 21 percent to white borrowers, 8 percent to Hispanic borrowers, and 6 percent to Asian borrowers. For applicants whose incomes were below the median, increases were 34 percent for black borrowers, 28 percent for white borrowers, 25 percent for Hispanic borrowers, and 42 percent for Asian borrowers. Further, approval rates rose and denial rates fell for both black and white applicants and for low-income applicants for both government-backed and conventional home purchase loans. With respect to government-

backed mortgage loans, the share of loans insured by the FHA dropped sharply from 1991, probably resulting from increased costs to homebuyers for use of FHA-insured loans and greater availability of conventional loan products designed to reach low- and moderate-income buyers. As in previous years, greater percentages of lower-income and black applicants than whites or Asians used government-backed home purchase loan programs, and differences could not be explained by differences in income. For example, among low-income loan applicants, 53 percent of black applicants sought FHA or VA loans, compared with 40 percent of Hispanic applicants, 31 percent of white applicants, and 22 percent of Asian applicants. Data for 1992 again showed that greater proportions of black and Hispanic loan applicants were turned down for mortgage credit than Asian and white applicants (36 percent of black applicants, 27 percent of Hispanic applicants, 15 percent of Asian applicants, and 16 percent of white applicants were denied credit). Consistent with these findings, HMDA data indicate that the rate of denial for conventional home purchase loans generally increases as the proportion of minority residents in a neighborhoods increases. Likewise, within each income group, white applicants for conventional home mortgages had lower rates of denial than black or Hispanic applicants. Thus, in lower-income areas, black applicants were denied 36 percent of the time, Hispanic applicants 31.8 percent, white applicants 21 percent, and Asian applicants 17.5 percent. Attributes lower overall denial rates in 1992 than 1991 to lower mortgage rates, stable home values, and greater use of targeted affordable home loan programs by lenders.

6. **Glenn B. Canner and Dolores S. Smith. 1992. "Expanded HMDA Data on Residential Lending: One Year Later,"** ***Federal Reserve Bulletin*** **78:801-24.** Analyzing HMDA data for 1991, finds little change from 1990 data in the disparities in approval and denial rates among applicants grouped by their income and racial characteristics. Denials for conventional home purchase loans in 1991 were 37.6 percent of black applicants, 26.6 percent of Hispanic applicants, 15.0 percent of Asian applicants, and 17.3 of white applicants. Finds similar rates of loan denial across racial lines for home refinancing and home improvement lending. Describes three attempts to assess the extent to which the disparities in approval/denial rates may be attributed to unfairness in the loan process or to factors that influence credit decisions that are not contained in HMDA reports, such as financial assets, level of debt, employment experience, and record of payments on debt. First, the Department of Justice investigation of home-lending practices in Atlanta, leading to its filing of a complaint against Decatur Federal Savings and Loan Association, was based on a detailed statistical analysis of credit files. Complaint alleged that black applicants were subjected to stricter underwriting standards than were white applicants, Decatur failed to advertise in media oriented to the black community, and excluded portions of the black community from its defined lending market. Second, the Federal Reserve Bank of Boston study of racial disparities in lending in Boston, based on additional data on financial characteristics, employment experience, and credit history obtained from financial institutions relating to about 1,000 black and Hispanic applicants who had applied for home purchase loans and about 3,000 white applicants, concluded that the denial rate for minority applicants would have been 20 percent if race had not been a factor, as compared to the actual denial rate of 28 percent. Finally, New York State Banking Department study of mortgage lending practices of ten savings banks in metropolitan New York, based on detailed examination of mortgage loan files, concluded that banks had applied underwriting criteria consistently, and that criteria were in line with industry and secondary market standards. Identifies efforts to promote fair lending and foster affordable housing and small business lending by the regulatory agencies, the banking and mortgage banking industries, HUD fair housing and mortgage-testing programs, and secondary market institution programs.

7. **Glenn B. Canner and Dolores S. Smith. 1991. "Home Mortgage Disclosure Act: Expanded Data on Residential Lending,"** ***Federal Reserve Bulletin*** **77:859-81.** Analyzes first year of data disclosed by financial institutions under amended HMDA for conventional home purchase lending in 1990, focusing on nationwide totals. Finds that black and Hispanic applicants were denied 33.9 percent and 21.4 percent of the time, respectively, as compared to a denial rate of 14.4 percent for white households. Finds that these denial rates do not change notably when applicants are categorized by income: among applicants whose incomes place them in the lowest income group, the denial rates for blacks, Hispanics, and Asians were 40.1 percent, 31.1 percent, and 17.2 percent, respectively, compared with 23.1 percent for white applicants. Among applicants in the highest income group, denial rates were 21.4 percent, 15.8 percent, and 11.2 percent, respectively, compared with 8.5 percent for whites. Finds that applicants applying for loans in predominantly minority areas were substantially more likely to be rejected (24 percent) than households applying in white neighborhoods (12 percent). For the most part, regardless of income level, the proportion of home purchase loan applicants denied credit increases as the percentage of minority residents increases, for both conventional and government-backed forms of credit (p.873). Other patterns include 60 percent of low-income black applicants sought government-backed home purchase loans, compared with 37 percent of low-income white applicants.

8. **Douglas D. Evanoff and Lewis M. Segal. 1996. "CRA and Fair Lending Regulations: Resulting Trends in Mortgage Lending,"** ***Economic Perspectives.*** **Federal Reserve Bank of Chicago (November/December).** Examines evolution of the fair lending laws and the CRA; surveys and summarizes the literature on the role of race and neighborhood in mortgage lending (categorized as redlining studies, accept/reject studies, default rate studies, and performance studies); and evaluates the effectiveness of the CRA and fair lending laws through analysis of trends in mortgage lending in the 1990s. Charts HMDA data to show that between 1990 and 1995 the annual number of mortgage originations to low- and moderate-income households, to minority households, and in low- and moderate-income census tracts almost doubled; and that originations in census tracts where minorities accounted for at least half the population also grew significantly. Uses three different control group specifications in order to assess extent to which these patterns can be attributed to fair lending laws and CRA. First, comparing lending patterns pre- and post-recent regulatory changes, concludes that factors related to the aggregate demand for housing credit are more likely responsible for the high mortgage origination and refinancing growth rate in the 1990s than regulatory-induced changes in lending behavior. Second, comparing degree of lending to targeted groups (minority and low-income individuals and neighborhoods) with lending to nontargeted groups during period from 1982-1995, finds several results that are consistent with efforts by banks to target low- and moderate-income individuals and neighborhoods in their mortgage business. (i) Finds "overwhelmingly statistically significant" increase in growth after 1991 in mortgage originations to the two lowest income groups, suggesting that banks have responded to the CRA and have made significantly more loans in the low- and moderate-income markets. (ii) Further finds significantly stronger growth after 1991 in applications from low- and moderate-income areas, as compared to the slowest increase in the middle-income group which saw the majority of mortgage activity during the same period, consistent with the view that banks have been making a significant effort to encourage applications from lower-income neighborhoods and with statements by community groups that progress is being made in less affluent neighborhoods. (iii) Analysis of lending based on the income level of the borrower rather than the neighborhood in which the property is located shows growth in loan

applications and loans to low- and moderate-income individuals, especially after 1992, but at a confidence level uniformity throughout the 1990s. (iv) Analysis based on race of applicant and on minority proportion of census tract shows that growth in applications and originations from minority individuals and census tracts during the 1990s has been high relative to that for nonminorities, especially among blacks. (v) Arguable that demonstrated improvements are diminished on account of small base; lending in low- and moderate-income neighborhoods constitutes approximately 10 percent of total originations and even less of the dollar value of loans originated; mortgage activity among low-income individuals constitutes approximately 20 percent of the market. Thus for example, the 31 percent growth in mortgage originations in low- and moderate-income tracts from 1993 to 1994 corresponds to nearly 35,000 loans and approximately $2.7 billion. If all this is attributed to the regulations, it translates to just over 100 loans and $8 million per MSA in that year. (vi) Comparing denial rates for ethnic groups, finds that minority relative to nonminority group denial rates declined between 1990-1995. Finally, comparing lending behavior of depository institutions with lending behavior of less heavily regulated mortgage companies, concludes that lower denial rates may not be the result of increased regulatory scrutiny. In conclusion, minimizes the importance of the percentage increases in low-income and minority mortgage lending, suggesting that the growth rates are not unprecedented and, if attributed entirely to the regulations, translate to approximately 100 loans and $8 million per MSA between 1993 and 1994.

9. **Federal Financial Institutions Examination Council (FFIEC). 1999. Press Release with 1998 HMDA Data and Tables (July 29).** General overview and nationwide summary statistics regarding 1998 mortgage lending activity in metropolitan areas. Data include 24.7 million reported loans and applications, an increase of about 50 percent from 1997, resulting primarily from a very large increase in refinancing activity. The number of home purchase loans extended in 1998 compared with 1997 increased 21 percent for Native Americans, 16 percent for Hispanics, 13 percent for Asians and Whites, and 9 percent for Blacks. During the six years from 1993 through 1998, the number of home purchase loans extended has increased 87 percent for Hispanics, 72 percent for Blacks, 52 percent for Native Americans, 46 percent for Asians, and 31 percent for Whites. The number of home purchase loans extended to applicants in all income categories increased in 1998 compared with 1997. The number of loans extended in 1998 to applicants with incomes less than 80 percent of the median family income for their MSA increased 19 percent over 1997. During the same period, applicants with incomes of 100-119 percent of their MSA's median experienced a 15 percent increase, while the number of home purchase loans to applicants with incomes of 80-99 percent and 120 percent or more of the median both increased by 14 percent. During the six years from 1993 through 1998, the number of home purchase loans extended to applicants with incomes less than 80 percent of the median increased 64 percent, while loans extended to applicants with incomes of 120 percent or more of the median showed an increase of 45 percent, and loans to applicants with incomes of 80-99 percent and 100-119 percent of the median experienced increased of 42 percent and 37 percent, respectively.

10. **Federal Reserve Bank of Chicago. 1996. "Saginaw, Bay City, Midland MSA: A Profile," *Profitwise* 8(2):2-11 (Winter).** Finds that between 1993 and 1995, low- and moderate-income areas experienced a steady increase in their proportion of total loans, particularly in conventional, refinancing, and home improvement lending. Concludes that lending activity in LMI areas is consistent with the MSA's overall economic and demographic trends and may be due in part to the influence of CRA.

11. **George Galster. 1995. "A Response to Schill and Wachter's The Spatial Bias of Federal Housing Law and Policy," 143 *University of Pennsylvania Law Review* 1343 (May).** Refutes Professors Schill and Wachter's findings as either conceptually and/or empirically inconclusive. With respect to the CRA's unintended effects, argues that Schill and Wachter provide no evidence that the CRA has fomented concentrated defaults and neighborhood blight. Finds to the contrary that CRA loans have been found to be no riskier than standard loans, and that the CRA may provide the impetus for lenders to overcome the variety of biases, information shortcomings and market failures that have been responsible for lenders' past shortcomings in lending in these areas. Second, argues that the loan concentration effects that Schill and Wachter find cannot be traced convincingly to the CRA, inasmuch as the Boston data predated intensified CRA enforcement, and in fact were used to demonstrate in the Boston Federal Reserve Bank Study that equally qualified minorities were denied for mortgage applications at a rate 60 percent higher than whites. Further finds that Schill and Wachter are "conspicuously silent" with respect to policy suggestions on CRA; and that they pay insufficient attention to Clinton Administration initiatives to deconcentrate poverty.

12. **Sidra Goldwater and Malcolm Bush. 1996. "Case Study: Multifamily Housing in Chicago: A CRA Success Story," in Kathryn Tholin, ed., *Tools for Promoting Community Reinvestment*. Woodstock Institute (August).** Analyzes multifamily housing lending in Chicago between 1983-1985 and 1991-1993 to find dramatic increase in number of purchase, rehab, and new construction multifamily loans. Between 1983-1985, total number of multifamily loans in the study areas averaged 361 loans and $53 million per year, as compared to 992 loans and $240 million in the 1991-1993 period. Finds that this increase corresponds to a period that saw better enforcement of CRA and more serious attention to community credit needs by financial institutions, as well as negotiation of a number of CRA agreements that included a focus on multifamily lending. Other reasons include declining real wages causing increased demand for rental housing and other financial inputs such as low-income housing tax credits. Notes importance of multifamily rental housing and a strong multifamily housing market for lower-income urban families for whom it is the primary source of housing. Analysis based on combination of HMDA, U.S. Census, and local building permit (information on rehab work) data.

13. **Donald R. Grimes, Lorraine T. Woos, and George T. Essig. 1995. "Missed Opportunity: Mortgage Refinancing in 1994," *The Midwest Economic Report*. Federal Reserve Bank of Chicago (December).** Using regression analysis to identify variables that had the greatest impact on refinancing, finds that the rate of refinancing applications by census tract decreased one percentage point for every 10 percent increase in African-American population, after controlling for differences in income, education, housing value, and other factors. Also finds that the percentage of FHA/VA loans in a census tract has a smaller, but significant effect on application rates. Suggests that loan type rather than race influenced disparity in refinancing rates.

14. **Jennifer Healy, Anna Maria Ortiz, and Daniel Immergluck. 1996. "Case Study: Disparities in Refinancing Rates Adversely Affect Minorities," in Kathryn Tholin, ed., *Tools for Promoting Community Reinvestment*.**

Chicago: Woodstock Institute (August). Uses HMDA data to analyze access to refinancing loans during 1992-1994 drop in mortgage interest rates. Finds that in both 1992 and 1993, as interest rates plummeted to their lowest levels in decades, African-Americans showed much lower rates of refinancing in each of those years (9 percent and 11 percent of refinancing loans, respectively) relative to their levels of homeownership (29 percent of homeowners) than white homeowners 69 percent of refinancing loans in 1993, but representing 58.7 percent of the homeowners. Finds similar disparities in loan applications. In 1992 and 1993, African-Americans applied for 11 percent and 13 percent of refinancing loans, respectively, while white applicants comprised 67 percent and 61 percent of refinancing applications, respectively. In 1994, when interest rates began to rise, the percentage of refinancing loans to African-Americans rose dramatically (28 percent of all refinancing loans, as compared with 49 percent to whites), even though the tide of refinancing loans was stemmed. While factors such as decline in economic security, inability to gather closing costs for refinancing, or a decrease in home values causing greater LTV ratio might explain the 1992-1993 disparity in refinancing rates, these factors do not explain rise in refinancings in 1994. Concludes that disparities are largely a result of poor marketing to minorities, with 1994 rise reflecting more aggressive efforts by banks and mortgage companies to maintain a stake in the refinancing market as rate began to rise. Notes importance of refinancing to obtaining higher disposable income having ancillary benefits to local communities, or a quicker accumulation of equity.

15. **Daniel Immergluck. 1999a. *Unfinished Business: Increases in African-American Home Buying and Continuing Residential Segregation in the Chicago Region*. Chicago: Woodstock Institute.** Examines patterns of homeownership in the Chicago metropolitan area during the 1990s, finding that while significant progress has been made in increasing the number of African-American home buyers, the bulk of the increase is concentrated in a small number of neighborhoods. The number of African-Americans purchasing homes in neighborhoods where at least 75 percent of buyers were African-American increased more quickly than in any other type of neighborhood. Thus, by 1995-1996, 45 percent of African-American home buyers were moving into neighborhoods in which at least 75 percent of buyers were African-American, compared with only 27 percent in 1990-1991. Attributes this pattern to the fact that discrimination has not been reduced in other parts of the housing market, including realty and local government development practices. In order to reduce segregation and resegregation occurring in home buying markets, report recommends increasing the budgets of HUD's fair housing programs, supporting civil litigation against private and public sector actions that promote segregation, further fair housing goals through HUD's housing and community development programs, reform the FHA loan program which facilitates rapid racial change, increase state government resources for fair-housing enforcement, provide incentives for the development of affordable housing in high job-growth areas, and establish and increase local government and community-based efforts to enforce fair housing laws and reduce racial hostility.

16. **Daniel Immergluck and Marti Wiles. 1999. *Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development*. Chicago: Woodstock Institute (November).** Analyzes HMDA data on refinance loans from 1993 and 1998 in the six-county Chicago metropolitan area. Makes recommendations for reducing predatory lending practices, including strengthened federal consumer protection laws, increased enforcement and resources devoted to predatory lending issues at the FTC, Department of Justice, and the Department of Housing and Urban Development, and increasing financial literacy and legal services for existing and prospective homeowners. In particular, recommends use of CRA regulations to encourage banks and thrifts to serve the refinance and second mortgage needs of low-income and minority neighborhoods and thereby to break down the hypersegmentation of the mortgage marketplace. To this end, recommends the following: (i) ensure that banks delineate their community to include entire metropolitan areas, so as not to exclude minority neighborhoods; (ii) give greater attention in the lending test to refinance and second mortgage lending, and not just home purchase lending; (iii) consider loan pricing and terms, and not just an institution's proportion and quantity of lending to lower-income borrowers and neighborhoods; (iv) not give CRA credit for purchases of predatory loans or CRA targeted mortgage-backed securities that are backed by predatory loans.

17. **Richard D. Marsico. 1999. "Shedding Some Light on Lending: The Effect of Expanded Disclosure Laws On Home Mortgage Marketing, Lending and Discrimination in the New York Metropolitan Area," *Fordham Urban Law Journal* 27(2):481-532.** Examines changes in home purchase mortgage loan applications and originations in the New York City metropolitan area between 1991 and 1998 with respect to black, Hispanic, and low- and moderate-income applicants and borrowers, and residents of minority and low- and moderate-income neighborhoods, to determine the extent to which changes may be attributable to enhanced HMDA disclosures of application-level data on lending patterns that were first released in 1991. Uses changes in market share of applications as proxy for changes in loan demand reflective of increased marketing by depository institutions. Finds that the market share of both applications for and originations of conventional home mortgage loans increased overall between 1991 to 1997 in four of the five subject communities in the New York City metropolitan area, with the strongest growth occurring between 1992 and 1995, consistent with the timing of HMDA data disclosures. While acknowledging that the study results cannot definitively establish cause and effect, concludes that the extent, timing, and context of increases in market share of applications from and loans made to the subject communities point to a direct correlation. Posits that the decline in market share in low- and moderate-income neighborhoods during the period was a result of increased credit availability that opened previously unaffordable housing markets to these borrowers, which is supported by data showing that the strongest growth in loans from 1991 to 1997 was in middle- and upper-income predominantly minority neighborhoods, which increased by 167 percent and 222 percent, respectively, as compared with a growth of 20 percent in low- and moderate-income predominantly minority neighborhoods, and a growth of 37.8 percent in all predominantly minority neighborhoods during the period. With respect to a general decline in market share of applications and loans in the subject communities in 1996 and 1997, Marsico suggests that lenders may have satisfied the accumulated demand for loans in these communities between 1992 and 1995, after which demand returned to a more normal level. Beyond the New York City data, finds support for the correlation with HMDA disclosures in the data on national trends for the same time period, and specifically documented evidence of governmental enforcement efforts that followed the 1991 disclosures and lender efforts to increase their lending in the subject communities. Marsico also compares how lenders treated applications from the subject communities relative to their treatment of applications from control groups, finding significant evidence consistent with discrimination.

18. **Alicia H. Munnell, Lynn E. Browne, James McEneaney and Geoffrey M.B. Tootell. 1992. "Mortgage Lending in Boston: Interpreting HMDA Data." Federal Reserve Bank of Boston Working Paper 92-7 ("Boston Fed**

Study"). Seminal study concluding that discrimination plays a role in mortgage lending in Boston. Developed a model of the determinants of mortgage lending decisions in the Boston area by supplementing HMDA data with additional credit history information for all applications for conventional mortgage loans made by blacks and Hispanics in 1990 and for a random sample of 3300 applications made by whites, combined with census information on neighborhood characteristics. Finds that after taking into account financial, employment, and neighborhood characteristics, a black or Hispanic applicant in the Boston area was roughly 60 percent more likely to be denied a mortgage loan than a similarly situated white applicant. This meant that 17 percent of black or Hispanic applicants, instead of 11 percent, would be denied loans, even if they had the same obligation ratios, credit history, loan to value, and property characteristics as white applicants.

19. **National Community Reinvestment Coalition. 1999. *Best and Worst Lenders 1998*.** Study on mortgage loan denial rates and examining subprime lending, finds that the gap between minorities and whites being denied home mortgages widened in 1996 and 1997, after seeing improvements in previous years; and that much of the new lending to blacks in recent years has come from subprime mortgages. *See* "Gap Widens on Loan Denials; Minority Buyers Gain More Mortgages, but at a High Price." The Washington Post, November 28, 1998 at E2.

20. **Michael H. Schill and Susan M. Wachter. 1995. "The Spatial Bias of Federal Housing Law and Policy: Concentrated Poverty in Urban America," *University of Pennsylvania Law Review* 143:1285-1342 (May).** Posits that federal housing policies over the last sixty years have contributed to the decline of inner cities through segregation of poor people and racial and ethnic minorities; and that government programs that seek to target spatially the flow of home finance capital have had the unintended negative consequences of exacerbating disinvestment and intensifying the spatial concentration of poverty. For example, to the extent that CRA encourages financial institutions to take undue risks in accepting loan applications of poor and minority households in predominantly poor and minority neighborhoods, and to the extent that these households ultimately default on their loans, neighborhood disinvestment can be exacerbated. Authors use a subset of data collected by the Boston Federal Reserve Bank in 1990 to test hypothesis that the CRA creates incentives that cause the concentration of low-income homebuyers in low-income neighborhoods. Examining lenders' decisions to accept or reject a borrower, finds substantial concentration effects in result that an average low-income person applying for a loan in a predominantly nonpoor neighborhood is almost three times more likely to be rejected than if he or she had applied in a neighborhood predominantly composed of poor residents; and that nonpoor households that are otherwise similar to poor households have a higher probability of being rejected in low-income neighborhoods. Recommends changes in federal policy to reverse these concentration patterns and promote economic and racial integration, including increased enforcement of the Fair Housing Act, relaxed regulatory barriers to affordable housing in the suburbs, adjusted rules to facilitate increased use of Section 8 certificates and vouchers, and relaxing the restrictiveness of replacement rules for Public Housing Authorities to enable demolition of nearly vacant, physically deteriorated public housing projects and permitting replacement by providing former tenants with housing vouchers or certificates to locate housing outside of their current neighborhoods.

21. **Michael H. Schill and Susan M. Wachter. 1994. "Borrower and Neighborhood Racial and Income Characteristics and Financial Institution Mortgage Application Screening," *Journal of Real Estate Finance and Economics* 9:223-39.** Tests for the presence and source of geographic disparities in lending by estimating a model of lenders' decisions to accept or reject home purchase loan applications and examining the interaction of income and race characteristics of both borrowers and neighborhoods in financial institution lending decisions. First, analyzes the extent to which mortgage lending is influenced by the CRA by examining HMDA and census data to compare the extent of mortgage lending to low-income and minority borrowers in five metropolitan areas (Atlanta, Boston, Houston, Los Angeles, and Philadelphia) (i) by covered financial institutions as compared to mortgage banks (which were not subject to the CRA in 1990); and (ii) in cities as compared to suburbs, based on the expectation of a higher acceptance rate in cities as compared to suburbs as a result of greater presence in cities of active community organizations. Finds that across all five cities (except for mortgage bank applicants in the City of Los Angeles), applications from blacks are less likely to be accepted (holding constant the other variables included in the regressions). Based on finding statistically significant differences between cities and suburbs only in the Atlanta and Boston MSAs; and between mortgage bank and non-mortgage bank lenders only in the Boston MSA, concludes that data do not support finding of a regulatory impact on home mortgage loan screening. However, discounts the significance of these finding in the absence of complete sets of individual risk control variables. Second, analyzing a subset of the more complete data set used in the Boston Fed study, finds evidence that screening of home mortgage loans by financial institutions produces three types of loan "concentration effects." (i) A black person's loan application is more likely to be accepted if he or she is applying for a loan in a neighborhood with a higher proportion of black residents. (ii) Low- and moderate-income individuals are more likely to be accepted for loans in low- and moderate-income areas, even with the inclusion of affordability variables. (iii) Low- and moderate-income applicants are more likely to be accepted in neighborhoods with higher proportions of black households. To estimate magnitude of these effects, looks at rejection rates by race for census tracts with varying proportions of black households. Finds that in predominantly black neighborhoods (greater than 50 percent), the rejection rates for black loan applicants are lower than those for white applicants: average actual rejection rate for white households in areas with average (or lower) proportions of black households (7.39 percent or lower) equals 10.1 percent. The white rejection rate increases to 11.2 percent in areas with greater than average proportions of black households and increases again to 32 percent in areas with 50 percent or more black households. For black households, average actual rejection rates increase from 23.7 percent to 33.8 percent, but then decrease in areas with 50 percent or more black households. Unable to distinguish among three potential sources of this outcome: CRA incentives to extend loans to particular categories of neighborhoods, discriminatory racial steering and other institutional factors that direct minority borrowers to specialized lending institutions (especially in metropolitan areas where race is highly correlated with income), or informational economies of institutions located in low-income or minority neighborhoods. Concludes that if concentration effects are due to information externalities generating an inefficient level of investment, then increasing the flow of funds to these neighborhoods through community-based lending policies such as CRA may be desirable. On the other hand, finding that poor and minority loan applicants are more likely to obtain loans in predominantly poor and minority neighborhoods may be attributable to racially discriminatory steering practices. Alternatively, if it is attributable to the incentives created by the CRA and default rates are increased by undue risk taking, CRA outreach could contribute to neighborhood decline. To the extent racial or ethnic minorities and low- and moderate-income households are encouraged to live in these communities rather than seek housing elsewhere, CRA may exacerbate problems associated with spatial isolation.

22. **Lewis M. Segal and Daniel G. Sullivan. 1998. "Trends in Homeownership: Race, Demographics, and Income," *Economic Perspectives,* (Second Quarter). Federal Reserve Bank of Chicago, pp. 53-72.** Examines data on homeownership between 1977 and 1997 to determine overall trends, as well as extent to which recent homeownership gains of black households and drop in the white-black homeownership gap from 1995 to 1997 might be attributable to the effectiveness of the CRA and fair lending laws, or to changing demographic or income trends. Finds that data indicate that while the overall homeownership rate declined by only 0.8 percentage points between 1977 and 1995, the black homeownership rate fell by 2.6 percentage points to 40.7 percent. In contrast, the white homeownership rate increased by 0.4 percentage point to 67.9 percent, implying a 1995 gap of 27.2 percent. Although that gap shrunk by nearly 3 percent from 1995 to 1997, the homeownership rate for blacks remains more than 23 percent below that for whites. Finds that very little of the trend over time in the white-black differential in homeownership is explained by changes in demographic and income variables, particularly the drop in the gap since 1995. Therefore, concludes that the recent amendments to the CRA and fair lending laws or their more vigorous enforcement might be having a positive effect on black homeownership rates.

B. Small Business And Community Development Lending

1. **Timothy Bates. 1997. "Unequal Access: Financial Institution Lending to Black- and White-Owned Small Business Start-ups," *Journal of Urban Affairs* 19(4):487-95**. Finds that blacks are less likely than whites to receive start-up business financing from banks (17 percent as compared to 22.7 percent of white-owned firms), and that those who do obtain bank loans receive smaller loan amounts, on average, than white borrowers. The average bank loan amount received by black-owned firms was $29,068, as compared to $52,289 in start-up financing for white business owners, and black borrowers still showed smaller loan amounts after controlling for owner and firm characteristics. Bates found the difference in loan size amount attributable to the facts that black-owned business started with lower amounts of equity capital, and that they were able to leverage that capital at lower rates than white-owned firms. "Debt and equity are complements, not substitutes, in the context of small firm creation: possessing equity increases one's access to institutional credit sources." Bates found that black borrowers received $0.92 debt per equity dollar, which is $0.25 below the $1.17 loan amount associated with each equity dollar invested by whites.

2. **David G. Blanchflower, Phillip B. Levine, and David J. Zimmerman. 1998. *Discrimination in the Small Business Credit Market*. Working Paper 6840. Cambridge: National Bureau of Economic Research (December).** Using data from the 1993 National Survey of Small Business Finances, finds that black-owned small businesses are almost three times more likely to have a loan application denied. Even after controlling for the differences in creditworthiness and other factors that exist between black- and white-owned firms, blacks are still about twice as likely to be denied credit. Also finds that black-owned firms pay higher interest rates. Suggests that even these results are likely to understate differences in credit access because many potential black-owned firms are not in operation due to the lack of credit, and those in business may be afraid to apply. Concludes that racial disparity in credit availability is likely caused by discrimination.

3. **Jackson L. Blanton, Alicia Williams, Sherrie L.W. Rhine, eds. 1999. *Business Access to Capital and Credit: A Federal Reserve System Research Conference; Proceedings of a Conference Held in Arlington, Virginia, March 8-9, 1999*.** Includes papers delivered in the six sessions of the conference: (i) CRA Data on Small Business Lending (Glenn B. Canner; Gregory D. Squires and Sally O'Connor; Daniel Immergluck; with discussion comments by Anthony M.J. Yezer); (ii) Access to Credit for Minority-Owned Businesses (Raphael W. Bostic and K. Patrick Lampani; Ken Cavalluzzo, Linda Cavalluzzo and John Wolken; with discussion comments by Timothy Bates and Robert B. Avery); (iii) The Small Business Lending Relationship - Session A (George W. Haynes, Charles Ou and Robert Berney; Jonathan A. Scott and William C. Dunkelberg; Rebel A. Cole, Lawrence G. Goldberg, and Lawrence J. White; with discussion comments by Allen N. Berger and Mitchell A. Petersen); (iv) The Small Business Lending Relationship - Session B (Brian Uzzi and James J. Gillespie; Jeremy Berkowitz and Michelle J. White; Paul Huck, Sherrie L.W. Rhine, Robert Townsend, and Philip Bond; discussion comments by Gregory F. Udell and Philip E. Strahan); (v) Microenterprise Lending (Lisa J. Servon; Denise L. Anthony; with discussion comments by William C. Hunter); (vi) Credit Scoring and Securitization of Small Business Loans (Michael S. Padhi, Lynn W. Woosley, and Aruna Srinivasan; Zoltan J. Acs; with discussion comments by Gregory Elliehausen and Loretta J. Mester). Overview by Richard W. Lang, Senior Vice President and Director of Research, Federal Reserve Bank of Philadelphia; Keynote Address by Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System, and Luncheon Address by Edward M. Gramlich, Board of Governors of the Federal Reserve System.

4. **Board of Governors of the Federal Reserve System. 1997. *Report to the Congress on the Availability of Credit to Small Businesses*. (October).** Based on 1993 National Survey of Small Business Finances (co-sponsored by the Board and the SBA) and other sources, analyzes small business credit flow and terms and trends affecting the availability of small business credit. Finds that commercial banks provided more than 60 percent of the dollar volume of credit to small businesses (defined as businesses with 500 employees or less); and that total commercial bank loans to small businesses expanded 5-1/2 percent from June 1995 to June 1996, and 6 percent from June 1996 to June 1997. Finds that numerous indicators suggest that both large and small banks have been increasing efforts to attract small business customers, with terms and standards for small business loans steadily eased between December 1992 and August 1997, and interest rates on new business loans of less than $1 million several percentage points below peaks of eight years earlier. Examples of expanded types of small business lending by banks include increased use of small business credit cards (30 percent of small businesses reported use of business credit cards in 1993, including Wells Fargo offers of pre-approved lines of credit to small businesses through direct mail solicitations), increased origination and sale of SBA and other guaranteed loans, and development of CRA-inspired investment programs, including consortium lending corporations and loan pools, bank-owned or affiliated community development corporations, small business investment companies, SBA 504 certified development companies, and community-based micro-enterprise loan funds. Evaluates future trends in availability of small business credit as influenced by credit scoring, securitization of small business loans, and bank

consolidation activity. Finds that credit scoring is increasing the overall availability of credit to small businesses by lowering the costs for reviewing and monitoring small business loans, and is making certain products cost-effective, such as loans in the smallest category and direct mail pre-approved loan products. Cites study finding dramatic increase of 26.2 percent in smallest loan category of $100,000 or less by large banks between 1995 and 1996, with only slight increases among smaller institutions during the same time period, largely due to emphasis on automated loan application and evaluation. Notes that there is little qualitative evidence to date to determine whether credit scoring may have disparate effects on different groups of business owners, such as women or minorities, or their impact on businesses in underserved communities. Suggests that creditworthy businesses that do not qualify for loan approval on the basis of a credit score would still provide opportunities for community-based lending relationships, but that this lending may be riskier and entail higher costs of evaluating risks and monitoring performance over time. Suggests that credit scoring may promote small business loan securitization by permitting standardization and providing a basis for evaluating the risk of pools of small business loans, but that to date, very few small business loans other than those carrying an SBA guarantee have been securitized. Finally, looking at effects of mergers and consolidations on small business lending, finds that studies on balance find little evidence that aggregate credit flows have been reduced, although temporary disruptions in lending relationships have been reported by some small businesses.

5. **Ralph W. Bostic and Glenn B. Canner. 1998. "New Information on Lending to Small Businesses and Small Farms: The 1996 CRA Data,"** ***Federal Reserve Bulletin*** **84:1-21.** Assesses national trends in small business and small farm lending reflected in the first year of data under the revised CRA regulations. Salient findings include the following. (i) The distribution by number and dollar amount of small business loans across the four income categories generally follows the distribution of population and businesses across these groups. (ii) Small business loans are heavily concentrated in central city and suburban areas (about 80 percent of all small business loans), as are the bulk of the U.S. population and most small businesses. In lower-income areas, most small business loans are made in central city census tracts; in higher-income areas, suburban census tracts have the most small business loans. (iii) At least some small business loans are made in most geographic areas, but small business lending tends to be concentrated geographically, with the top 5 percent of census tracts in number of loans receiving 26 percent of all small business loans; and the census tracts receiving the top 5 percent in loan dollars receiving 33 percent of the small business loan dollars. (iv) 39 percent of CRA-reporting institutions reported that small business lending in low-income areas made up less than 1 percent of their newly originated or purchased loans, with 8.8 percent reporting that small business lending in moderate-income areas made up such a small share of their small business lending activity. (v) Community development loans reported for 1996 totaled $17.7 billion, the average loan being $542,000 (as compared to average small business loan of $61,000), with large commercial banks and savings associations (assets $1 billion or more) making the majority (55 percent) of the loans and accounting for 81 percent of community development lending measured in dollars.

6. **Raphael W. Bostic and K. Patrick Lampani. 1999. "Racial Differences in Patterns of Small Business Finance: The Importance of Local Geography," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference, Proceedings of a Conference Held in Arlington, Virginia, March 8-9, 1999*****, pp. 149-79.** After controlling for a variety of loan, firm, owner, and local market characteristics, finds statistically significant differences in approval rates between white-owned and black-owned firms, though not between white-owned firms and firms owned by Asians, Hispanics, or women. Suggests that economic and demographic characteristics of a firm's local geography should be considered for a more accurate quantification of racial disparities.

7. **California Reinvestment Committee. 1994.** ***No Credit For Those Who Need It: Uncle Sam Ignores Small and Minority Business*****. (January).** Examines SBA lending nationwide and in California between 1990 and 1992. Finds that SBA loans of $50,000 or less accounted for 14.5 percent of total loans and 2.1 percent of total loan dollars nationwide, while loans of $250,000 or more accounted for 32 percent of total loans and 68 percent of total loan dollars. Statistics of lending by race showed whites received almost nine out of ten SBA loans during the study period, Asians 6.2 percent, Latinos 4.8 percent, and African Americans 2.8 percent, with similar percentages in California, with lending to whites exceeding and lending to minorities far below their relative proportions in the population. Lower-income California counties received about 39 percent of SBA loans, but had 42 percent of the state's businesses; the amount of Equal Opportunity Loans (EOL) for businesses in low-income areas dropped from $91 million to $16.7 million between 1980 and 1992, while the total amount of SBA lending increased by more than half during that period. Argues that role of taxpayer-subsidized SBA lending should be to support small businesses not otherwise served by the credit system through loans to start-up businesses, businesses in low-income communities, and minority-owned businesses. Recommends creating incentives to increase business loans under $50,000; increasing lending to minority-owned businesses and businesses in low-income communities; making status as an SBA-guaranteed lender depend on record of lending in low-income communities and to minority-owned businesses; requiring lenders to make loans under the SBA 504 program (at less taxpayer expense than 7(a) program) if borrower is eligible.

8. **Federal Financial Institutions Examination Council (FFIEC). 1998. "Findings from Analysis of Nationwide Summary Statistics for 1997 Community Reinvestment Act Data: Fact Sheet."** Presents findings from analysis of 1997 small business, small farm, and community development lending data reported by commercial banks and savings associations under 1995 revised CRA regulations. Includes tables that show spatial distribution of small loans to businesses by number and loan amount and grouped by area income levels. Finds that small business loans are heavily concentrated in central city and suburban areas (about 81 percent of all small business loans), as are the bulk of the U.S. population and businesses. Specifically, 40 percent of the small business loans, 41 percent of the businesses, and 37 percent of the population were in central cities. Suburbs represented 41 percent of the loans, 41 percent of the businesses, and 43 percent of the population. Data on distribution of loans by amount were similar. Most of the small business loans in lower-income areas occurred in central city census tracts; the higher-income area small business loans are in suburban areas. Rural areas were 19 percent of loans, 18 percent of the businesses, and 20 percent of the population. Finds that the overall distribution of the number and dollar amounts of small business loans across the four neighborhood income categories also paralleled the distribution of population and businesses across the income categories.

9. **Federal Reserve Bank of Chicago. 1998. *CRA Small Business Lending Profile*. Chicago: Federal Reserve Bank of Chicago.** Analyzes small business lending in five midwestern communities (Chicago, Des Moines, Detroit, Indianapolis, and Milwaukee), comparing lending among these communities and to lenders nationwide. Finds that percentage of loans and ratio of loans per business were lower in low- and moderate-income tracts than in middle- and upper-income tracts in each geographic location, with the largest gaps occurring in Milwaukee.

10. **Ron Feldman. 1997. *Small Business Loans, Small Banks and a Big Change in Technology Called Credit Scoring*. Federal Reserve Bank of Minneapolis (September).** Suggests that credit scoring technology promises large banks greater access to and ability to compete in the small business lending market by providing a proxy for information previously available only to smaller banks through relationships and presence in the community. Cites statistics that very small business loans (under $100,000) made by banks with assets over $5 billion increased by 26 percent from June 1995 to June 1996. In contrast, between June 1994 and June 1995, when credit scoring was much less common, large banks saw only a 4 percent increase in such small business lending. Suggests that large banks will be able to access the most creditworthy small business market outside their geographic area, ultimately benefiting the consumer, but to the potential detriment of small, local banks and communities.

11. **Frank Ford. 1996. *Survey of Small Business Lending in Denver*. University of Colorado at Denver, Colorado Center for Community Development.** Analyzes data from telephone survey of over 400 small business owners in the City and County of Denver between June 1994 and July 1995 designed to identify barriers small businesses face in seeking credit from financial institutions and to determine whether there was any racially-based difference in treatment of small business owners. Survey finds 51 percent rejection rate for African-Americans, as compared to 22 percent for Latinos and 15 percent for Anglos; and that after restricting criteria to produce stronger financial profile, Anglo rejection rate declined to 4 percent, but African-American rate remained consistently high at about 50 percent, with no statistically significant relationship between ethnicity and various other financial and business criteria. Argues that results support need for disclosure of applicant race information with small business lending data, citing the success of HMDA data in fostering creative lending programs to meet credit needs of people of color. See Michael Selz, "Race-Linked Gap Is Wide in Business-Loan Rejections," *The Wall Street Journal*, May 6, 1996, at B2.

12. **Cassandra Jones Havard. 1997-1998. "Synergy and Friction – the CRA, BHCs, the SBA, and Community Development Lending," *Kentucky Law Journal* 86: 617-74.** In order to ensure availability of small business and community development credit despite consolidation trends in the banking industry, argues that (i) CRA responsibility for small business lending should be transferred from the bank subsidiary to the bank holding company and (ii) SBA policies should be reformed to ensure they do not contribute to geographic disinvestment. Latter argument premised on fact that private lenders control which borrowers receive SBA-guaranteed loans, with the SBA's role generally limited to guarantor of the loans. With respect to bank holding companies, recommends that a bank holding company evaluate for each bank subsidiary the geographic location of its SBA-guaranteed loans, including those that have been sold on the secondary market, as part of a merger analysis. With respect to SBA reforms, recommends that SBA collect more data on geographic distribution of its loans; establish a preferred lender program for community development lenders, adopting the CRA definition of community development lending; establish a pilot program to make more guaranteed loan funds available to successful SBA bank lenders, including a revolving fund consisting of SBA-guaranteed securitized loans that would be available to banks for additional small business community development lending.

13. **Paul Huck, Sherrie L.W. Rhine, Robert Townsend, and Philip Bond. 1999. "A Comparison of Small Business Finance in Two Chicago Minority Neighborhoods," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds., *Business Access to Capital and Credit: A Federal Reserve System Research Conference Held in Arlington, VA, March 8-9, 1999,* pp. 467-502**. Examines small business access to credit in two ethnic neighborhoods in Chicago – Little Village, a predominantly Hispanic community, and Chatham, which is predominantly black. Considers "informal financing" as well as formal financing through bank loans. Concludes that black owners start their businesses with significantly less capital than Hispanic business owners, after controlling for industry types and various measures of human capital; and are less likely to be offered and to use trade credit; that both black and Hispanic owners started their businesses with less funding than owners in the other ethnic groups, and depended on personal savings for a higher proportion of their start-up funding, and were more likely to use personal savings as their only source of start-up funding. Comparing ongoing performance, as measured by annual profit, to the level of start-up capital, finds that start-up capital does matter for the future performance of the businesses in the sample, consistent with prior research indicating that the extent of start-up capital increases chances that a new enterprise will survive.

14. **Daniel Immergluck. 1998a. *Comments on Bostic and Canner's New Information on Lending to Small Businesses and Small Farms: The 1996 CRA Data*. Woodstock Institute (February).** Responds to Bostic and Canner analysis of 1996 CRA small business lending data, finding that their presentation of results served to understate differential credit flows across neighborhoods by income level. By estimating raw numbers based on the percentages presented in their Table 8 on loan flows across neighborhoods, Immergluck extrapolates lending-per-business rates by income level of neighborhood. Finds that nationwide, the loan-per-business rate is 37 percent higher in upper-income areas than in low-income ones (34.2 loans per business in upper-income areas, as compared to 24.9 in low-income areas); and 18 percent higher in middle-income neighborhoods than in moderate-income tracts (29.8 as compared to 25.3). Suggests that changes such as more flexible underwriting, more targeted use of government enhancements (e.g. SBA, state programs, etc.), and more aggressive marketing in lower-income areas could spur increased lending in lower-income areas, in the same way that adjustments in mortgage products and underwriting procedures have helped to increase conventional mortgage credit flows in low-income areas. Notes other limitations of Bostic and Canner's analysis, including that it did not compare the distribution of loans to firms with $1 million or less in revenues to the distribution of firms in that size range, or control for industrial composition of businesses in particular census tracts in analyzing the data.

15. **Daniel Immergluck. 1995. *Moving to Economic Development: A New Goal for SBA Loan Programs: SBA 7(a) Lending Patterns in San Antonio Before and After LowDoc*. Woodstock Institute.** Analyzes effect of SBA's low-documentation, or "LowDoc" program, designed to increase the number of loans the SBA guarantees for under $100,000, especially to minority-owned businesses, by looking at data for 7(a) lending, including LowDoc loans, in the San Antonio

area from one year prior to the program's introduction in November, 1993, through one year after its introduction. Finds that the LowDoc program resulted in greater increases in lending to nonminority-owned businesses and businesses in more affluent, nonminority neighborhoods than to minority-owned businesses and firms in modest-income and minority neighborhoods, with lending increasing by 52 percent in minority areas, compared to 110 percent in nonminority areas, and by 44 percent in lower-income zip codes, compared to 100 percent in upper income zip codes. Concludes that program not effectively targeting minority-owned businesses. Makes recommendations including: (i) 7(a) program should establish targets for, and market to, minority-owned firms and firms in modest-income metropolitan areas; (ii) SBA should create incentives to encourage lending to areas in need of economic development; (iii) absolute prohibition on SBA guarantee of loans to nonminority-owned firms relocating from modest-income neighborhoods to upper-income suburban areas; (iv) make SBA programs available to CDFIs; (v) SBA should conduct research to determine employment impacts of 7(a) programs; and (vi) only SBA loans to minority-owned firms and to firms in modest-income areas should be given CRA credit – not all SBA loans.

16. **Daniel Immergluck and Erin Mullen. 1998a.** ***Getting Down to Business: Assessing Chicago Banks' Small Business Lending in Lower-income Neighborhoods*****. Woodstock Institute (June).** Describes individual lending patterns of the 50 largest bank and thrift lenders to small businesses in the Chicago metropolitan area for 1996, based on the first year of small business lending data available under the 1995 revised CRA regulations. Finds that only 14.7 percent of loans in the MSA were made to low- and moderate-income tracts; and that the number of loans per 100 businesses in upper-income tracts exceeded loans per 100 businesses in low-income tracts by 39 percent (23.1 as compared to 16.6); and by 50 percent when considering only loans to firms with annual revenues of $1 million or less (16.2 as compared to 10.8). Also finds that in general, small or medium-sized institutions with branches located more in the central city and closer to low- and moderate-income areas tend to make a higher proportion of loans to businesses in low- and moderate-income areas, although there was significant variation among banks with similar branch location patterns. Suggests that greater complexity of business lending (as compared to mortgage lending) and its dependence on relationships accounts for this pattern. Finds that larger banks are beginning to make more small loans, including more loans to very small firms, on the basis of computerized credit scoring technologies; but suggests that credit scoring also may threaten smaller banks by skimming off the best potential customers, and may create additional barriers for less affluent and minority owners of very small firms on account of focus on personal wealth and credit. Finally, finds that credit card banks were three of the five largest lenders in the metropolitan area and accounted for 39 percent of the small business loans reported in 1996, yet are subject to only limited CRA review on account of their status as limited purpose banks, a status intended for issuers of consumer, not business, credit card lenders. Suggests regulators examine the lending of these banks for their impact on low- and moderate-income communities.

17. **Daniel Immergluck and Erin Mullen. 1997.** ***Economic Development Where It's Needed: Directing SBA 504 Lending to Lower-Income Communities*****. Woodstock Institute (June).** Examines data for SBA 504 lending between 1992 and 1996 over the 6-county Chicago metropolitan area by industrial sector and zip code. Finds that 504 lending is concentrated in middle- and upper-income suburbs and in newly developed areas, suggesting that the 504 program may be subsidizing central city job loss and suburban sprawl. For example, finds that 33 percent of all loans to manufacturing firms were to businesses in low-moderate and lower-middle income zip codes, while manufacturing firms accounted for 49 percent of all the businesses in these areas; and 17 percent of 504 loans to manufacturers were approved in low- and moderate-income areas, while these areas contained 27 percent of manufacturers in the six-county area. Highest lending rates were in upper-income counties. Finds similar patterns in retail and wholesale sectors. Further finds that 504 loan program serves predominantly nonminority-owned businesses, though data show increase in lending to minority firms in the last two years, predominantly to Hispanic- and Asian-owned firms. Altogether, finds that less than 15 percent of loans went to firms in the city of Chicago, with much higher geographic distribution of loans in nonminority, upper-income areas than in lower-income areas. Attributes this result at least in part to fact that certified development companies ("CDCs") through which 504 loans are disseminated often rely on bank loan officers for applicant referrals. Suggests that proactive SBA policies are needed to target business development that provides jobs and economic activity where they are needed, and not subsidize or exacerbate development patterns that work to the detriment of low-income communities and their residents; that government subsidy or sponsorship should not be based solely on increasing access to small business credit without regard for the development consequences of the lending patterns it supports. Makes recommendations to promote the use of 504 lending in the lower-income areas most in need of development. See also Daniel Immergluck & Erin Mullen, "The Intrametropolitan Distribution of Economic Financing: An Analysis of SBA 504 Lending Patterns." *Economic Development Quarterly* 12: 372-84.

18. **Michael S. Padhi, Lynn W. Woosley, and Aruna Srinivasan. 1999. "Credit Scoring and Small Business Lending in Low- and Moderate-Income Communities," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference Held in Arlington, VA, March 8-9, 1999*****, pp.587-624**. Using a broad range of data that included a telephone survey of the largest 200 U.S. commercial banks, economists from the Federal Reserve Bank of Atlanta compare small business lending in 1997 by depository institutions that use automated underwriting techniques, i.e., credit scoring, and those that do not, in order to assess the extent of differences in their relative lending to low- and moderate-income communities. Finds that overall, banks that used credit scoring techniques did significantly more lending in low-income communities, and somewhat more lending in moderate-income communities, relative to other areas than did banks that did not use credit scoring. Comparing lending by credit scoring and non-credit scoring institutions with branches located in the census tract in which a small business loan is made, the researchers also found that more small business loans were originated in a tract in which an institution had a branch, but that branch presence is less important for banks that use credit scoring, indicating that scorers are more likely to lend further away from where they have a physical presence.

19. **Joe Peek and Eric S. Rosengren. 1998a. "The Evolution of Banking Lending to Small Business,"** ***New England Economic Review*** **27-36 (March/April).** Analyzes the impact of the two trends of bank consolidations and use of credit-scoring models on the extent and type of small business lending by banking institutions of varying sizes. Finds that the major area of increased lending by larger banking institutions has been in the under $100,000 loan category. Speculates that loans in this smallest category are the most amenable to use of credit-scoring models that avoid the costs of obtaining balance sheet and income statements for the firm and evaluating the underlying collateral, permitting large banks that specialize in a particular market to mimic informational advantages of smaller institutions with close community ties, and may be able to apply their securitization expertise. At the same time, finds that smaller banks are shifting their emphasis to larger loans, in the $100,000 to $1 million category, possibly as a result of mergers with smaller banks that result in eased borrower concentration constraints that limit small bank access to this sector of the small

business market. Concludes that overall, consolidations and use of credit scoring are likely to result in the availability of more and lower-cost options to small business borrowers.

20. **U.S. Small Business Administration Office of Advocacy. 1997.** ***Small Business Lending in the United States, 1997 Edition: A Directory of Small Business Lending Reported by Commercial Banks in June 1997*****. Washington, D.C.** Analyzes June 1997 call report data on a state-by-state basis, ranking small business lending performance of every commercial bank in the state. Rankings based on (i) ratio of small business loans to assets; (ii) ratio of small business loans to total business loans; (iii) dollar value of small business loans; and (iv) number of small business loans. Also available for 1996, 1995, and 1994.

21. **Gregory D. Squires and Sally O'Connor. 1999. "Access to Capital: Milwaukee's Small Business Lending Gaps," University of Wisconsin – Milwaukee. Available in Jackson L. Blanton, Alicia Williams, Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference; Proceedings of a Conference Held in Arlington, Virginia, March 8-9, 1999.*** Uses CRA small business lending data to examine distribution of small business loans in the four-county Milwaukee statistical metropolitan area based on 1996 data, with comparison to 1997 data. Finds that small business lending in Milwaukee was concentrated in middle- and upper-income areas, and was more concentrated in these communities in the Milwaukee MSA than was the case nationwide. Upper-income tracts received 37 percent of all loans and loan dollars, while accounting for 27.1 of the population and 32.2 percent of all businesses; low-income tracts received approximately 5.5. percent of all loans and loan dollars while accounting for 12.7 percent of the population and 8.8 percent of all businesses. Second, lending to firms with assets of $1 million or less in Milwaukee was below nationwide levels, particularly in low-income areas. Third, small business lending and lending to firms with revenues under $1 million both are concentrated in white communities, with approximately 90 percent of loans and loan dollars going to firms in these areas, approximately two percent of loans and loan dollars going to businesses in predominantly black neighborhoods, and less than one percent to businesses in Hispanic areas. Finally, Milwaukee area lenders varied substantially in the extent of their small business lending by neighborhood income level. For example, while 5.5. percent of all loans went to low-income tracts, among the 20 institutions in the sample, two made fewer than one percent of their small business loans in low-income areas, while one lender did 14.0 percent of its lending, and three others did nine percent of their lending in low-income areas. Finds little change in this overall lending pattern in 1997 data, which also shows less lending activity in terms of loans and loan dollars in low- and moderate-income areas. Points out that the lack of application-level data on small business lending prevents analysis of extent to which variations in demand for credit across neighborhoods may account for these lending patterns, but suggests that the broad disparities among individual lenders in the distribution of their small business loans suggests that something other than the quantity or quality of the demand for credit underlies these patterns. In order to facilitate further research to understand the causes and policy implications of findings, recommends that covered lenders be required to report the number of applications for small business loans and their disposition; lenders be permitted to solicit information on the race of small business applicants; and the FFIEC release tract level data for individual lenders and make available tables that display lending activity by racial composition of tracts. Looks to possibility that disclosure of small business lending activity will increase the availability of small business loans in previously underserved communities in the same way that the combination of HMDA and CRA have increased the supply of funds for mortgage lending.

Appendix A

II. Effects of CRA Regulatory Reform

1. **Robert B. Avery, Patricia E. Beeson, and Mark S. Sniderman. 1997. "Information Dynamics and CRA Strategy,"** ***Economic Commentary*****. Federal Reserve Bank of Cleveland (February 1).** Based on national home mortgage data (1990 and 1991) and neighborhood characteristics data (1980 and 1990 decennial censuses), finds that in many low- and moderate-income neighborhoods, demand is too low to allow more than a handful of lenders to learn enough about the area to operate profitably. As a result, encouraging all lenders to be active in all neighborhoods may increase the costs of lending in neighborhoods with thin loan demand. Encourages lenders to take advantage of the greater latitude under the new CRA regulations for establishing institutional arrangements such as community development banks or loan consortia through which they can pool their resources and specialize in collecting and analyzing local market data, and thereby stand a better chance of generating economies of scale than they would through direct financing. Suggests that this specialization could increase overall lending in targeted neighborhoods.

2. **Bear, Stearns & Co., Inc. 1997. "Securities Backed by CRA Loans: A New Product for Mortgage and Asset-backed Investors," Mortgage Research (October 2).** Research that underlies Bear, Stearns' CRA loan securitization transactions. Analyzes CRA loan programs with respect to borrower demographics, underwriting criteria and loan attributes in comparison with agency conforming, home equity, and VA Vendee loans; and analyzes historical prepayment experience of $1.88 billion First Union CRA loans originated between 1990 and 1996 in five states. Concludes that as a result of low mobility rates of low- income borrowers, combined with tendency for CRA loans to have favorable financing rates, small balances, high LTVs and be primarily for first-time purchase transactions, CRA loans tend to have slower rate of prepayment based on housing turnover, and CRA borrowers are less sensitive to refinancing opportunities than agency borrowers. Concludes that CRA-backed securities offer investors prepayment stability that improves the convexity of CRA-backed transactions.

3. **Coalition of Community Development Financial Institutions. 1993.** ***Principles of Community Development Lending & Proposals for Key Federal Support*****. Philadelphia (January 25).** Lays out the key principles developed by community development lenders to guide the Clinton Administration's community development lending initiative that resulted in creation of the CDFI Fund. Requests four primary types of federal assistance: equity investment, long-term and below-market deposits, human capital development, and assistance with providing technical aid to borrowers and with developing new credit products.

4. **Federal Reserve Bank of San Francisco, Community Affairs Unit. 1998.** ***Qualified Investments: A Summary of Investment Test Results: Qualified Investments Under the Revised CRA*****. (April).** Summarizes qualified investments of 36 financial institutions in the Twelfth Federal Reserve District and Western Region examined by the four regulatory agencies between July 1, 1997 and March 15, 1998, including one small bank that opted to include investment activity, and five limited purpose institutions evaluated under the community development test. Lists each institution by approximate asset size, total dollar amount of qualified investments, investment rating, overall CRA rating, and regulator; as well as an itemized list of qualified investments. Also included is a summary of the 11 existing strategic plans nationwide, listing each institution by approximate asset size, strategic plan term, regulator, aggregate dollar volume of investment goals by year, and itemized list of approved investments.

5. **Financial Markets Center. 1999.** ***The Federal Reserve and Local Economic Development*****. (September).** Describes the legal and historical framework of the Federal Reserve's economic development obligations, providing an overview of its current community affairs infrastructure and a detailed summary of key community affairs activities at the 12 regional Federal Reserve Banks. Analyzes strengths and shortcomings in the community affairs program and recommends steps to improve the Federal Reserve's efforts, including increased and more effective use of regional roundtables to provide ongoing contact between community groups and lenders; issuance of a report evaluating the Mortgage Credit Partnerships model initiated by six Reserve Banks; expanded support for lending and investment consortia and CDCs; use of the Federal Reserve's applied research capabilities, including statistical and mapping skills, to more systematically identify and bring resources to bear on the most under-served communities or the most critical problems.

6. **U.S. General Accounting Office. 1995.** ***Community Reinvestment Act: Challenges Remain to Successfully Implement CRA*****. GAO/GGD-96-23 (November).** On the basis of case studies and detailed review of compliance examinations of 40 banks and thrifts and interviews with bankers, community groups, and regulatory officials to identify four major problems with CRA examination and enforcement under the previous regime and how the new regulations have responded to these problems. First, too much reliance on documentation of efforts and processes, and too little reliance on lending results, leading to an excessive paperwork burden: GAO believed the revised regulations would significantly reduce overreliance on documentation of efforts and processes by focusing examination standards on results, although examinations will require continued balancing of the need for objective standards with the need for flexibility in examining different types of institutions operating under differing financial conditions and serving wholly different types of communities. Second, inconsistent examinations by regulators resulting in uncertainty about how CRA performance is to be rated: GAO believed extent of improvement would depend on implementation, especially the effectiveness of the guidance and training provided to examiners. Third, examinations based on inadequate information that may not reflect a complete and accurate measure of institutions' performance: GAO notes how regulators attempted to strike a balance between increased data collection and reporting by which to assess performance and reducing regulatory burden, but that they do not address issues of data inaccuracies and need for clearer explanations of how performance ratings are determined. Fourth, because proposal to increase certainty in ratings by keying ratings to specified regulatory action on a pending application was rejected as a safe harbor, GAO believed enforcement concerns of bankers and community groups would likely continue. Continued challenges to implementing regulatory reform identified as uncertainty and inconsistency, as a result of discretion inherent in examiners' interpretations of CRA

standards, differences in examiner experience, limitations in accuracy and accessibility of data on which assessments are based, limited disclosures in public evaluation reports, and limits of regulatory resources. Identifies barriers to community lending in low- and moderate-income areas and the various initiatives by lenders to address them. Higher credit risk due to the possibility of borrower default and higher transaction costs for additional time and effort necessary to ascertain the creditworthiness of the borrower or the related property in certain LMI areas have been addressed through (i) arrangements for applicant screening, education, and counseling prior to loan extension and monitoring of borrowers after loans are granted, sometimes by providing technical assistance and grants to nonprofit housing counseling or community groups that provide these services; and (ii) use of lending consortia for spreading risk, saving transaction costs of gathering information, and developing expertise. Other barriers are opportunity costs of foregoing more profitable activities; safety and soundness concerns, which have been addressed by regulatory changes to risk-based capital standards, such as permitting institutions to hold less capital against multifamily housing loans than required in the past; and secondary market standards that limit the ability of institutions to sell loans that do not meet conventional underwriting standards or payment terms, which has been addressed by Fannie Mae and Freddie Mac initiatives in recent years to increase purchases of affordable loans and redefine standards for judging creditworthiness. Also details initiatives of federal, state, and local governments to encourage community development lending, and efforts of the regulators through their consumer affairs and outreach programs to facilitate community lending initiatives. Recommends that Congress consider the results from implementation of the revised regulations before making statutory changes.

7. **Judith Havemann. 1998. "A Hand Up, Via Homeownership; North Carolina Group Given $50 Million to Aid Working Poor," *The Washington Post*, July 24.** Reports the Ford Foundation's $50 million grant to Self-Help, a North Carolina nonprofit organization, to help low-income families buy homes. Under the program, banks (BankAmerica Corp., Chase Manhattan Corp., NationsBank Corp., Banc One Corp., and Norwest Corp.) make CRA loans which are then sold to Self-Help. Using the Ford Foundation funds, Self-Help, in turn, would insure the loans against losses and sell them to Fannie Mae. Fannie Mae committed to purchase $2 billion in loans, which it will pool for sale as mortgage-backed securities. The banks would use the capital from sale of the loans to make more affordable housing loans. Susan Berresford, president of the Ford Foundation, quoted as stating that an important goal of the grant will be to test whether low-wealth families that have been denied mortgages in the past can manage monthly mortgage payments, and thereby lay the groundwork for opening up lending policy nationwide. Ford Foundation emphasis on creating wealth among the poor of all ethnic backgrounds, and particularly minority communities, based on research finding that although black Americans make about 60 percent of what whites do, their assets amount to only 8 percent of those of whites; and that homeownership rates are only 45 percent for blacks, compared with 72 percent for whites. See also Self Help, "Community Advantage™ Home Loan Secondary Market Program" (promotional materials). [also included in Addendum].

8. **Daniel Immergluck. 1998. *CRA & CDFIs: The Community Reinvestment Act and Community Development Financial Institutions; Qualified Investments, Community Development Lending, and Lessons from the New CRA Performance Evaluations*. Woodstock Institute (September).** Reviews and summarizes the evaluation criteria and performance rating system under the revised CRA regulations, highlighting the types of activities recognized under each of the component tests relevant to bank involvement with CDFIs. Examining the composite and component CRA ratings for banks and thrifts evaluated under the large bank CRA regulations between July 1997 and July 1998, finds the following. First, composite ratings remained high, with the proportion of Needs to Improve or Substantial Noncompliance ratings remaining steady at fewer than two percent of institutions, although Outstanding ratings were significantly lower at all four banking agencies (with the largest drop at the OCC) than prior to the revisions. Second, investment test scores were markedly lower than scores for lending or services. On the investment test, 4 percent of the institutions received Outstanding, 21 percent High Satisfactory, and 14 percent Needs to Improve or Substantial Noncompliance. By comparison, on the lending test, 12 percent receiving Outstanding, 64 percent High Satisfactory, and less than one percent Needs to Improve or Substantial Noncompliance; and on the services test, 12 percent received Outstanding, another 57 percent High Satisfactory, and 1.6 percent received Needs to Improve or Substantial Noncompliance. Concludes that the low investment test scores mean that banks and thrifts could be looking for additional investment opportunities, meaning potentially increased capital flows to CDFIs. Alternatively, since the bulk of institutions with Low Satisfactory or below investment test ratings nonetheless received Satisfactory or better composite ratings, institutions may have little incentive to do better on the investment test unless they are striving for an Outstanding composite rating. Third, in order to analyze the relationship between investment activity and investment test scores, Immergluck calculates the ratio of total dollars of investments to asset size for 30 large banks in the San Francisco region (Federal Reserve Bank of San Francisco, 1998) and finds that generally, banks and thrifts receiving higher investment test ratings did have higher investment-per-asset ratios, although the results showed some rather dramatic inconsistencies. Finally, performs in-depth analysis of PEs of 12 large banks and thrifts to identify common characteristics and issues. Finds that (i) examiners have substantial discretion in conducting PEs, especially in the evaluation of community development lending and investments, which may be appropriate, although appears to be room for more consistency in how community development lending and investments are measured, how adequate levels are determined, and whether an activity is considered innovative or complex, and for more substantiation of examiner evaluations; (ii) shortcomings in consistency in evaluation of community development lending and investments stems in substantial part from a lack of comprehensive data that can be used to compare a bank to the rest of the market, which could be remedied by development by agencies of more comprehensive and consistent data including bank size, tier 1 capital, net income, etc, and data on outstanding and new investment and community development loan commitments; (iii) quantitative measures alone are not sufficient for evaluating community development loans and investments, and regulators need to develop and apply consistent distinctions and benchmarks for identifying what is complex and innovative; (iv) the most noticeable shortcoming in the PEs is failure to address responsiveness to credit and community development need in giving appropriate weight to various investments. For example, an investment in a small business investment company that does not target investments to minority firms or firms in distressed areas and that provides a rate of return exceeding 20 percent presently receives as much credit as an equity-equivalent investment in a microloan fund targeting minority firms and that would not provide a similar rate of return.

9. **Daniel Immergluck. 1997. *Is CRA Reform for Real? Analyzing the Ratings of Large Banks Opting for Evaluation Under the New CRA Regulations*. Woodstock Institute Working Paper (Sept. 17).** Evaluates upgradings and downgradings in CRA ratings between mid- 1996 and mid-1997 for 103 "large" institutions that "opted-in" to be evaluated under the new CRA regulations in 1996 and 1997, broken down by banking regulator; and evaluates scores on

the component lending, investment, and service tests. Premised on the view that CRA ratings under previous regime had been inflated, given that increases in CRA ratings did not correspond to statistical increases in LMI lending. Results raise concerns that only a modest amount of downgrading has occurred; that ratings are not uniform across regulators; and institutions are receiving highest scores on lending test, which is given the most weight in composite grade. (Subsequent analysis one-year later, discussed in the report below, showed more promising trends, with "outstanding" ratings dropping from 24.3 percent to 18.6 percent from 1997 to first half of 1998, with largest drop at OCC).

10. **Michael LaCour-Little. 1998. "Does the Community Reinvestment Act Make Mortgage Credit More Widely Available? Some New Evidence Based on the Performance of CRA Mortgage Credits," Citicorp Mortgage, Inc. (May 4).** Examines performance of CRA mortgage loans using data from a geographically diversified portfolio of $374 million of first mortgage loans originated by a single lender following Clinton administration reform of CRA regulations (from 1993-1996 and observed through year-end 1997). During the review period, the lender substituted judgmental underwriting standards for automated credit scoring methods for loans in low-to-moderate income census tracts or loans to low-to-moderate income borrowers. Study finds that approximately half of the total loan volume, or $187 million, reached borrowers who would not have qualified for credit under the credit scoring rule. [also included in Addendum for discussion of loan performance].

11. **Margaret Lehr. 1997. "Equity Equivalent Investments in Nonprofit CDFIs," Technical Assistance Memo, National Community Capital Association: Philadelphia (April 22).** Describes features, regulatory and accounting treatment, and major terms and conditions of Citibank's "equity equivalent" (EQ2) investment to capitalize the National Community Capital (NCCA) Central Fund to leverage loans to NCCA's CDFI members. EQ2 transaction devised by collaboration between Citibank and NCCA as an alternative to CDFI reliance on capital grants from philanthropic sources (or sometimes retained earnings) to supply permanent capital to support lending activities (since nonprofit organizations generally cannot raise equity by issuing stock as for-profit corporations do). The EQ2 is a long-term, deeply subordinated loan that includes six features (required by bank regulatory restrictions) that make it function like equity. Like permanent capital, the EQ2 enhances NCCA's lending flexibility and increases its debt capacity by protecting senior lenders from losses. Unlike permanent capital, the investment must eventually be repaid and requires interest payments during its terms, although at a rate well below market. In for-profit finance, a similar investment might be structured as a form of "convertible preferred stock with a coupon." Citibank received an advisory opinion from the OCC, issued jointly with the FDIC, OTS, and FRB, stating that the EQ2 could receive credit as a qualified investment under the investment test, or under the lending test, or in some circumstances, part under each. In addition, the investing bank is entitled to claim a pro rata share of the incremental community development loans made by the CDFI in which the bank has invested as long the loans benefit the bank's assessment area or a broader statewide or regional area that includes the assessment area. The bank's pro rata share is equal to the percentage of the CDFI's equity capital provided by the bank. See FFIEC, June 27, 1996 letter (expected CRA treatment of the EQ2); OCC, January 23, 1997 letter (finding EQ2 a permissible investment for national banks under 12 CFR Part 24); Michael Selz, "Citibank Pioneers a Way to Help Poorer Communities," *Wall Street Journal,* Oct. 24, 1996, at B2.

12. **Rochelle E. Lento. 1994. "Community Development Banking Strategy for Revitalizing Our Communities," *University of Michigan Journal of Law Reform* 27:773-812 (Spring/Summer).** Describes community development banking as one important tool in community revitalization, based on the fact that disinvestment is itself a market phenomenon, so that neighborhood decline can only be reversed by restoring market dynamics to a community. By locating in the community it seeks to develop, targeting that specific geographic location, and undertaking coordinated, comprehensive action, a community development financial institution (CDFI) can develop specialized market expertise and ensure the critical mass of investment and activity necessary to shift residents' and investors' perceptions. Describes three major categories of CDFIs: community development banks, community development credit unions, and community development loans funds, closely examining three well-established CDBs. For example, South Shore Bank, organized under a bank holding company and with various affiliates to provide real estate investment and development services that the bank itself cannot provide, can take a comprehensive approach with the ultimate goal of stimulating the private market into reinvesting in the target area. Points out how the Clinton Administration has supported community development banking through the proposed CRA regulations that emphasize community development activities by recognizing and promoting the types of strategies used by CDFIs, and through passage of the Community Development Banking and Financial Institutions Act of 1994 that provides for financial and technical assistance to CDFIs.

13. **Local Initiatives Support Corporation. 1999. "LISC Launches Community Development REIT." Press Release and Summary of Terms (June 1).** Announces the launching by the Local Initiatives Support Corporation of the first real estate investment trust to specialize in acquiring debt and equity in affordable housing and community development projects that satisfy CRA criteria. The Community Development Trust closed a $29 million private placement of common stock with investments from Fannie Mae and 16 leading financial institutions and insurance companies that would be eligible for CRA credit as long as they hold CDT stock. The REIT's debt acquisitions would focus on multifamily mortgages, primarily those nonconforming to other secondary markets because of small size, location (inner city or rural), configuration (scattered site, urban rehabs) or type (assisted living), with the goal of providing liquidity to banks, CDFIs, loan consortia, and state and local housing finance agencies. Equity investments would include HUD Section 8 properties, with plans to hold the properties and continue to operate them as affordable housing.

14. **Peter E. Mahoney. 1998. "From Command to Demand: Creating Markets for 'CRA Securities,'" *Journal of Affordable Housing and Community Development Law* 7:254-65 (Spring).** Provides detailed analysis of the definition and banking agency interpretations of "qualified investments" under the revised rules, advocating further development of a broad and objective test to facilitate development of a flourishing secondary market in CRA-eligible securities (i.e., securities that constitute "qualified investments" and therefore for which CRA-examined institutions receive CRA credit) in order to promote increased lending in low-income areas. First, examines standard for determining whether a particular investment has the requisite "primary purpose of community development." For example, notes the generalized guidance that if more than 50 percent of an investment funds CRA purposes, the investment will receive de facto recognition as a qualified investment; investments having less than half of their proceeds directed to CRA-eligible borrowers or neighborhoods may still receive CRA credit under a "motive" test that considers whether the express intent, structure, and effect of the investment have the requisite primary purpose. Suggests further

interpretive refinements to create a primary purpose "safe harbor" such as permitting 100 percent CRA credit for investments backed by pools comprised of 80 percent of qualifying loans in order to (i) permit leavening of loan pools with a mix of geographically and demographically diverse loans; (ii) facilitate valuation of the securities and thereby increased liquidity and demand; (iii) permit lenders and issuers to commit to delivery of securities meeting fixed criteria on specific dates; (iv) reduce the information costs for financial institutions by avoiding having to gather loan-level data for CRA examination purposes. Other steps would be to recognize a flexible geographic standard for wholesale and limited purpose institutions for qualified investments; and to recognize secondary market purchases of CRA securities for CRA credit. Argues that long-term effect of liquid and active secondary market would be to lower interest rates on the loans underlying the pools, since more lenders would compete to originate and secure loans having marketability attributes similar to traditional loans, but with the added incentive of CRA-qualified investment treatment. Argues that creation of an active market for CRA-eligible mortgage-backed and other securities could dramatically increase lending activity in low-income neighborhoods, based on market demand rather than regulatory command.

15. **Richard Marsico. 1995. "Fighting Poverty Through Community Empowerment and Economic Development: The Role of the Community Reinvestment and Home Mortgage Disclosure Acts,"** ***New York Law School Journal of Human Rights*** **12: 281-309.** After explaining the types of expertise and experience that make CDFIs more effective than banks in building a community's economic infrastructure and eliminating poverty, argues that bank support of CDFIs provides an optimal means of satisfying CRA obligations and maximizing the potential of the CRA and HMDA. Explains how the new CRA regulations provide greater opportunities for such use of CDFIs.

16. **Fred Mendez. 1998. "Consortia & the CRA,"** ***Community Affairs Advisor.*** **Federal Reserve Bank of San Francisco Community Affairs Unit (Fall).** Charts how bank involvement in various types of multi-bank lending consortia may satisfy the components of the large, small, and wholesale or limited purpose financial institution CRA compliance tests. Explains that by assuming the role of subcontractor to their bank investors, consortia can provide community development expertise and capacity that small- and mid-sized financial institutions cannot often afford; and provide large financial institutions with an effective way to reach underserved populations through products and services that might be initially unprofitable if performed internally.

17. **National Community Reinvestment Coalition. 1997.** ***Models of Community Lending*****.** Provides an overview of successful partnerships between community-based organizations and lenders to create fair housing or fair lending initiatives in underserved areas. Includes in-depth case studies of nine successful partnerships, and directory and summaries of 400 partnerships nationwide, organized by State.

18. **Office of the Comptroller of the Currency. 1997. Advisory Letter 97- 2, "Community Development Securities." (Feb. 25) (www.occ.treas.gov/ftp/advisory/97-2.txt).** Provides guidance to national banks on the standard that community development securities must meet to qualify for purchase under the authority granted by the Investment Securities regulation, 12 C.F.R. 1, and the treatment of those investments under the CRA regulation, 12 C.F.R. 25. Provides that banks may purchase and hold unrated community development securities, up to 5 percent of capital and surplus, if the bank documents the ability of the issuer of the security to perform. National banks may also purchase community development securities as investments under the community development corporation, community development project, and other public welfare investments regulation, 12 C.F.R. 24, if the securities meet the public welfare requirements of part 24. Provides that a bank's investment in community development securities will be considered a qualified investment under the CRA regulation, provided the investment benefits the bank's assessment area(s) or a broader statewide or regional area that includes its assessment area(s), even if the loans backing the security are not located within the bank's assessment area.

19. **Office of the Comptroller of the Currency. 1996. CRA Interpretations – Letter 727 (June 27) www.occ.treas.gov/interp/july/cra727.htm** Opinion letter finding that a national bank's equity eq uivalent investment to capitalize a non-profit organization's lending fund that would be used to garner other investments and grants with which to make loans to its CDFI members. The CDFIs, in turn, would use the funds to support their community development programs, which involve providing credit for affordable housing and small businesses to revitalize low-income areas throughout the United States. OCC finds equity equivalent functions sufficiently like equity to be treated under the CRA investment test; or alternatively, for the bank to claim a pro rata share of the CDFI's community development loans under the CRA lending test, based on its investment in the CDFI. Equity-equivalent status was based on six essential attributes: the EQ2 is fully subordinated to the right of repayment of all other NCC creditors, is not secured by any NCCA assets, has a rolling, and therefore indeterminate maturity, is carried as an investment on Citibank's balance sheet in accordance with GAAP, does not give Citibank the right to accelerate payment, and carries an interest rate that is not tied to any income received by NCCA.

20. **Senator Nellie R. Santiago, Thomas T. Holyoke and Ross D. Levi. 1998. "Turning David and Goliath Into the Odd Couple: How the New Community Reinvestment Act Promotes Community Development Financial Institutions,"** ***Journal of Law and Policy*** **6:571- 651.** Analyzes the revised CRA rules, focusing on the opportunities they create for partnerships between banks and CDFIs through third party intermediary lending, investment, and service activities aimed at community development. Suggests that CDFIs are well-situated through their grass roots knowledge of local lending and investing markets to identify customers who are not overly high risk and save a bank from having to learn how a particular local market works. Further, CDFIs are able to teach and develop basic skills in banking and finance and thereby help people develop financial assets that will make them eligible for regular bank lines of credit, and provide an expanded, lower-risk potential customer base for direct loans and other financial services for the future. Banks, in turn, can provide CDFIs with financing and training. Argues that partnerships between banks and CDFIs provide a prime example of how government-facilitated but private-sector, community-based partnerships can provide superior solutions to economic and social problems than government-sponsored programs. Reviews the history, function, and types of CDFIs.

21. **Lewis M. Segal and Daniel G. Sullivan. 1998. "Trends in Homeownership: Race, Demographics, and Income," *Economic Perspectives*, Federal Reserve Bank of Chicago (Second Quarter), pp. 53-72.** Examines data on homeownership between 1977 and 1997 to determine overall trends, as well as extent to which recent homeownership gains of black households and the drop in the white-black homeownership gap from 1995 to 1997 might be attributable to the effectiveness of the CRA and fair lending laws, or to changing demographic or income trends. Finds that while the overall homeownership rate declined by only 0.8 percentage points between 1977 and 1995, the black homeownership rate fell by 2.6 percentage points to 40.7 percent. In contrast, the white homeownership rate increased by 0.4 percentage point to 67.9%, implying a 1995 gap of 27.2 percent. Although that gap shrunk by nearly 3 percent from 1995 to 1997, the homeownership rate for blacks remains more than 23 percent below that for whites. Finds that very little of the trend over time in the white-black differential in homeownership is explained by changes in demographic and income variables, particularly the drop in the gap since 1995. Therefore, concludes that the recent amendments to the CRA and fair lending laws or their more vigorous enforcement might be having a positive effect on black homeownership rates.

22. **Self-Help. "Community Advantage™ Home Loan Secondary Market Program," (promotional materials).** Program designed to expand the secondary market for CRA loans and increase CRA lending through the purchase of nonconforming home mortgage loans. Partnership between Self-Help, a North Carolina CDFI, Fannie Mae, which committed to purchase $2 billion in CRA loans from Self-Help under the program, and the Ford Foundation, which committed $50 million to Self-Help to insure loans purchased under the program. Under the program, seller could sell eligible CRA loans to Self-Help for cash or exchange them for Fannie Mae mortgage-backed securities. Terms of the program are as follows. (i) Criteria for eligible loans are borrower income 80 percent or less of area median; purchase money, owner-occupied, first mortgages; 97 percent LTV maximum, 100 percent combined LTV maximum; no mortgage insurance required; current credit score taken into consideration; no loans currently delinquent; no 30-day lates in last 9 months (12 months for over 97 percent combined LTV); for loans not sufficiently seasoned, seller may indemnify Self-Help against losses until a loan has achieved 9 (or 12) consecutive payments with no 30-day lates. (ii) Pricing of loan purchases is 75 basis points annual recourse fee to Self-Help (net out of loan yield), and if loans sold to Self-Help, pricing based on Fannie Mae cash window, and if securitized with Fannie Mae, normal mortgage-backed security pricing applies. (iii) Seller agrees to re-lend same amount in future CRA loans, continues to service loans and earns full servicing fee, with servicing procedures generally the same as standard Fannie Mae/Fannie 97. Target markets are women, minorities, low-wealth families, and rural residents. Participating lenders include Bank of America, Bank One, Branch Banking & Trust, Centura Bank, Chase Manhattan Bank, First Citizens Bank & Trust, First Union National Bank, Norwest, State Employees' Credit Union, Wachovia Bank. See also, Fannie Mae, "Self-Help/Fannie Mae Initiative." (March 1999).

23. **Anne B. Shlay. 1999. "Influencing the Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices," *Urban Affairs Review* 35(2:247-278).** Analyzes the impact of CRA on changes in bank and thrift conventional home purchase lending by examining lending patterns in six MSAs between 1990 and 1995: three cities with high levels of local CRA organizing and three control cities with low levels of CRA organizing. Finds overall increased lending to low-income and minority borrowers and neighborhoods over the study period at both the lender and city levels in all six cities, with no patterns of redlining and disinvestment (as compared to studies during the 1980s on bank lending practices that found for most lenders and in most cities patterns of disinvestment and racial barriers to credit). Finding that the extent of CRA organizing in a particular city was not necessarily predictive of the extent of increases in lending to low-income and minority borrowers and neighborhoods, suggests that the changes in lending patterns may be explained by favorable market trends in conjunction with local and national political action. Specifically, community organizing and CRA agreements at the local level (regulation from below) created the impetus for the strengthened federal CRA enforcement implemented by the Clinton administration (regulation from above), which set in place a CRA-minded context for lender decisionmaking. These political changes were accompanied by favorable market conditions: increased supply in that the expanding economy and increased capital for investment caused lenders to reach out to the under-explored, inner city communities market (to which CRA pointed the way) and increased demand resulting from enlarged expectations by potential future homeowners. Suggests that rather than altering market forces, CRA may have helped the market work better by providing incentives for lenders to discover and develop products for underserved markets; and may also be a critical handmaiden to fair housing and equal opportunity legislation because it works to reduce class and racial biases in the lending decision. Suggests that more direct test for the effects of CRA will require a multivariate approach that controls for relevant city characteristics, market factors, variability in CRA organizing and enforcement, and time.

24. **Karen Talley. 1997. "1st Union Bundles CRA Asset-Backeds," *American Banker* (Oct. 22), p.16.** Describes first securitization of CRA loans in a transaction involving 5400 First Union loans placed with institutional investors and guaranteed by Freddie Mac. By creating an aftermarket, intended to give lenders a chance to get CRA assets off their books and free up part of their balance sheet for more lending; plus offers banks that purchase the securitized paper ability to earn modest CRA credit. First Union touting the CRA security as an investment that could be less volatile than conventional mortgage securities while offering decent returns.

25. **Kenneth H. Thomas. 1998. *The CRA Handbook*. New York: McGraw Hill.** Compendium of information and analysis of the revised CRA regulations and examination procedures. Identifies patterns and problems in the implementation of the regulations, and strategies for each corner of the "CRA Triangle": banks in meeting their CRA goals, community groups in influencing bank CRA activities, and regulators in conducting examinations. Analyzes all publicly available CRA performance evaluations ("PEs") for 1996, the first full year of operation under the revised regulation, in order to assess the examination process. Using independent evaluators, effectively redoes each of the component performance tests for each institution, sometimes supplemented by additional demographic, banking or other data not available in the PEs, and then compares those evaluations with actual examiner evaluations and component and overall ratings. Provides various detailed breakdowns of results for the 1,407 small bank, 31 large retail banks, 16 limited purpose and 6 wholesale bank PEs. "Quantifies" the extent of grade inflation in the amount of 47 percent for small banks, 58 percent for special purpose banks, and 61 percent for large retail banks, which Thomas attributes primarily to examiner subjectivity. Makes recommendations including use of an examination template by examiners to produce greater consistency in ratings, expanding CRA to credit unions, other financial institutions, and

nonfinancial companies affiliated with banks, using an FFIEC-type joint compliance function among the regulators, and closing of loopholes and exemptions.

26. Additional CDFI Literature

1. **Valjean McLenighan and Jean Pogge. 1991. The Business of Self-Sufficiency: Microcredit Programs in the United States. Chicago: Woodstock Institute.**

2. **Office of the Comptroller of the Currency.** ***Community Development Investments Programs for National Banks*****. 1996 Supp. Provides information on the 174 community development corporation and community development project investments made by national banks in 1996.**

3. **Julia A Parzen and Michael H. Kieschnick. 1992.** ***Credit Where It's Due: Development Banking for Communities*****.** Looks at development banking as a tool of economic development at the community level.

4. **Peter H. Rossi. 1998. "Evaluating Community Development Programs: Problems and Prospects," in Ronald Ferguson and William Dickens, eds.,** ***Community Development Programs*****. Washington, D.C.: The Brookings Institution, 1998.**

5. **Michael H. Schill. 1996-1997. "Assessing the Role of Community Development Corporations in Inner City Economic Development."** ***New York University Review of Law and Social Change*** **22:753-81.**

6. **Lisa J. Servon. 1998. "Credit and Social Capital: The Community Development Potential of U.S. Microenterprise Programs,"** ***Housing Policy Debate*** **9(1):115-49.**

7. **Kathryn Tholin and Jean Pogge. 1991.** ***Banking Services for the Poor: Community Development Credit Unions*****. Chicago: Woodstock Institute.**

APPENDIX A

III. CRA COMMITMENTS

1. **First Chicago NBD Corporation. 1998. Cover Letter to Malcolm Bush, The Chicago CRA Coalition, c/o The Woodstock Institute, transmitting copy of Chicago CRA Coalition and First Chicago NBD (New Bank One) Six Year Plan: Community Reinvestment Programs and Activities (July 29).** Plan of community reinvestment programs to be implemented following merger of First Chicago NBD Corporation and Banc One Corporation resulting from negotiations between the merging banks and the Chicago CRA Coalition. Included here as an example of a CRA agreement. Sets forth CRA Coalition Goals and specific corresponding First Chicago-Banc One plans in various categories: housing, including increased single-family mortgage lending to low- and moderate-income people and areas, expansion into un- and underserved markets, review of impact of credit scoring to ensure it does not become a barrier to accessing credit for people with nontraditional or problematic credit histories, review of rejected loans for inclusion in CAP or SBA programs, and reduction in inappropriate subprime lending; multifamily lending; economic development, including small business lending and technical assistance; banking services, including establishing and marketing of lifeline accounts, increased financial literacy training, and increased branch network; investments and grants, including funding of the bank's community development corporation (CDC) and equity investments in Chicago CDFIs. Provides for monitoring of agreement through continued quarterly meetings of the Neighborhood Lending Review Board. Sets numerical six year goals for residential and small business lending.

2. **Richard Marsico. 1993. "A Guide to Enforcing the Community Reinvestment Act,"** ***Fordham Urban Law Journal*** **20(2):165-279 (Winter).** Details the steps that a community-based group needs to take to enforce the CRA through negotiated agreements with banks, including how to assess community credit needs, gather information about a bank's CRA record, evaluate the bank's record of meeting community credit needs, and negotiate the agreement. Also analyzes related Federal Reserve Board policies impacting the process (pre-dating the revised regulations).

3. **National Community Reinvestment Coalition. 1998a.** ***CRA Commitments 1977-1998*****.** Provides tables of the $1.04 trillion in CRA commitments made by financial institutions by year and by state. Includes both negotiated agreements and unilateral commitments undertaken by banking institutions since the passage of the CRA through Fall 1998. State compilation includes city, name of community organization involved, if any, name of lender, year, whether negotiated or voluntary, and total dollar amount of commitment. Surveys the range of credit, capital, investment and services subject areas covered by CRA commitments, with explanations and examples of each.

4. **National Community Reinvestment Coalition. 1998b.** ***CRA Dollar Commitments Since 1977*****. (December).** Updates tables of CRA commitments made by financial institutions by year and by state through the end of 1998.

5. **Office of the Comptroller of the Currency (OCC). 1998. "Notice and Request for Comments on Intent of OCC to Survey National Banks on How They Monitor Their Progress in Achieving the CRA Commitments They Have Announced,"** ***Federal Register*** **63:49,725 (Sept. 17).** Gives notice of the OCC's intent to conduct a survey of national banks that have publicly announced pledges or commitments to undertake lending, investment, or other activities pertaining to their obligations under the CRA. Goal of survey would be to determine the adequacy of systems and procedures the banks have in place to track their progress in achieving their announced goals. The notice seeks public comment on the questions proposed to be included in the survey. Comment period ended November 16, 1998. No further action has been taken to date.

6. **Alex Schwartz. 1998a. "Bank Lending to Minority and Low-Income Households and Neighborhoods: Do Community Reinvestment Agreements Make A Difference?,"** ***Journal of Urban Affairs*** **20(3):269-301.** Compares mortgage and home improvement lending to low- income and minority households and census tracts by lenders with and without CRA agreements. HMDA database of lenders comprised of banks (41 percent of sample), thrifts (10 percent) and independent mortgage companies (38 percent). Analysis based on information derived from National Community Reinvestment Coalition nationwide compilation of CRA agreements and 1994 HMDA data for all states and metropolitan areas with at least one local or regional CRA agreement in effect. Lenders with agreements accounted for 5.1 percent of the total sample, but over 13 percent of the sample's total mortgage loan approvals in 1994. Salient findings include the following. (i) Lenders with agreements approved a higher proportion of conventional mortgages across all market segments than lenders without agreements, especially among minority and low-income households and neighborhoods. For example, almost 75 percent of mortgages approved for black households by lenders with agreements are conventional, as opposed to less than 60 percent of those approved by other lenders. (ii) For lenders with agreements, market share of mortgage approvals for black households was 18 percent higher than their overall market share within that state or MSA. For lenders without agreements, black household market share was approximately 14 percent less than their share of total mortgage approvals. Finds no significant differences in relative market share index for Hispanics, or for predominantly minority neighborhoods. (iii) Few significant differences in market share based on differences in agreements such as voluntary or negotiated status, age, geographic coverage, or number of additional agreements signed by the same community group. (iv) When independent mortgage banks and small institutions (defined as those that received fewer than 30 mortgage applications in 1994) are excluded from the sample, institutions without CRA agreements show significantly less lending to minority and low- and moderate-income households and minority and low- and moderate-income census tracts (whereas with independent mortgage banks, significant differences appeared only with respect to black households). (v) With respect to denial rates, the only substantial change when mortgage banks are removed from consideration is that institutions with agreements denied mortgages to black applicants 2.5 times more often than to whites, whereas other institutions denied mortgages to black applicants 3.13 times more often (whereas with independent mortgage banks, lenders with agreements showed higher denial rates than lenders without agreements). Also provides overview of agreements, including their evolution and discussion of types of provisions frequently included.

7. **Alex Schwartz. 1998b. "From Confrontation to Collaboration? Banks, Community Groups, and the Implementation of Community Reinvestment Agreements,"** ***Housing Policy Debate*** **9:631-62.** Examines negotiated community reinvestment agreements in Chicago, Cleveland, Pittsburgh, and New Jersey to analyze the mechanisms used to monitor and enforce them and their effectiveness in attaining their goals. Descriptive analysis includes the monitoring arrangements in the four locales (combination of community advisory councils meetings at which banks report on progress, independent tracking, publishing of reports by community reinvestment advocacy groups, and use of mystery shoppers); assessment of the effectiveness of the agreements in attaining their goals; and elucidation of factors that seem to foster or inhibit implementation of the agreements. Suggests areas for further research: comparison of negotiated and voluntary agreements; comparison of strategic plans adopted under new CRA regulations with voluntary and negotiated CRA agreements; comparison of types of loan products and programs forged through CRA agreements with products and programs developed by banks without CRA agreements; study of the PMI approval process to determine extent to which community reinvestment advocates' fears are supported, since waiver of PMI is a major obstacle to secondary market access.

8. **Anne B. Shlay. 1999. "Influencing the Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices,"** ***Journal of Urban Affairs.*** Using evaluation research in conjunction with critical urban theory, analyzes the impact of CRA on changes in bank and thrift conventional home purchase lending between 1990 and 1995. First, comparing changes in lending by banks and thrifts during the six-year study period in three cities with high levels of local CRA organizing (locations where at least three CRA agreements had been negotiated and had been in effect for the time period under investigation) and three control cities with low levels of CRA organizing, finds that changes in CRA-oriented lending exceeded changes in overall lending in all six cities during the study period, with no apparent correlation between the extent of CRA organizing and the extent of the increases in lending. Second, compares the lending activity of three particular lenders with CRA agreements to lending activity of three particular lenders without CRA agreements (one lender with an agreement and one without an agreement in each of the three high CRA organizing cities) by comparing total market share with market share of lending to low- and moderate-income and minority borrowers and neighborhoods for each lender. Finds that in general, lenders with CRA agreements showed larger changes in the direction of more CRA oriented lending and along more indicators than lenders without CRA agreements, and that variations in outcomes among lenders with CRA agreements were reflective of differences in the implementation process, mainly the extent of top level bank management involvement with implementation of the agreement and the working relationship between the bank and community-based organizations. However, Shlay found that lenders without agreements also showed increased lending to low- and moderate-income and minority individuals and neighborhoods during the study period, and did not exhibit the "patterns of redlining and racial avoidance that characterized lending activities during the 1980s." Suggests that the changes in lending patterns may be explained by favorable market trends in conjunction with local and national political action. Specifically, community organizing and CRA agreements at the local level (regulation from below) created the impetus for the strengthened federal CRA enforcement implemented by the Clinton administration (regulation from above), which set in place a CRA-minded context for lender decisionmaking. These political changes were accompanied by favorable market conditions: increased supply in that the expanding economy and increased capital for investment caused lenders to reach out to the under-explored, inner city communities market (to which CRA pointed the way) and increased demand resulting from enlarged expectations by potential future homeowners. Concludes that rather than altering market forces, CRA may have helped the market work better by providing incentives for lenders to discover and develop products for underserved markets; and may also be a critical handmaiden to fair housing and equal opportunity legislation because it works to reduce class and racial biases in the lending decision. Suggests that more direct test for the effects of CRA will require a multivariate approach that controls for relevant city characteristics, market factors, variability in CRA organizing and enforcement, and time.

9. **Gregory D. Squires, ed. 1992.** ***From Redlining to Reinvestment: Community Responses to Urban Disinvestment*****. Philadelphia: Temple University Press.** Documents the genesis and progress of CRA agreements in Boston, Pittsburgh, Detroit, Chicago, Milwaukee, Atlanta, and California through individual essays.

10. **Articles Assessing Particular Negotiated Programs**

Calvin Bradford. 1989. Impact of Neighborhood Lending Programs in Chicago, Partnerships for Reinvestment: An Evaluation of the Chicago Neighborhood Lending Programs. Chicago: National Training and Information Center. Community reinvestment agreement negotiated between the Chicago Reinvestment Alliance and the First National Bank of Chicago, Harris Trust and Savings, and Northern Trust Company.

Jim Campen. 1998. Changing Patterns V: Mortgage Lending to Traditionally Underserved Borrowers and Neighborhoods in Greater Boston, 1990-1997. Boston: University of Massachusetts (December).

Colorado Center for Community Development. 1996. Analysis of Mortgage Lending Activity of Banks Participating in the Denver Community Reinvestment Partnership. Denver. Study analyzing residential lending record of six banks during the first year of participating in a community reinvestment partnership with the City of Denver designed to increase credit availability to residents of Denver.

James A. Miara. 1995. Progress Report: Initiatives by Massachusetts Bankers and Neighborhood Lenders to Meet Community Credit Needs, 1990-1995. Boston: Massachusetts Community and Banking Council.

Pittsburgh Community Reinvestment Group. 1995. Follow the Money: Pittsburgh Community Reinvestment Group Neighborhood Lending Report, 1991-1994. Pittsburgh. In-depth analysis of mortgage lending by banks with which PCRG has agreements.

Woodstock Institute. 1997. 1995 Community Lending Fact Book. Chicago. Annual publication analyzing lending in Chicago by all banks, mortgage banks, and thrifts covered by HMDA. Used by Chicago community organizations as a tool in monitoring commitments.

Ronald N. Zimmerman, "Lessons Learned from the Atlanta Mortgage Consortium," Federal Reserve Bank of Atlanta. Unpublished Paper.

Appendix A

IV. Impact of Bank Mergers and Acquisitions on Lending

1. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1999a. "Trends in Home Purchase Lending: Consolidation and the Community Reinvestment Act," *Federal Reserve Bulletin* 85: 81-102 (February).** After outlining the variety of possible theoretical effects that consolidation of the banking industry might have on lending to lower-income and minority borrowers and neighborhoods, examines empirical evidence on the impact of consolidation activity on home purchase lending overall and to lower-income and minority borrowers and neighborhoods during two analysis periods: 1993-1995 and 1995-1997. Database includes information on mergers, acquisitions, and failures; and data on location of banking offices, neighborhood economic and demographic characteristics, and home purchase lending activity in 726 counties located in metropolitan statistical areas (constituting 20 percent of all counties in the United States and containing 78 percent of the total population and 70 percent of the banking offices). At the market level, finds that the level of consolidation activity within a county had little effect on changes in total home purchase lending or on changes in lending to either lower-income borrowers or neighborhoods within the county, suggesting that either consolidating organizations may not change their home purchase lending behavior, or that any changes may be offset by other market participants (banking organizations operating in areas where they did not have banking offices, and by independent mortgage and finance companies and credit unions). At the organization level, however, finds that banking consolidation is consistently associated with declines in lending within the counties in which a banking organization operates banking offices; except that the typical consolidating organization increased the *proportion* of its loan portfolio extended to lower-income and minority borrowers and neighborhoods. Concludes that these results are consistent with the view that the CRA has been effective in encouraging banking organizations, particularly those involved in consolidation, to serve lower-income and minority borrowers and neighborhoods. Finally, study finds that overall home purchase lending by organizations involved in consolidations grew 16 percent in 1993-1995 and 22 percent in 1995-1997, with virtually all of the growth in counties in which the banking organizations did not have banking offices. Authors suggest possible explanations of banking organization desire for geographic diversification of lending activity, and increased standardization in the home purchase loan market reducing need for local presence.

2. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem and Glenn B. Canner. 1999b. "Consolidation and Bank Branching Patterns," *Journal of Banking and Finance* 23:497-532 (February).** Examines the association between bank consolidation activity and changes in levels of bank branching as measured by changes in the number of bank branches per capita. Contrary to popularly held views, consolidation is not unambiguously associated with declines in the number of banking offices per capita. Only within-ZIP mergers (both the acquiring and acquired institutions had offices in the ZIP code area) show a consistent inverse relationship with changes in levels of branching. However, the within-ZIP relationship does not have clear implications for level of banking services because consolidation of branches located in close proximity to each other may not affect the total level of service in any substantive way. Suggests that research measuring the quality, quantity, and pricing of banking services directly is necessary in order to assess the correlation between consolidation and the delivery of banking services. The relationships between within-ZIP and within-the-market-but-not-within-ZIP mergers (both the acquiring and acquired institutions had offices within the same county or MSA) and changes in the number of bank offices per capita are more negative in low-income neighborhoods than in other neighborhoods, primarily in states whose branching laws were eased during the period, and also appear to be closely tied to changes in the number of savings association offices. Because most states now have unrestricted branching and because savings associations are less prevalent and financially healthier than in the past, these findings may not be indicative of future branching patterns. Suggests that the most striking implication of the study, from a policy perspective, is that the local neighborhood as represented by ZIP code area is a relevant unit for analyzing the potential consequences of a proposed merger on the level of branching.

3. **Robert B. Avery, Ralph W. Bostic, Paul S. Calem & Glenn B. Canner. 1997. "Changes in the Distribution of Banking Offices," *Federal Reserve Bulletin* 83:707-25 (September).** Analyzes trends in the distribution of banking offices (savings associations and commercial banks) between 1975 and 1995 across neighborhoods grouped by median income of residents and degree of urbanization (central city, suburban, or rural location). Over the twenty-year period, the number of banking institutions declined by 35 percent (from 18,600 to 12,200) and the number of banking offices increased 29 percent, with differing trends over the two ten-year periods. Slight fall in total number of institutions from 1975 to 1985, with dramatic increase in number of banking offices during the same time period; and dramatic 32 percent decline in number of institutions, and 6 percent decline in number of banking offices between 1985 and 1995. Reviews factors influencing banks' decisions to expand or contract the number of banking offices they operate, including office profitability, risk diversification and strategic considerations, technological developments like provision of services through ATMs, deregulation of interest rates, deregulation of intrastate branching and interstate banking, CRA consideration of a bank's provision of services, and industry consolidation and competition. Finds that easing of intrastate branching restrictions appears related to an increase in the number of banking offices, although the two divergent trends holds for all states, regardless of how branching restrictions changed. Low-income areas were the only areas with decline in number of banking offices (21 percent) over the twenty-year period, but corresponding decrease in population in low-income areas, as well as increases in offices per capita in other areas resulted in convergence of number of banking offices per capita across all income categories of neighborhoods. Nearly all the decline in number of banking offices in low-income areas were areas with low rates of owner occupancy (i.e., presumed to be business districts), particularly when analysis is restricted to low-income areas in central cities. Also finds that between 1975 and 1995 both population share and the share of all banking offices increased in suburban areas about 3 percent, with central city and rural areas experiencing a decline both in share of population and share of all banking offices, and high-growth suburban areas experiencing a substantially larger increase in office share than either central city or rural high-growth areas.

4. **Allen N. Berger, Anthony Saunders, Joseph M. Scalise, and Gregory F. Udell. 1998. "The Effects of Bank Mergers and Acquisitions on Small Business Lending," *Journal of Financial Economics* 50 (February).** Examines small business lending effects of over 6,000 U.S. bank mergers and acquisitions between 1980 and 1995 on the lending of virtually all U.S. banks, using a combination of data from the Federal Reserve's Survey of the Terms of

Banking Lending to Businesses and the Call Report data available beginning with June 1993. Defines small businesses borrowers as those with bank credit of less than $1 million. Sets out to remedy deficiencies in the literature by focusing on M&As as dynamic events that take place not only to increase size but also to change the focus of the participants; and on the reaction of other small business lenders in the same local market which might offset any reduction in the supply of small business loans by M&A participants. Examines four effects of M&As on small business lending: static effect (change in lending that results from combining the balance sheets of the participating banks into a larger pro forma institution); restructuring effect (change in lending that follows from restructuring with respect to size, financial characteristics, and local market competitive position); direct effect (change in lending above and beyond static and restructuring effects); and external effect (responses to M&As by other lenders in the same local markets). Finds that the static effects of consolidation reduce small business lending, but are largely if not fully offset by the dynamic effects, including reactions of other banks and in some cases by the refocusing efforts of the consolidating institutions themselves. Considers variables such as type of M&A and the relative and absolute sizes of the participants. Notes that prior research had established a strong link between banking institution size and the supply of small business credit, with larger institutions devoting lesser proportions of their assets to small business lending than smaller institutions; June 1997 Call Report data indicates that banks with less than $100 million in assets devoted about 9 percent of their portfolios to small business lending, whereas banks with over $10 billion in assets invested about 2 percent of their assets in these loans.

5. **Board of Governors of the Federal Reserve System. 1997. *Report to the Congress on the Availability of Credit to Small Businesses*.** Examines small business credit availability, including consideration of various trends impacting credit flows. Among these, provides overview of research examining impact of mergers on small business lending since the "earliest" empirical work in 1995 and 1996, which generally found that mergers reduced small business lending on net. Finds that subsequent analyses provide little indication that small business lending has been significantly hurt by the accelerated pace of bank consolidation thus far, though data has not been available for long enough to assess adequately the changes; and consolidations may well have negative effects on particular business customers in the short-run due to disruption of lending relationships. Summary key findings are as follows. (i) Large banks maintain lower ratios of small business loans to assets than do small banks; some evidence indicates that small banks that are part of larger banking organizations hold fewer small business loans per dollar of assets than do other small banks; and when large banks acquire small banks, there may be less small business lending by the new bank. (ii) The most aggressive buyers of small banks have been other small banks, and purchasers of banks have tended to be more active small business lenders than the banks that were purchased. (iii) When small banks merge with other small or even mid-sized banks, there generally has been an increase or little change in small business lending by the new banking company. (iv) In markets where small business lending by merged institutions has declined, other commercial banks and nonbank lenders have expanded their share of the small business market.

6. **John P. Caskey. 1994. "Bank Representation in Low-Income and Minority Urban Communities," *Urban Affairs Quarterly* 29(4):617-38 (June).** Examines question of whether bank branches are significantly underrepresented in low-income and minority urban communities and whether the problem has worsened in recent years on account of banking deregulation and other factors that have led banks to close branches disproportionately in low-income and minority areas. Tests these propositions by examining data on bank branch locations from 1970 through 1989 in five cities: Atlanta, Denver, New York City, San Jose, and Washington, D.C. Distinguishes itself from previous studies (in particular, Robert Avery (1991), "Deregulation and the Location of Financial Institutions," in that it uses census tracts rather than ZIP code areas, which contain an average of about 4,000 residents and provide a smaller unit of analysis than ZIP code areas; focuses on changes in the number of communities completely without banks, rather than the number of banks per capita; and includes only FDIC-insured institutions, rather than the banks, thrifts, check-cashing outlets, and loan and mortgage companies included in Avery's study. Finds that in 1989, the relatively low-income census tracts in New York City and Atlanta were significantly less likely to have a local bank than were the more affluent tracts, and the mean number of banks per tract in the lower-income tracts was substantially below that of the more affluent tracts, but found no such pattern in Denver, San Jose, or Washington. In all the cities except San Jose, the percentage of tracts with banks or the mean number of banks per tract in tracts with a majority of African-Americans was less than half that of the nonminority tracts; similar pattern with respect to tracts with more than 40 percent Hispanic population, but much less dramatic.

7. **Rebel A. Cole, Lawrence G. Goldberg, and Lawrence J. White. 1999. "Cookie-Cutter versus Character: The Micro Structure of Small Business Lending by Large and Small Banks," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds., *Business Access to Capital and Credit: A Federal Reserve Research Conference, Proceedings of a Conference Held in Arlington, VA March 8-9, 1999*, pp.362-389.** Uses data from the 1993 National Survey of Small Business Finances (NSSBF) to examine differences between large and small banks in their loan approval process. Hypothesizes that relationships are more important for small banks than for large banks due to organizational and operational differences, such as the need for explicit rules in a large bank in order to avoid distortions between successive hierarchies or to keep control across a geographically dispersed organization, whereas small banks may have more private information about potential borrowers because of proximity and a more personal relationship between banker and customer, and loan officers, who can be monitored more readily in the smaller organization, can be granted more discretion. In general, finds evidence that large banks ($1 billion or more in assets) are in fact more likely to employ standard criteria obtained from financial statements in the loan decision process, and that small banks (less than $1 billion in assets) deviate from these criteria by relying to a larger extent upon the character of the borrower. Large banks, but not small banks, are less likely to extend credit to firms with greater leverage and to minority-owned firms, and are more likely to extend credit to firms with greater cash reserves. Small banks, but not large banks, are more likely to extend credit to firms with which they had pre-existing loan relationships. Surveys the literature in the area of relationship lending.

8. **Anthony W. Cyrnak. 1998. "Bank Merger Policy and the New CRA Data," *Federal Reserve Bulletin* 84: 703-15 (September).** Examines small business lending in both urban and rural markets by locally-based banks and savings institutions, as well as firms based outside local banking markets, to evaluate benefit of using small business lending data instead of bank deposits to determine level of concentration within U.S. banking markets for purposes of merger antitrust analysis. Based on 1996 CRA data, finds that out-of-market lenders outnumber in-market lenders in most markets (54 percent); that out-of-market lenders account for a sizeable proportion of business loans by number (31

percent), with that proportion declining steadily with market population, but only 8 percent of the average dollar volume of small business loan originations in urban markets. When credit card banks are excluded, the average market share of loans provided by out-of-market lenders declines dramatically (from 40 percent to 10 percent for the largest MSAs, or from 31 percent to 8 percent for all MSAs combined), suggesting that credit card loans account for a large proportion of the small business lending activity of out-of-market reporters.

9. **U.S. General Accounting Office. 1999.** ***Federal Reserve Board: Merger Process Needs Guidelines for Community Reinvestment Issues*****. GAO/GGD-99-180 (September)**. Evaluates the Federal Reserve's process for considering CRA performance in its review of bank holding company merger applications, by means of case studies of six bank holding company applications (the two largest in 1995, the largest in 1996 and in 1997, and the two largest in 1998). Describes consideration given to CRA examination reports of the holding company's lead bank subsidiaries and to public comment letters. Also compares pre-merger and post-merger home mortgage lending for three of the six mergers, completed in 1995 and 1996, based on HMDA data. Finds that the Federal Reserve does not have written guidelines for how public comments raising CRA concerns are to be weighed in reviewing applications; that relatively few bank holding company acquisition/mergers are protested on CRA grounds (10.4% in 1995, 8.4% in 1996, 4.6% in 1997, and 4.2% in 1998) (p.12); that the principal concerns raised by public comments in the six mergers were (i) insufficient amount of home mortgage lending in low- and moderate-income areas, (ii) insufficient amount of small business lending in low- and moderate-income areas, (iii) expected branch closures in low- and moderate-income areas, and (iv) lack of specificity in CRA agreements. Finds that the Board gives the most attention to home mortgage and small business lending concerns, and does not consider CRA agreements in its decision. Finally, concludes that none of the three mergers examined for post-merger lending patterns showed a decline in single-family home mortgage lending to minority and low- and moderate-income census tracts, based on analysis of market share and portfolio share of both conventional and total loan originations across low- and moderate-income and minority areas by the merging bank holding companies from one year prior to the consolidation to two years after. Recommends development of a more "transparent" process, such as written guidelines, regarding how the Federal Reserve balances the CRA ratings of banks (particularly those with good ratings) with public comments raising CRA concerns.

10. **Daniel Immergluck & Erin Mullen. 1998a.** ***Getting Down to Business: Assessing Chicago Banks' Small Business Lending in Lower Income Neighborhoods*****. Chicago: Woodstock Institute (June).** Examines lending patterns of the 50 largest bank and thrift lenders to small businesses in the Chicago metropolitan area during 1996, using the first year of small business lending data available under the 1995 revised CRA regulations. Finds that small- or medium-sized institutions with significant branch networks in and near low- and moderate- income areas have the highest proportions of lending in low- and moderate-income areas. Suggests rationale of importance of relationships to small business lending, raising concern over potential impact of consolidation trends in the financial services industry.

11. **William R. Keeton. 1997. "Effects of Mergers on Farm and Business Lending At Small Banks: New Evidence from Tenth District Sales,"** ***Economic Review*** **81(3):63-75. Federal Reserve Bank of Kansas City (February).** Examines data on bank mergers in the seven states of the Tenth Federal Reserve district between 1986 and 1995 to determine whether small banks (defined as those with less than $100 million in assets) acquired by large or distant organizations reduce their farm and business lending. Finds that most acquisitions of small banks in the Tenth District shifted ownership to distant markets or made the banks junior partners in their new organizations. Lending tended to fall when out-of-state companies acquired banks owned by urban holding companies, and to a lesser degree, when urban banks became junior partners in large urban organizations. However, lending did not fall in other acquisitions that shifted ownership to distant markets or made banks junior partners in their organizations.

12. **William P. Osterberg and Sandy A. Sterk. 1997. "Do More Banking Offices Mean More Banking Services,"** ***Economic Commentary.*** **Federal Reserve Bank of Cleveland (December).** Based on examination of data on the change in the number of banking offices and in small business lending between 1993 and 1996, finds little support for using data on the growth in the number of banking offices to draw inferences about how consolidation has affected availability of banking services. Finds that a significant percentage of the growth in the number of banking offices between 1988 and 1996 is attributable to thrift conversions (banking offices increased from 63,167 to 71,137, though the number of thrifts fell during that period from 22,743 to 10,241); and that the vehicles through which banking services are provided, including ATMs and supermarket branches, do not necessarily provide the same range of services as are available from traditional bank branches.

13. **Joe Peek and Eric S. Rosengren. 1998a. "The Evolution of Banking Lending to Small Business,"** ***New England Economic Review*** **27-36 (March/April).** Analyzes the impact of the two trends of bank consolidations and use of credit-scoring models on the extent and type of small business lending by banking institutions of varying sizes. With respect to bank consolidations, analyzes small business lending data relative to small business loan assets of acquirers as compared to targets, and relative to acquirer and target total asset size. Finds in general that in each asset-size category, acquirer banks have larger shares of their portfolios devoted to small business lending than non-acquirer banks; that larger banks tend to have a smaller share of small business loans in their asset portfolio; and a tendency for small acquirers to increase and large acquirers to decrease small business lending following a merger. Finds that the major area of increased lending by larger banking institutions has been in the under $100,000 loan category. Speculates that loans in this smallest category are the most amenable to use of credit-scoring models that avoid the costs of obtaining balance sheet and income statements for the firm and evaluating the underlying collateral, and that with the use of credit scoring, large banks that specialize in a particular market may be able to mimic the informational advantages of smaller institutions with close community ties, or may be amenable to large bank securitization expertise. At the same time, finds that smaller banks are shifting their emphasis to larger loans, in the $100,000 to $1 million category, possibly as a result of mergers with smaller banks that result in eased borrower concentration constraints that limit small bank access to this sector of the small business market. Concludes that overall, consolidations and the use of credit scoring are likely to result in the availability of more and lower-cost options to small business borrowers.

14. **Joseph Peek and Eric S. Rosengren. 1998b. "Bank Consolidation and Small Business Lending: It's Not Just Size That Matters,"** ***Journal of Banking and Finance*** **22:799–820 (August).** Finds the the most prevalent type of

merger involves the consolidation of two or more small banks; that in roughly half the mergers, the acquirer has a small business loan portfolio share greater than that of its target; and that in approximately half the mergers, small business loans increase rather than decrease during the period immediately after the merger.

15. **Joe Peek and Eric S. Rosengren. 1995.** ***Small Business Credit Availability: How Important Is Size of Lender?*** **Working Paper No. 95-5. Federal Reserve Bank of Boston (April).** Examines effect on small business borrowers as small banks with a small business loan emphasis are absorbed into larger, more diversified lenders that tend to focus less on small business lending. In research based on the experience of New England banks, finds that many large acquirers do not maintain the small business loan portfolios of their smaller target banks.

16. **Matthew Purdy and Joe Sexton. 1995. "Bank-Poor Communities Are Forced to Improvise,"** ***New York Times*****, Sept. 11, at A1.** Describes the "parallel universe of low-level finance" evolving in low-income communities in New York City to address the lack of traditional banking services as a consequence of consolidation of the banking industry and the steady closing of bank branches over the last decade. Parallel universe includes loan sharks, check-cashing establishments and pawn shops, as well as communal, nonprofit organizations like lending circles, neighborhood credit unions, and revolving loan funds. Cites statistics of the Public Advocate's office that Washington Heights had one bank branch for every 22,000 people, one-third the level in Manhattan's wealthiest neighborhoods; that the number of New York City branches had declined by 81, or 7.5 percent, from 1978 to 1992, with the sharpest losses in the Bronx and Brooklyn where 50 branches have closed since 1978.

17. **Jonathan A. Scott and William C. Dunkelberg. 1999. "Bank Consolidation and Small Business Lending: A Small Firm Perspective," in Jackson L. Blanton, Alicia Williams, and Sherrie L.W. Rhine, eds.,** ***Business Access to Capital and Credit: A Federal Reserve System Research Conference Held in Arlington, VA, March 8-9, 1999,*** **pp.328-361.** Using the 1995 Credit, Banks and Small Business survey conducted by the National Federation of Independent Business, examines the experience of 3600 small firms in their most recent attempt to locate financing for their businesses, in order to assess the impact on credit availability and terms for the 25 percent of these firms that experienced a merger or acquisition of their major bank. In the 1995 survey, banks were asked whether their principal financial institution had been bought out or absorbed by another, with a follow-up questions regarding how the change affected the firm. Researchers conclude that consolidation of a firm's bank did not impair credit availability, and some weak evidence suggests that credit availability may even have been enhanced. They also find no significant adverse effect on interest rates or loan-to-value ratios. However, they find increased probability that the bank will require use of additional financial services as a condition of the loan, and higher fees on other bank services, which explains higher frequency of shopping for a new bank by firms experiencing a merger.

18. **U.S. Small Business Administration, Office of Advocacy. 1998.** ***The Impact of Bank Mergers and Acquisitions on Small Business Lending*****. www.sba.gov/ADVO/stats/marpt.html** Report of SBA conference on October 6, 1997 presenting five research papers addressing the dynamic effects of bank mergers and acquisitions (with estimates of external effects, as well, in Berger's paper). (Berger, Saunders, Scalise and Udell, "The Effects of Bank Mergers and Acquisitions on Small Business Lending;" Kolari and Zardkoohi, "The Impact of Structural Change in the Banking Industry on Small Business Lending;" Keeton, "Do Bank Mergers Reduce Lending to Businesses and Farmers;" Peek, "The Effects of Interstate Banking on Small Business Lending;" and Strahan and Weston, "Small Business Lending and the Changing Structure of the Banking Industry."

19. **Philip E. Strahan and James Weston. 1996. "Small Business Lending and Bank Consolidation: Is There Cause for Concern?,"** ***Current Issues In Economics and Finance*** **2(3). Federal Reserve Bank of New York (March).** Finds that the preponderance of evidence suggests that a decline in the presence of independently owned, small banks does not necessarily have an adverse impact on the credit available to small businesses. While small banks hold more small business loans as a percentage of total assets than do large banks, the largest banks currently hold more than one-third of all small business loans, and the share of small banks' assets invested in small business loans has risen over the past two years. Second, finds that small banks owned by large banking companies hold fewer small business loans than do independent banks, suggesting that the costs of providing credit to small borrowers are lowest in small banking companies. If this is true, then at least some small banking companies should survive the wave of consolidation and continue to serve the credit needs of small businesses. Finally, banks involved in mergers, on average, hold more small business loans two years after the merger, suggesting that further research on long-run effects of bank mergers on small business loans is necessary, as the call report data becomes available.

20. **Gary Whalen. 1995.** ***Out-of-State Holding Company Affiliation and Small Business Lending*****. Economic and Policy Analysis Working Paper 95-4. Office of the Comptroller of the Currency (September).** Examines small business lending levels, prices, and margins for a sample of banks in Illinois, Kentucky, and Montana to compare small business lending patterns of bank subsidiaries of out-of-state holding companies (OSHCs) with that of independent banks and subsidiaries of holding companies headquartered in-state. Based on data reported in bank and thrift call reports for June 30, 1993, the first to include small business lending data as required by the Federal Deposit Insurance Corporation Improvement Act of 1991. Looks only at data for states that confined commercial banks to operating within a single county so that small loans made by each bank could be associated with a particular geographic area for purposes of analysis. Finds that the volume of small business lending by OSHC subsidiaries compares favorably with both independent banks and in-state bank holding companies; OSHCs do not systematically discourage small business borrowing through loan pricing; small loan rates at OSHC bank subsidiaries generally are lower than those at other types of banks, and small loan marginal costs are higher, so that independents do not appear to be at a competitive disadvantage relative to OSHC subsidiaries because their marginal loan costs are typically below, and their margins typically exceed, those at either class of holding company subsidiary.

21. **Arthur E. Wilmarth, Jr. 1995. "Too Good To Be True? The Unfulfilled Promises Behind Big Bank Mergers,"** ***Stanford Journal of Law, Business & Finance*** **2: 1-69 (Fall).** Examines consolidation trend in the banking industry since 1980, arguing that consolidation has not improved the efficiency of the banking industry, has had a negative impact

on competition and service to consumers and small businesses, and has increased systemic risk. With respect to competition and service to consumers, finds that large, out-of-state banks charge significantly higher service fees, show less financial support for local charitable and civic organizations, and make significantly fewer small business loans in comparison with community banks, which are more likely to make "relationship loans" that do not meet credit-scoring and other standardized underwriting measures. Offers suggestions to mitigate adverse effects.

Appendix A

V. The Future of Federal Community Reinvestment Policies

1. **George J. Benston. 1997. "Discrimination in Mortgage Lending: Why HMDA and CRA Should Be Repealed," *Journal of Retail Banking Services* 19(3):47-57 (Autumn).** Argues for repeal of HMDA and CRA, finding that rationales of discrimination and redlining behind enactment of CRA and HMDA are invalid; that discrimination can be better addressed through ECOA, and distressed neighborhoods can be better helped through multifaceted resources than by lending initiatives alone; that CRA and HMDA impose burdensome operating and reporting costs; and that CRA in fact negatively affects borrowers and distressed neighborhoods. Suggests that CRA draws borrowers away from banks that would serve them to banks offering subsidized loans to fulfill CRA obligations; discourages banks from entering distressed neighborhoods; and ignores bank expertise by requiring all banks to lend to members of specified groups.

2. **John P. Caskey. 1994. *Fringe Banking: Check-Cashing Outlets, Pawnshops, and the Poor*. New York: Russell Sage Foundation.** Documents the history of pawnbroking and commercial check cashing, the dramatic increase in the number and use of these "fringe banks" in the United States beginning in the 1980's, and the critical role they play in the financial system by providing credit and payment services to millions of low- and moderate-income households that rarely interact with the formal banking system. Four major themes derived from the study. (i) Households without financial savings that utilize fringe banks for basic financial services pay more for those services than households that maintain financial savings and use mainstream financial institutions. (ii) The 1980's boom in fringe banking and the increased segmentation of consumer financial markets reflect falling standards of living of many lower-income households and consequent reduced ability to save, combined with deregulation of interest rates and increased competition in the financial services markets resulting in elimination of previously cross-subsidized services such as low-cost, small-balance deposit accounts, and closing of unprofitable or marginally- profitable branches, many of which were in low-income areas. (iii) A significant share of pawnshop and check cashing outlet customers use these institutions out of choice rather than practical necessity because they believe the services are worth the fees. (iv) Insufficient resources are devoted to regulating and monitoring fringe banking markets, despite similarities such as consumer lack of sophistication or access to information that justify regulation in the mainstream banking market. Finds that the majority of fringe bank customers have low or moderate incomes ($9,000-$17,000 per year), have a high school education or less, are mostly between the ages of 18 and 30, and that a disproportionate percentage are African-American or Hispanic. Finds that pawnshops provide small, fast loans primarily to customers with bad credit histories, low incomes, high debt-to-income ratios, or unstable employment patterns that exclude them from unsecured loans; and that check-cashing outlets mainly serve customers who value their convenient locations, hours, and speed and who do not have bank accounts or who have insufficient funds in their accounts to permit them to cash their paychecks. Makes several CRA-related policy suggestions with respect to ensuring that savings and payment services are available in all communities. These include the following. (i) Acknowledging that the CRA assessment criterion based on an institution's record of opening and closing offices in low-income communities may be counterproductive by making bankers unwilling to open offices in these communities in the first place, suggests alternative that all banks, wherever they are located, demonstrate a commitment to assist in economic development efforts in low-income communities through, for example, joining a consortia of banks that jointly capitalize and operate a branch in an underserved area; and that regulators permit banks that voluntarily open branches in low-income areas to close those branches if they are insufficiently profitable. (ii) Separate availability of services from issue of promoting business and housing credit, which might be addressed by establishment of a community credit union or other solutions less costly than a full-service bank branch. (iii) Allow check-cashing outlets to function as agents for banks and take deposits, thereby permitting people who live in communities without bank branches to obtain bank payment and deposit services locally, while saving banks the cost of establishing a full-service branch. (iv) Have federal government provide basic financial services through post offices (which existed in the U.S. from 1910 to 1966), permitting customers to open savings accounts, make third-party payments, invest funds in government treasury bills and bonds, and possibly be part of a regional ATM network, but not offer checking accounts.

3. **Jane W. D'Arista and Tom Schlesinger. 1993. *The Parallel Banking System*. Briefing Paper, Economic Policy Institute.** Seminal paper coining the title phrase, the authors propose establishing a Financial Industry Licensing Act requiring all financial firms to be licensed and making it possible to apply uniform regulations to all institutions engaged in a given financial activity, regardless of institutional classification. In particular, authors argue that in addition to other public policy concerns, the rise of the parallel system has eroded the role of U.S. banks in financial intermediation and destabilized the nation's credit markets as it gains control of an increasing percentage of our assets, but without the safety and soundness oversight of banks and outside the reach of the Federal Reserve's leverage to manage and control monetary policy. Warns that other financial restructuring proposals focused on loosening restrictions on banks to increase their profitability, while ignoring the parallel banking industry, only pose greater threat to the deposit insurance fund. <u>See</u> <u>also</u> D'Arista, "No More Bank Bailouts" (1991) (detailing public guaranty reforms to complement the foregoing licensing proposal, including replacing the various public guarantee programs with a system of insuring the aggregate savings of individuals up to a certain amount, regardless of where they are placed).

4. **Financial Services Education Coalition. *Helping People In Your Community Understand Basic Financial Services*.** Resource guide for teaching basic financial services and helping people understand EFT '99, which refers to the law that direct deposit for most Federal payments by January 2, 1999.

5. **Federal Reserve Board Governor Edward M. Gramlich. 1998. "Examining Community Reinvestment." Remarks at Widener University, Chester, Pennsylvania (November 6).** Finds that some empirical and a great deal of anecdotal evidence suggests that the CRA has been successful and important in effecting increases in small business, small farm, and mortgage lending to low and moderate income individuals; acknowledges critics of CRA; and suggests the need for systematic evaluative evidence on four questions: (i) how serious and how pervasive are discriminatory patterns in lending, by income and by race, since such patterns are the supposed premise of the law; (ii) would it make more sense to find and prosecute lending discrimination directly; or to impose CRA requirements on all institutions (instead of just those contemplating mergers), or on noncompliant institutions; (iii) what are the properties of the loans -- are they incremental or not, caused by CRA or not? Are the loans repaid at normal rates, are the interest rates on the loans subsidized, and to what degree? Exactly who gains and loses how much from these loans?; and (iv) has the small

business and community development lending stimulated neighborhood economic development in low income areas, and have the mortgage loans improved neighborhood housing integration.

6. **Jeffrey W. Gunther. 1999. "Between A Rock and A Hard Place: The CRA – Safety and Soundness Pinch,"** ***Economic and Financial Review*** **(Second Quarter). Federal Reserve Bank of Dallas.** Argues that compliance with CRA may be in conflict with compliance with safety and soundness standards in that (i) CRA rewards aggressive banking strategies while the goal of safety and soundness exams is containment of risk; and (ii) in the face of financial problems and the need for financial retrenchment, banks may be faced with inferior CRA ratings in order to facilitate financial recovery.

7. **Jeffery W. Gunther, Kelly Klemme, and Kenneth J. Robinson. 1999. "Redlining or Red Herring?"** ***Southwest Economy*** **3 (May/June). Federal Reserve Bank of Dallas www.dallasfed.org/htm/pubs/swe/5_6_99.html.** Argues that limited competition, information barriers, and coordination problems that contributed to the redlining that the CRA was intended to address have been relieved by developments in the financial services marketplace such that the CRA is no longer needed to ensure credit to neglected neighborhoods. Argues that increased lending to low-income neighborhoods and borrowers in recent years is attributable to increased lending by lenders not covered by CRA, which have devoted a growing proportion of their loan portfolios to low-income neighborhoods and borrowers, and not to the impetus of the CRA.

8. **Keith N. Hylton & Vincent D. Rougeau. 1998.** ***The Community Reinvestment Act: Questionable Premises and Perverse Incentives*****. Center for New Black Leadership (January).** Advocates shift from existing enforcement mechanisms of the CRA, arguing that they create inadequate or perverse incentives, such as discouraging banks from moving into inner-city, minority communities, to system of subsidies such as tax deductions for individuals who purchase homes in certain communities and for contributions to community development funds or firms, which would create positive incentives for community investment efforts; or attempts to deal directly with root causes of economic decline in inner-city communities. Also rejects three identified premises underlying the CRA: that banks should lend in the communities where they receive deposits; that banks' failure to do so is a result of discrimination against minority groups; and that the economic decline of inner-city, minority communities is due in substantial part to the lending policies of banks. Cites previous legislative proposals such as the American Community Renewal Act of 1996, Rep. J.C. Watts (R-Okla.) and Rep. Jim Talent (R-Miss.): would create 100 "renewal communities" based on the existence of poverty and economic distress and would offer incentives such as tax credits, regulatory relief and low-interest loans to businesses and individuals who invested in these neighborhoods. Investments would satisfy CRA obligations.

9. **Keith N. Hylton and Vincent D. Rougeau. 1996. "Lending Discrimination: Economic Theory, Econometric Evidence, and the Community Reinvestment Act,"** ***Georgetown Law Journal*** **85:237 (December).** Concludes that there are plausible discriminatory processes or mechanisms that might have generated the credit allocation pattern that motivated the CRA, but recommending a shift to a subsidy approach in which lenders that comply with the CRA are treated favorably while others are unaffected.

10. **Daniel Immergluck. 1999d. "Faulty Foundations, Deficient Data: Comments on Two Articles on CRA from the Federal Reserve Bank of Dallas." (September).** Woodstock Institute. Reviews and refutes articles by Jeffrey Gunther, cited above. With respect to the premise that market forces and not the CRA have been responsible for gains in mortgage lending to lower-income people and neighborhoods, responds that the CRA is not independent of the market, but complements and encourages private-sector activity by encouraging banks to take a second look at lower-income communities; that competition has not solved problems of access to credit, and in particular, discrimination has not been eliminated; and lending by mortgage companies is influenced not only by CRA but also by the fair lending laws. With respect to conflict with safety and soundness concerns, challenges the premise that safety and soundness concerns restrict banks from being active lenders, or that the CRA requires them to be active lenders. Instead, suggests that the CRA encourages a proportion, rather than any fixed amount, of loans be in lower-income communities, and can also be satisfied through service activities. Argues that the Dallas Fed article gives no example of a case where a bank with safety and soundness problems was pushed into deeper difficulties due to pressure from CRA examiners. Discusses flaws in theory and methodology.

11. **Michael Klausner. 1995. "Market Failure and Community Investment: A Market-Oriented Alternative to the Community Reinvestment Act,"** ***University of Pennsylvania Law Review*** **143:1561- 93 (May).** Examines market imperfections affecting low-income neighborhood credit markets that would justify CRA, including costs of obtaining credit-related information and information externalities, to find that CRA exacerbates rather than addresses these imperfections. Argues for a market-oriented alternative in the form of a system of "tradable CRA obligations." Under this proposal, banks would be assigned an annual quota of CRA-qualified loans, which might be a specified percentage of assets or deposits, and would include loans to residents, businesses and projects in low-income neighborhoods, designated by median incomes as under current CRA regulations. A bank could meet its quota by either originating or holding qualified loans, buying them from another lender, or lending through a consortium. Potential advantages include: promotion of specialization and information efficiencies, internalization of neighborhood externalities, resulting in more value per dollar lent than untargeted and uncoordinated lending, reliance on market forces to allocate loans in low-income neighborhoods, reduction of enforcement and compliance costs.

12. **Jeffrey M. Lacker. 1995. "Neighborhoods and Banking,"** ***Economic Quarterly*** **81(2): 13-38 Federal Reserve Bank of Richmond (Spring).** Reviews the economic literature to conclude that there is no adequate empirical evidence of bank lending discrimination against neighborhoods (as opposed to individuals) or of any other identifiable market failure to warrant imposing CRA responsibilities on banks. Conclusions premised on assumption that CRA loans and investments are not economically viable, and therefore constitute redistribution program of subsidized lending in low-income neighborhoods. Looking at the activities of a sample community development organization, Neighborhood Housing Services of Boston, suggests that such organizations do a better job than banks ever could at community development lending. Advocates support of community development through direct governmental funding of CDFIs and other mechanisms created by the Community Development Banking Act, rather than subsidies drawn from banking institutions.

13. **Robert E. Litan with Jonathan Rauch. 1997.** ***American Finance for the 21st Century*****. U.S. Department of the Treasury (November 17).** Report evaluating the U.S. financial system as directed under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994. Sketches a model for financial regulation in the 21st century based on

government's role to promote competition, safety, and access; and the changes in the financial marketplace represented by information technologies and the digitization and globalization of finance, and modern financial instruments and institutions. Posits that the Depression shaped a twentieth-century model that has relied on market segmentation and failure prevention, often pursued using very broad measures. Argues that in today's "quicksilver marketplace," tying the hands of institutions will put a damper on innovation and imperil markets instead of protecting them (as demonstrated by the savings and loans crisis of the 1980s); that financial market regulation should construct a foundation, not a cage for markets; and that the model for the next century needs to emphasize instead competition and innovation, and failure containment, pursued by more targeted means. Based on the premise that periodic upsets in financial markets are inevitable, recommends measures for containment of risk by making the market less vulnerable, rather than preventing the failure of each and every institution, with the goal of making failures less dangerous for the system as a whole and doing without federal government/taxpayer blanket guarantees against loss. With respect to the role of government in ensuring access in the financial marketplace, argues that while marketplace competition serves consumers well, some poorer neighborhoods and citizens may be left behind, just when digital media offer the capacity to bring more services to more people than ever before. Finds that existing measures (CRA and HMDA) have worked well. Litan and Rauch indicate that even the most conservative estimates suggest that the CRA has helped funnel substantial volumes of credit to less advantaged areas; and that even as bank and thrift share of the total mortgage market has fallen in recent years, their share of mortgage loans in low- and moderate-income areas has risen. Suggests that the CRA's greatest contribution has been a change in the psychology of lending, leading lenders as a routine part of business to ask whether they are paying attention to poor as well as to wealthy neighborhoods. However, suggests that more targeted approaches are needed as the marketplace evolves and traditional lenders are elbowed aside. In addition to the broad mandate of the CRA that encourages conventional lenders to reach out to overlooked clients and aims at entire neighborhoods, federal policy also needs to operate through more specialized types of lenders such as CDFIs that know how to reach the neediest borrowers and how to succeed where ordinary commercial finance cannot easily thrive. The other frontier for federal policy is ensuring access to depository and payment services. Suggests that implementation of the statutory mandate for federal payments by electronic funds transfer may provide the opportunity for bringing households presently without bank accounts (15 percent of American households) into mainstream finance, and the ambit of affordable and reliable payment and deposit services.

14. **Eugene Ludwig, Comptroller of the Currency. 1997. "Remarks before the Director's Roundtable." San Francisco (July 15).** Recognizes the value CRA has added to underserved communities and advocates opening discussion on how to extend the principles underlying the CRA to other parts of the financial services industry, without imposing a "CRA-type responsibility in a rigid, one-size-fits-all way." Noting that in 1990, nonbanks held a larger share of the nation's financial assets than commercial banks and thrifts combined, questions logic of applying CRA-type responsibility to only one segment of the financial services industry. Cites examples of how this might be done (but endorsing none), including nonbank partnerships with CDFIs through co-investments, contributions to lending pools, etc.; for parallel banks to establish and fund a National Reinvestment Bank, which would provide a capital base for CDFIs; making insurance coverage more accessible and affordable. (remarks closely follow many ideas set forth in Pinsky & Threlfall article, discussed below).

15. **Jonathan R. Macey and Geoffrey P. Miller. 1993. "The Community Reinvestment Act: An Economic Analysis," *Virginia Law Review* 79:291-348 (March).** Reviews CRA, post-1989 revisions, to find that the 1989 amendments requiring ratings disclosure changed the law from a vague statement of principle without much real-world effect to a statute with teeth, and concluding that the law does more harm than good in its attempt to address revitalization of deteriorated inner-city neighborhoods. Criticizes the statute on multiple ideological and pragmatic grounds. First, rejects the ideology of localism underlying CRA, finding that banking is no longer in fact a local industry, as a result of changes permitting interstate banking and branching and evolution of information processing and communication technologies that have weakened ties that connect banks with their local communities, and that this movement away from localism has been beneficial for consumers in improving banking service, and for banks in enhanced asset diversification and economies of scale. Second, concept of banks "draining" credit out of local communities is inappropriate, finding no reason why credit should be different from any other commodity, and shipped from one area where it is in surplus to another where there is a deficit, which ultimately benefits the locality in which the credit is generated, in the form of higher interest rates, etc. Third, finds no basis for idea that banking charter carries with it an obligation to return credit to a bank's local community, particularly in light of the erosion of the bank monopoly over transaction accounts once provided by the banking charter, as a result of elimination of interest rate ceilings and competition for deposits from mutual funds and other nonbank firms. Fourth, the statute imposes a discriminatory tax on banks and savings associations, which are thereby weakened relative to other financial institution lenders such as pension funds, life insurance companies, consumer finance firms, mortgage banks and credit unions; and imposes differentially high costs on institutions serving depressed communities, banks trying to expand or reposition themselves in the market, and wholesale, trust and private banks, whose businesses do not lend themselves to community lending. Fifth, the statute interferes with safety and soundness by requiring banks to make loans or provide services that are not profitable, by impeding the merger process that contributes to an efficient market structure, and by reducing a bank's ability to diversify its asset portfolio through lending outside its local geographic area. Sixth, it imposes inordinate compliance costs, in the form of direct expenses and disruption, imprecision of standards, and public relations efforts; and the improper influence of activist groups. Finally, finds inappropriate the conversion of the community reinvestment purpose of the statute to the targeting of particular ethnic or gender groups, philanthropic giving, and hiring of minority employees. Argues that the statute ultimately perversely discourages banks from entering low-income markets in order to avoid CRA mandates. Finds that the statute has been politically popular despite the foregoing drawbacks because it benefits organized political interest groups including community activist organizations, small businesses and small farms and the banking agencies themselves. Argues in the alternative for market-driven initiatives, describing several possibilities proposed by others: lending clubs on the model of "kehs" in the Korean-American community, low-income community credit unions, offering of lifeline banking by grocery stores and other retailers.

16. **Craig E. Marcus. 1996. "Beyond the Boundaries of the Community Reinvestment Act and the Fair Lending Laws: Developing a Market-Based Framework for Generating Low- and Moderate-Income Lending," *Columbia Law Review* 96:710-58 (April).** Finds that low- and moderate-income communities continue to lack adequate banking services in terms of branch access and credit availability, despite the billions of dollars committed to lending in these communities pursuant to the CRA, and despite the fair lending laws; that this result is consistent with nondiscriminatory, profit-maximizing behavior by banks; and that the theoretical fusing together of community disinvestment and racial discrimination has hindered an effective solution to either problem. Argues for market-based incentives based on restricted access to the secondary markets. Specifically, suggests requiring that Fannie Mae and

Freddie Mac purchase loans from banks only in blocks that contain a minimum percentage of low- and moderate-income loans originated within a bank's assessment area. Thus, in order to sell its mortgage loans to Fannie Mae or Freddie Mac, a bank would have to originate enough low- and moderate-income loans to meet the percentage required to sell a block, or else be forced to hold its loans until maturity. This would also create an incentive for banks to enlarge their assessment areas to include more of the low- and moderate-income areas around their branches (rather than less, as under the current law), because only loans originated within its assessment area would count toward satisfying the percentage requirement in each block of loans. Block system would also be an effective tool to expose banks that are not doing such lending, to be investigated for actual evidence of racial discrimination by the Justice Department. Success of proposal premised on evidence that loans made by high-rated banks are not riskier than those made by banks with lower CRA ratings, suggesting that increased low- and moderate-income lending is a realistic possibility. Other market-based incentives mentioned but rejected for various reasons are reduced tax rates on income from CRA loans or tax incentives to invest in Community Development Banks or other CRA-type programs; and greenlining.

17. **Richard D. Marsico. 1995. "Fighting Poverty Through Community Empowerment and Economic Development: The Role of the Community Reinvestment and Home Mortgage Disclosure Acts,"** ***New York Law School Journal of Human Rights*** **12 Part Two:281-309 (Spring).** Recognizing the limits of the "traditional" approach to CRA enforcement, of challenges to bank merger applications and negotiation of lending agreements (namely limits on the scope of the laws, underenforcement by the regulatory agencies under the previous regulatory regime, and the dependency it creates on outside institutions), argues that community groups can more effectively use the CRA and HMDA to create and support CDFIs. Argues that CDFIs present a superior tool for fighting poverty by developing the economic infrastructure of low-income communities and promoting community self-determination rather than dependence on banks and other outside institutions.

18. **National Community Capital Association (NCCA). 1997.** ***Financial Modernization and the Poor Conference: A Report and Transcript*****, Proceedings from National Community Capital Association's Conference held on October 24, 1997, in Washington, D.C.** Proceedings of three panels: (i) How is financial modernization changing the roles and responsibilities in the financial services industry? (ii) How is financial modernization affecting low-income and low-wealth people? (iii) Should public policy change to adapt to the changing relationship between the financial services industry and poor people? Conference panelists Karen Shaw Petrou, Margaret Cheap, Janet Thompson, John Caskey, John Taylor, Michael Barr, Allen Fishbein, Douglas Woodruff, Moises Loza; and keynote speaker Julie Williams. Discusses issues including effects of credit scoring, sub-prime lending, electronic funds transfer legislation and the effect it will have on the "unbanked," technological innovations in financial services, effect of closings of neighborhood branches on local economies, effect of consolidation among financial services providers and proposed financial modernization legislation, leveling the playing field by applying CRA-type regulation to all institutions that derive taxpayer benefit.

19. **Office of the Comptroller of the Currency. 1999. "Decision of the Office of the Comptroller of the Currency on the Application to Charter CIBC National Bank, Maitland, Orange County, Florida." (July 9).** Application of Canadian Imperial Bank of Commerce, Toronto, Ontario, Canada to charter a new full-service national bank that would provide its unsecured consumer loans and other products and services through the establishment of kiosks located in grocery stores equipped with deposit-taking ATMs, computer terminals connected to the bank's internet website, and toll-free telephone connections to the bank's representatives. In reviewing CRA considerations in connection with the charter application, the OCC rejected the view that the bank's assessment area for purposes of the CRA should be based on its nationwide operations via the Internet. Instead, the OCC approved the bank's plan to designate its assessment areas based on its headquarters location and on the locations of its deposit-taking ATMs at banking kiosks. Thus, the initial assessment area for the new national bank would be the Orlando MSA, where it would locate its headquarters and initial banking kiosks; and that additional areas would be designated in other areas in Florida and in other states as new kiosks were placed. The OCC based its decision on the regulatory language (12 C.F.R. § 25.41(c)(2)) requiring delineation of assessment areas to "include geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans." OCC also concludes that the proposed banking kiosks are not branches within the meaning of 12 U.S.C. § 36(j) (which means that opening of a new kiosk will not trigger the CRA review attendant upon establishment of a branch facility).

20. **Office of Thrift Supervision. 1998. "OTS Grants State Farm Federal Thrift Charter." Press Release and Approval Order No. 98-115 (Nov. 12).** Press release accompanying order approving application of State Farm Mutual Automobile Insurance Company, the largest automobile, property, and casualty insurance company in the country, to establish a thrift institution. The new thrift, State Farm Financial Services, F.S.B., was to be based in the State Farm headquarters complex in Bloomington, Illinois, would also operate in the St. Louis area, and eventually expand operations throughout Illinois and Missouri and eventually to Arizona and other states. The thrift planned to offer a full range of banking services, including taking deposits and making various types of home mortgage, auto, and home equity loans, by direct mail and through its nationwide network of independent agents to its insurance customers. While the approval order said nothing about the issue, the press release states that the thrift's CRA assessment area will be the Bloomington-Normal MSA in central Illinois, but set forth a framework of additional CRA responsibilities. The thrift had committed to make $195 million in loans to low- and moderate-income borrowers in the states served during the first three years of operation, and had set a long-term goal of CRA-related loan commitments and activities equal to the greater of 5 percent of the thrift's assets or the amount of deposits generated from low- and moderate-income persons. The thrift agreed to review, for each state it enters, the extent of insurance agent participation in the distribution of its credit products and how that would affect the thrift's CRA and fair lending performance; agreed to provide CRA and compliance training to State Farm field coordinators and officers, hired a director of residential lending experienced in community development activities; planned to participate in a variety of community organizations and programs; agreed to create a national community advisory council at the time its operations expand beyond the initial three states; and agreed to submit to OTS a quarterly analysis of the disposition of loans by race, income, and geography, as well as the price, terms, and conditions of granted loans.

21. **Mark Pinsky and Valerie Threlfall. 1996.** ***The Parallel Banking Industry and Community Reinvestment*****. National Association of Community Development Loan Funds (now National Community Capital Association).** Premised on CRA and fair lending laws having been successful and essential to creating investment in low-income communities, argues for extending community reinvestment obligations to the parallel banking industry, defined as comprising insurance companies, pension funds, mutual funds and finance companies. Rationale that these "parallel

banks" perform almost all of the same core functions as banks, operate with significant taxpayer subsidy through their reliance on conventional bank lines of credit and near-equal access to federal protections and emergency loans, and cause significant risk to the financial system because of lack of corresponding safety and soundness requirements.

22. **Ellen Seidman. 1999. "Challenges in Measuring CRA Performance." Remarks by Ellen Seidman, Director, Office of Thrift Supervision, at the Fair Lending and CRA Colloquium, Newport, Rhode Island. (June 17).** Discusses three issues concerning measuring an institution's CRA performance: definition of an institution's assessment area, quantity of lending, investment, or service activities, and quality of activities. Outlines OTS approach to defining assessment area for thrifts that use non-branch delivery systems, with the goal of assessing performance throughout the markets in which the thrift does business, and not just in its main office assessment area. Specifically, Seidman states that "[a]pplicants for a thrift charter that propose to engage in nationwide or super-regional home mortgage or multi-product consumer lending to the retail public through non-traditional means with a single main office or branch must demonstrate the capacity to achieve satisfactory performance of its CRA obligations in lending, investment and services (1) by at least adequately addressing the needs in its main office assessment area, given the performance context of its operations in that area, (2) by showing that the prospects for its retail products penetrating low- and moderate-income markets in the regions it reaches outside its assessment area are favorable, and (3) by demonstrating that its community development lending, qualified investments and community development services provide appropriate levels of benefit to appropriate markets throughout the scope of its thrift operations." Notes that this rule was used in the recent application of State Farm to acquire a thrift institution, and that CRA evaluation of State Farm's thrift will be limited to the MSA surrounding its Bloomington, Illinois headquarters only initially; in the future OTS will evaluate the institution's performance in other states and regions as its operations expand there. Presents other alternatives considered by the banking agencies to adjust the idea of community underlying the definition of an institution's assessment area. (1) Expand eligibility for the community development test from wholesale and limited purpose banks to a larger variety of nontraditional institutions. This test evaluates community development lending, investments, and services in the institution's assessment area as well as the broader statewide or regional area that includes the assessment area, or beyond, and could accommodate nationwide deposit or lending activities. (2) Expand regulatory definition of assessment area to include areas where an institution gathers a substantial amount of its deposits or makes a substantial portion of its loans. (3) Customer-based assessment areas, based on the location of customers, rather than branch locations, analagous to the statutory assessment area provided for institutions that serve military personnel or their dependents. (4) Use the strategic plan option, which permits an institution to develop its own plan, in consultation with community representatives, for helping to meet community credit needs. Also addresses issues relating to qualitative measurement of CRA performance (credit for purchases of loans may lead to purchase and sale of the same loans over and over among CRA-covered institutions, leading to lending credit but not more dollars in communities, rewarding the smaller "large" institutions, attempt to have Federal Reserve Board amend Regulation B by removing the prohibition against collecting race, gender, and national origin information on other than real estate loans); and quantitative measurement of CRA performance (properly administered risk-based pricing can broaden the market and improve homeownership opportunities, bringing mainstream lenders into lower tiers of the credit market that until now have had to rely on very high-priced, often predatory, alternative institutions).

23. **Michael Sherraden and Neil Gilbert. 1991. *Assets and the Poor: A New American Welfare Policy.* M.E. Sharpe.** Introducing the idea of the Individual Development Account (IDA).

24. **Southern Finance Project. 1995. *Reinvestment Reform in an Era of Financial Change*. (April).** Advocates increased support for community credit needs by creating a National Reinvestment Fund (NRF) financed with mandatory investments by all private nonbank financial institutions. The NRF would capitalize the growth of existing CDFIs and provide seed capital for new CDFIs; and provide credit enhancements, financial guarantees and policy coordination for federal loan-guarantee programs. The NRF would be administered by the Federal Reserve System and managed on a regional level by the 12 Federal Reserve Banks. Guarantee privatization would be implemented through a new Federal Credit Guaranty Corporation. Fund-supported CDFIs would supply capital, credit and other services, including the labor-intensive direct portfolio lending necessary in distressed communities and targeted investment areas. Proposal is based on and details the premise that nonbank financial institutions are thriving as a result of public subsidies and safeguards and use of the services of the highly regulated banking industry, but with no corresponding community obligations or prudential oversight. Includes extensive tables that detail the distribution of financial sector assets. Supports prudential oversight of these nonbank financial institutions through a Financial Industry Licensing Act, described in D'Arista and Schlesinger, 1993.

25. **Gregory D. Squires, "Community Reinvestment: An Emerging Social Movement," Chapter 1 in *From Redlining to Reinvestment: Community Responses to Urban Disinvestment*, ed., Gregory D. Squires (Philadelphia: Temple University Press, 1992).** Traces the history of community reinvestment as a social movement, including the development of home finance policy since World War II, the role of race in mortgage lending, and the evolution and impact of the HMDA and the CRA; and describes developments in the economy and financial marketplace, including deregulation, concentration, homogenization, and globalization, that are resulting in the "commodification" of lending, the next challenge to community reinvestment efforts in the home finance marketplace. Refers to structural changes in the political economy of home finance resulting in the treatment of housing and housing-related services as commodities in the service of maximizing private profitability in lending, such that the availability of housing credit is dependent less and less on the supply and demand specifically for mortgage loans and increasingly on the supply and demand for credit in international markets generally, so that housing consumers in American cities may have to compete with Brazilian coffee producers and Japanese computer manufacturers as well as U.S. real estate developers and tobacco growers for credit. Posits that rational, market-based, profit-seeking behavior by lenders will still discourage mortgage and related business lending in the most depressed communities even if race and other non-risk related factors are eliminated, and therefore will not meet the social need for housing finance. Suggests that, as with the decline of cities, the growth of suburbs, and the concomitant racial concentration in urban housing markets, reinvestment is not an ecological inevitability or natural outcome of market forces; but will require conscious choices just as the FHA made conscious choices in its early years to protect white neighborhoods.

26. **Gregory D. Squires and Thomas J. Espenshade, eds. 1997. *Insurance Redlining: Disinvestment, Reinvestment, and the Evolving Role of Financial Institutions*. Urban Institute Press.** Addresses discrimination in the homeowners insurance market based on race of applicants or racial composition of neighborhoods.

27. **Michael A. Stegman. 1999. *Savings and the Poor: The Hidden Benefits of Electronic Banking*. Washington, D.C.: The Brookings Institution.** Chronicles the evolution of EFT'99, the Federal law requiring electronic payment of Federal benefits beginning January 2, 1999, from a government cost-savings measure to a movement to help working families join the financial mainstream, and as an impetus for more asset-based social policies. Explores the impetus for EFT'99, how technology is changing the organization and delivery of financial services, the convergence in delivery system methods used by mainstream financial institutions and fringe banks, and challenges and opportunities for EFT'99, including attributes of the Electronic Transfer Account ("ETA") to be offered to the unbanked for receipt of their benefits. Discusses individual development account ("IDA") programs that offer savings incentives for the poor (in contrast to savings incentives that operate through the tax system and so have little effect on the poor whose lower marginal tax rates provide little incentive for participation); and the potential benefit these programs provide in tandem with welfare reform that lets recipients keep assets without losing their welfare eligibility status. Advocates a four-point policy agenda to help EFT'99 realize its potential: (i) states should add a direct deposit option to their electronic benefit transfer ("EBT") programs for recipients of emergency cash assistance; (ii) the CRA should be strengthened to support the transition to electronic benefits transfer; (iii) the Federal government should regulate fees for cashing government checks and accessing federal benefits through voluntary (non-ETA) accounts; and (iv) Congress should enact a nationwide program of IDAs funded on the mandatory side of the Federal budget, as are Roth IRAs and 401(k) retirement plans.

28. **Lawrence H. Summers, Deputy Secretary of the Treasury. 1998. *Building Emerging Markets in America's Inner Cities*. National Council for Urban Economic Development, Washington, D.C. (March 2).** Outlines the Administration's three-prong approach to improving access to capital in distressed inner city communities: the revitalized CRA, the CDFI Fund, and targeted tax incentives. Summers posits that experience has shown that private financial markets fail when it comes to the very poor -- that market psychology and other barriers tend to artificially restrict the flow of capital to certain neighborhoods or to minority groups; and that mechanisms are needed to "revive the power of the market for low-income families." First, presenting recent HMDA data and statistics on CRA commitments, Summers touts the revitalized CRA as establishing a new paradigm in community regeneration strategies, in which public sector and nonprofit organizations "work shoulder to shoulder with mainstream banks and other financial institutions to bring affordable credit and private sector investment to distressed districts and transform their prospects." In particular, cites 1996 HMDA data revealing that conventional home mortgage lending to African-Americans increased 67.2 percent, lending to Hispanics increased 48.5 percent, and lending to low- and moderate-income areas increased 37.9 percent, in a period in which the entire market grew only 18 percent. Second is the CDFI Fund, created in 1992, under which 80 CDFIs have been awarded over $75 million in grants, loans, equity investments and technical assistance, and noting that these CDFI awards would be leveraged 3-4 times in the short term alone; and under which 92 Bank Enterprise Awards, worth $30 million, had been made to insured depository institutions that had increased their investments in CDFIs or increased their direct lending and other services to low-income communities. Summers compares CDFIs to a "niche venture capital firm" that "deploys its superior knowledge of an emerging market niche to invest and manage risk better than other investors. CDFIs are often 'early birds' or 'market scouts' who see the market potential of overlooked customer segments. . . . But like other frontier investors, CDFIs cannot survive unless they find paying customers. They must make loans and investments that are repaid. And, in the end, they must aim to be supplanted. By definition, CDFIs' customers are not yet fully served by the market. But the end goal is always to change the psychology of the marketplace to catalyze more investment by the private sector." Third, Summers outlines the Administration's use of targeted tax incentives including "brownfields" tax incentives, Empowerment Zones, wage credits to employers for hiring families coming off welfare and others, and making low-income housing tax credits permanent.

29. **Peter P. Swire. 1993. "Safe Harbors and a Proposal to Improve the Community Reinvestment Act," *Virginia Law Review* 79:349-82.** Responds to Professors Macey and Miller's critique of the CRA (see Addendum) by proposing a regulatory "safe harbor" for banks and their holding companies from CRA enforcement as a means to increase community investment while reducing bank compliance costs and minimizing misallocation of credit. Proposes that a bank or bank holding company that met certain CRA investment criteria, through substantial investments in community development banks and other qualifying investments, be exempt from CRA examinations and have its applications subject to review under the CRA receive automatic favorable treatment. Argues that while other alternatives offer some supplemental benefits, the CRA, with adoption of a safe harbor, is a preferable means to achieve the goals of eliminating redlining, preventing racial discrimination, and increasing investment in low- and moderate-income communities. For example, argues that the CRA is preferable to direct government expenditures, because banks are in the business of making loans and are in a better position than the government to make local investment decisions; tax programs are difficult to establish effectively; and antidiscrimination suits are unsuited to achieving the corrective and affirmative goals of the CRA.

30. **Anthony D. Taibi. 1994. "Banking, Finance, and Community Economic Empowerment: Structural Economic Theory, Procedural Civil Rights, and Substantive Racial Justice," *Harvard Law Review* 107:1465-1545).** Finding that the CRA debate sets up a false dichotomy between healthy communities and a profitable financial industry (at 1490), or between fairness and market efficiency (at 1511), argues for a "community empowerment" public policy paradigm to guide financial industry policy and structure. Rejects the idea that deregulation and internationalization of banking and finance is "efficient" and, in the long run, good for everyone, in favor of structural approaches that favor local communities and challenge the basic assumptions underlying economic policy. Argues that one programmatic step in this direction is support for community development financial institutions (although finding the Clinton administration CDFI proposal deficient and potentially harmful in several respects), which could go a long way towards laying the groundwork for such change.

31. **Lawrence J. White. 1993. "The Community Reinvestment Act: Good Intentions Headed in the Wrong Direction," *Fordham Urban Law Journal* 20(2):281-92 (Winter).** Argues that CRA is fundamentally flawed whether CRA lending is or is not profitable. Argues that either the law is redundant because serving local communities is profitable, and so banks will do it anyway, or else banks must "cross-subsidize" unprofitable CRA-induced services with above-normal profits from other services. Argues that increased competition in the financial services industry is erasing any above-normal profits "elsewhere" to fund the cross-subsidy, so that banks will either shirk their CRA responsibility or incur overall losses; that in the long run, the CRA is a disincentive from locating or remaining in unprofitable communities, and that technological changes resulting in a global economy make CRA emphasis on localism anachronistic and ultimately self-defeating.

32. **Woodstock Institute. 1999. Letter from Malcolm Bush, President, Woodstock Institute and Convenor, Chicago CRA Coalition, to John D. Hawke, Chair, Federal Financial Institutions Examination Council (February 22).** Argues that traditional definitions of assessment areas based on branch locations are inadequate and undermine the intent of the CRA by not taking into account that financial institutions now serve large, often multi-state areas, and that an increasing volume of bank services are delivered outside of bank branches by e-commerce, bank-by-phone, bank-by-mail, and ATMs. In particular, points out American Express Centurion Bank, a credit card company that does the majority of its lending outside of its assessment area, the Salt Lake City MSA, made 16 percent of all small business loans in the U.S. in 1996, and is the largest small business lender in the Chicago market; and State Farm, which plans to develop a national market for financial services through its 16,000 insurance agents. Together with the National Community Reinvestment Coalition, the Chicago CRA Coalition proposes that assessment areas comprise wherever a financial institution has a significant share of the loan market or deposits (.05 percent) and/or the number of loans/deposits represents a large portion of the institution's total portfolio.

Appendix A

Addendum: Profitability of CRA Lending

1. **Robert B. Avery, Raphael W. Bostic, Paul S. Calem, and Glenn B. Canner. 1996. "Credit Risk, Credit Scoring, and the Performance of Home Mortgages,"** ***Federal Reserve Bulletin*** **82:621-48; 639-47 (July).** Examines how mortgage lenders assess credit risk, including use of credit scores, and how credit risk relates to loan performance. Assesses the performance of loans made through nontraditional underwriting practices and affordable home lending programs. Finds that the faster increase in conventional mortgage lending to low- and moderate-income borrowers than in lending to other groups suggests that affordable home loan programs may be having an effect in MSAs.

2. **Bear, Stearns & Co., Inc. 1997. "Securities Backed by CRA Loans: A New Product for Mortgage and Asset-backed Investors," Mortgage Research (October 2).** Research that underlies Bear, Stearns' CRA loan securitization transactions. Analyzes CRA loan programs with respect to borrower demographics, underwriting criteria and loan attributes in comparison with agency conforming, home equity, and VA vendee loans; and analyzes historical prepayment experience of $1.88 billion First Union CRA loans originated between 1990 and 1996 in five states. Concludes that as a result of low mobility rates of low-income borrowers, combined with a tendency for CRA loans to have favorable financing rates, small balances, high LTVs, and be primarily for first-time purchase transactions, CRA loans tend to have a slower rate of prepayment based on housing turnover, and CRA borrowers are less sensitive to refinancing opportunities than agency borrowers. Concludes that CRA-backed securities offer investors prepayment stability that improves the convexity of CRA-backed transactions.

3. **Board of Governors of the Federal Reserve System. 1993.** ***Report to the Congress on Community Development Lending by Depository Institutions*****. Washington, D.C. (October).** Compares risks and returns to insured depository institutions of residential, small business, and commercial lending in low-income, minority, and distressed neighborhoods with the risks and returns on such lending in other communities. Salient findings include the following. (i) Relationships between neighborhood income or neighborhood racial or ethnic composition and lending risk are inconclusive. (ii) Neighborhood income and racial or ethnic characteristics that may affect the rate of nonperforming loans rarely seem to affect profitability directly, suggesting that depository institutions adjust other components of profits to offset credit losses; and effects of neighborhood characteristics on profitability generally are small relative to the effects of the characteristics of the borrower, the loan, the lender's portfolio, and the region. (iii) Studies of FHA and Freddie Mac default rates suggest that loans to residents of low-income neighborhoods are riskier than loan to residents of high-income neighborhoods, while analysis of nonperforming loans held by depository institutions suggests there is no connection between neighborhood income and risk. Differing findings may reflect different portfolios and management techniques (e.g., high loan-to-value mortgages insured by FHA, or statistically-based risk control used by FHA and Freddie Mac as compared to risk management based on statistical measures combined with relationships and information about borrowers and neighborhoods based on local presence); (iv) finds that the influence of the minority composition of a neighborhood on risk or profitability is weak and inconsistent, when other determinants of risk and profitability are accounted for.

4. **Paul S. Calem and Susan M. Wachter. 1998. "Community Reinvestment and Credit Risk: Evidence from an Affordable Home Loan Program." (April) Unpublished Paper.** Examines performance of over 2000 home purchase loans originated between 1988 and 1994 by a major Philadelphia bank under a flexible lending program. Assesses long-term delinquency in relation to neighborhood housing market conditions, borrower credit history scores, and other factors. Finds that likelihood of delinquency declines with the level of neighborhood housing market activity, is greater for borrowers with low credit history scores and those with high ratios of housing expense to income, and when the property is unusually expensive for the neighborhood where it is located. Suggested strategies for reducing credit risk based on these results include tightening of lending standards based on borrower credit history or by improved methods of screening borrowers with weakness in credit records; placing increased emphasis on evaluations of appraisal risk or by developing improved property valuation methods; and collaborative community reinvestment efforts focused on targeted neighborhoods, which might help to create active housing markets in those neighborhoods.

5. **Glenn B. Canner and Wayne Passmore. 1997. *The Community Reinvestment Act and the Profitability of Mortgage-Oriented Banks*. Federal Reserve Board Finance and Economics Discussion Series 1997-7. Washington, D.C.: Federal Reserve Board.** Examines the relative profitability of commercial banks that specialize in mortgage lending in lower-income neighborhoods or to lower-income borrowers using three different empirical techniques, and finds that lenders active in lower-income neighborhoods and with lower-income borrowers appear to be as profitable as other mortgage-oriented commercial banks.

6. **Griffith L. Garwood and Dolores S. Smith. 1993. "The Community Reinvestment Act: Evolution and Current Issues," *Federal Reserve Bulletin* 79:251-67.** Finds that anecdotal evidence suggests that losses on CRA lending do not differ significantly from losses on other product lines, and that paperwork burden is overstated. Touts success of CRA at stimulating reinvestment and productive public-private partnerships in urban and rural communities, while often helping financial institutions compete for new customers and generate profitable business. Suggests that the law's lack of specificity, while a source of frustration, is the law's most important strength, leaving the question of how an institution can reach out to its entire community up to the institution and its community to determine.

7. **Judith Havemann. 1998. "A Hand Up, Via Homeownership; North Carolina Group Given $50 Million to Aid Working Poor," *The Washington Post* (July 24).** Reports the Ford Foundation's $50 million grant to Self-Help, a North Carolina nonprofit organization, to help low-income families buy homes. Under the program, banks (BankAmerica Corp., Chase Manhattan Corp., NationsBank Corp., Banc One Corp., and Norwest Corp.) would make CRA loans that would be sold to Self-Help. Using the Ford Foundation funds, Self-Help, in turn, would insure the loans against losses and sell them to Fannie Mae. Fannie Mae committed to purchase $2 billion in loans, which it would then pool for sale as mortgage-backed securities. The banks would use the capital from sale of the loans to make more affordable housing loans. Susan Berresford, President of the Ford Foundation, quoted as stating that an important goal of the grant will be to test whether low-wealth families that have been denied mortgages in the past can manage monthly mortgage payments, and thereby lay the groundwork for opening up lending policy nationwide.

8. **Michael LaCour-Little. 1998. "Does the Community Reinvestment Act Make Mortgage Credit More Widely Available? Some New Evidence Based on the Performance of CRA Mortgage Credits." Citicorp Mortgage, Inc. (May 4). Unpublished Paper.** Examines performance of CRA mortgage loans using data from a geographically diversified portfolio of $374 million of first mortgage loans originated by a single lender following Clinton administration reform of CRA regulations (from 1993-1996 and observed through year-end 1997). During the review period, the lender substituted judgmental underwriting standards for automated credit scoring methods for loans in low-to-moderate income census tracts or loans to low-to-moderate income borrowers. Study finds that approximately half of the total loan volume, or $187 million, reached borrowers who would not have qualified for credit under the credit scoring rule. Comparing performance of this portfolio with a control group of similar high LTV loans in which neither borrower nor neighborhood is low-to-moderate income, study finds default risk of 2.32 percent for LMI loans, as compared to 0.36 percent for non-LMI, control group loans, with slightly lower prepayment risk in the LMI loan group. No conclusion as to whether apparent pricing differentials equalize ultimate yields. (also included in Part II).

9. **David C. Ling and Susan M. Wachter. 1998. "Information Externalities and Home Mortgage Underwriting," *Journal of Urban Economics* 44:317-332.** Tests the Lang and Nakamura (1993) hypothesis that lower rates of lending in lower-income neighborhoods may be a result of lack of information or coordination among lenders in neighborhoods where there are few property sales, i.e., information externalities, which may make these neighborhoods appear riskier than others. This perception may lead to self-fulfilling risk due to a withdrawal of lending. To test whether the probability of loan acceptance is positively related to the number of recent sales in a neighborhood, as well as to past rates of appreciation, examines conventional home mortgage lending in Dade County (Miami), Florida, for the year 1990. Analysis based on a combination of HMDA data on characteristics of mortgage loan applicants and loan dispositions; 1990 census data on census tract population and housing stock characteristics; and data on house price appreciation and the number of sales in each census tract derived from the Florida Department of Revenue's 1992 property tax records, which include the two most recent selling prices and dates for all properties sold between 1971 and 1992, as well as other property-specific characteristics. Uses an accept/reject model in which the lender's decision to extend credit is a function of expected risk and return, and includes borrower and neighborhood racial and ethnic variables as well as neighborhood risk characteristics in order to test for discrimination, and variables for recent price appreciation and sales volume to test for impact of neighborhood information externalities. Finds no significant relationship between lending decisions and neighborhood racial or ethnic composition when variables that proxy for neighborhood risk are included; but does find that increases in recent house price appreciation and in the number of recent sales in the neighborhood do increase the probability of acceptance. Concludes that information externalities at the census tract level do explain a significant proportion of the variation in loan acceptance rates.

10. **David Malmquist, Clifford Rossi, and Fred Phillips-Patrick. 1997. "The Economics of Lending to Low-Income Mortgages," *Journal of Financial Services Research* 11.** Finds that while low-income lending is more costly, lenders are compensated with higher revenues, making profits similar for both low- and high-income lending.

11. **Larry Meeker and Forest Myers. 1996. "Community Reinvestment Act Lending: Is It Profitable?," *Journal of Financial Industry Perspectives*, Federal Reserve Bank of Kansas City (December).** Examines profitability differences between CRA and conventional home mortgage lending programs through survey of 97 large institutions located in metropolitan areas prior to CRA revisions. Only 2 percent of survey respondents said their CRA lending was

unprofitable, though 74 percent found it to be less profitable or substantially less profitable than their conventional lending. Divided responses into two categories: lenders who reported their CRA lending was at least as profitable as their conventional lending, and those who reported it was not. Authors then examined income, expenses, and other related information to identify factors that might account for differences between the groups. Variables identified by respondents as affecting profitability were revenues (loan fees and interest rates); expenses (transaction costs, including origination and servicing costs); extent to which lender absorbed fees (appraisal, title search, credit check, filing fees, and other administrative costs associated with making residential loans); reliance on government guarantees, community groups, or lending consortia to reduce credit risk; and degree of relaxation of underwriting criteria. Salient findings include the following. (i) Lenders with more profitable CRA loan programs were more likely to treat their CRA lending as they did their conventional lending, giving up a smaller portion of their fees, less willing to cut interest rates on CRA loans, and keeping origination and servicing costs near that for conventional lending. (ii) Nearly all lenders loosened their credit standards on CRA loans without appreciable increases in loan losses. (iii) All respondents, regardless of profitability group, indicated that losses on their CRA loans were comparable to losses on their conventional loans, though institutions with less profitable CRA programs reported higher delinquency rates, possibly since managing delinquencies translates into higher transaction costs.

12. **Edwin S. Mills and Luan Sende Lubuele. 1994. "Performance of Residential Mortgages in Low- and Moderate-Income Neighborhoods,"** ***Journal of Real Estate Finance and Economics*** **9(3):245-60.** Concludes that performance of portfolio of low-to-moderate income mortgage loans not significantly different from more typical lender portfolios.

Appendix B

CRA and Related Primary Source Materials

STATUTES AND RELATED REGULATIONS

Community Reinvestment Act of 1977, Pub. L. No. 95-128, Title VIII, Oct. 12, 1977, 91 Stat. 1147, codified at 12 U.S.C. §§ 2901-2907 (as amended).

Regulations:
12 C.F.R. Part 25 (Office of the Comptroller of the Currency).
12 C.F.R. Part 345 (Federal Deposit Insurance Corporation).
12 C.F.R. Part 563e (Office of Thrift Supervision).
12 C.F.R. Part 228 (Federal Reserve Board).

Rulemaking:
Community Reinvestment Act Regulations, Joint Notice of Proposed Rulemaking, 58 Fed. Reg. 67,466 (Dec. 21, 1993).
Community Reinvestment Act Regulations, Joint Notice of Revised Proposed Rulemaking, 59 Fed. Reg. 51,232 (Oct. 7, 1994).
Community Reinvestment Act Regulations, Joint Final Rule, 60 Fed. Reg. 22,156 (May 4, 1995).

The Home Mortgage Disclosure Act, Pub. L. No. 94-200, Title III, Dec. 31, 1975, 89 Stat. 1125, codified at 12 U.S.C. §§ 2801-2810 (as amended).
Regulations:
12 C.F.R. Part 203.

Other Statutes:

Financial Institutions Reform, Recovery, and Enforcement Act of 1991 ("FIRREA"), Pub. L. No. 101-73, Title XII, §§ 1211(b), 1212(b), 103 Stat. 524-26, 527, codified at 12 U.S.C. §§ 2803, 2906, respectively (expanding HMDA reporting to include race, gender, and annual income of loan applicants as well as loan application disposition; and requiring public disclosure of CRA evaluations and ratings).

Bank Enterprise Act of 1991, Pub. L. No. 102-242, Title II, § 232, 105 Stat. 2308, codified at 12 U.S.C. § 1834 (insured depository institutions that do business in economically distressed communities can earn assessment credits for application against their deposit insurance premiums).

Federal Housing Enterprises Financial Safety and Soundness Act, Pub. L. No. 102-550, Title XIII, §1312, Oct. 28, 1992, 106 Stat. 3945, codified at 12 U.S.C. § 4501 (requiring that HUD set goals for Fannie Mae and Freddie Mac purchases of mortgage loans to low- and moderate-income homebuyers and for homes located in central cities and other underserved areas).

Community Development Banking and Financial Institutions Act of 1994, Pub. L. No. 103-324, Title I, 108 Stat. 2160, codified at 12 U.S.C. §§ 4701-4718 (creating $382 million fund to provide federal financial matching support for CDFIs) (including Bank Enterprise Award Program) (also known as the Riegle Community Development and Regulatory Improvement Act of 1994).

INTERAGENCY QUESTIONS AND ANSWERS
Interagency answers to questions pertaining to particular provisions of the CRA regulations.

www.ffiec.gov/cra/qa/default.htm

Federal Financial Institutions Examination Council. "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment." 64 Fed. Reg. 23,618 (May 3, 1999).

Notice and Request for Comment, "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 62 Fed. Reg. 52,105 (Oct. 7, 1997).

Notice and Request for Comment, "Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment," 61 Fed. Reg. 54,647 (Oct. 21, 1996).

INTERAGENCY INTERPRETIVE LETTERS
Interagency interpretive letters in response to public inquiries about the CRA.

www.ffiec.gov/cra/letters/default.htm
Interpretive letters issued between 1995 and 1998 available on-line.

LEGISLATIVE HISTORY

Community Credit Needs: Hearings on S. 406 Before the Senate Committee on Banking, Housing and Urban Affairs, 95th Cong., 1st Sess. (1977).

H.R. Conf. Rep. No. 643, 95th Cong., 1st Sess. (1977).

Community Reinvestment Act: Hearings Before the Senate Committee on Banking, Housing and Urban Affairs, 100th Cong., 2nd Sess. (1988).

Provisions Aimed at Strengthening the Community Reinvestment Act: Hearings Before the Senate Committee on Banking, Housing and Urban Affairs, 100th Cong., 2nd Sess. (1988).

Discrimination in Home Mortgage Lending: Hearings Before the Senate Committee on Banking, Housing and Urban Affairs, 101st Cong., 1st Sess. (1989).

Conference Report on the Financial Institutions Reform, Recovery and Enforcement Act of 1989, H.R. Conf. Rep. No. 54, 101st Cong., 1st Sess. (1989).

Secondary Mortgage Markets and Redlining, Hearing Before the Subcommittee on Consumer and Regulatory Affairs of the Senate Committee on Banking, Housing, and Urban Affairs, 102nd Cong., 1st Sess. (1991).

Status of the Community Reinvestment Act, S. Rep. No. 121, 102nd Cong., 2nd Sess. 25 (1992).

Community Development Financial Institutions: Hearings Before the Subcommittee on Financial Institutions Supervision, Regulation and Deposit Insurance of the Committee on Banking, Finance and Urban Affairs, House of Representatives, 103rd Cong., 1st Sess. 531 (1993).

Community Investment Practices of Mortgage Banks: Hearings Before the Subcommittee on Consumer Credit and Insurance of the House Committee on Banking, Housing and Urban Affairs, 103rd Cong., 2nd Sess. (Sept. 21, 1994).

Community Investment Practices of Credit Unions: Hearings Before the Subcommittee on Consumer Credit and Insurance of the House Committee on Banking, Housing and Urban Affairs, 103rd Cong., 2nd Sess. (1994).

H.R. Rep. No. 193, 104th Cong., 1st Sess. (1995).

Appendix C

Federal Banking Regulators and Other Governmental Sources

Board of Governors of the Federal Reserve System
www.federalreserve.gov
www.federalreserve.gov/community.htm (CRA website)
20th and C Streets, N.W.
Washington, D.C. 20551
202-452-3000
Public Affairs 202-452-3205
Publications 202-452-3245
Community Affairs 202-452-2412

Federal Reserve Bank of Atlanta
www.frbatlanta.org
404-521-8500
Community Affairs 404-521-7103

Federal Reserve Bank of Boston
www.bos.frb.org
617-973-3000
Publications/Public and Community Affairs 617-973-3095

Federal Reserve Bank of Chicago
www.frbchi.org
312-322-5322
Community Affairs 312-322-8232
Public Affairs/Publications 312 322-5115

Federal Reserve Bank of Cleveland
www.cleve.frb.org
216-579-2000
Community Affairs 216-579-2846
Publications 216-579-3079

Federal Reserve Bank of Dallas
www.dallasfed.org
214-922-6000
Community Affairs 214-922-5377
Public Affairs 214-922-5286

Federal Reserve Bank of Kansas City
www.kc.frb.org
816-881-2000
Community Affairs 816-881-2476

Federal Reserve Bank of Minneapolis
www.mpls.frb.fed.us
612-204-5000
Community Affairs 612-204-5060

Federal Reserve Bank of New York
www.ny.frb.org
212-720-5000
Community Affairs 212-720-8129

Federal Reserve Bank of Philadelphia
www.phil.frb.org
215-574-6000
Community and Consumer Affairs 215-574-6458

Federal Reserve Bank of Richmond
www.rich.frb.org
804-697-8000
Community Affairs 804-697-8447
Publications 804-697-8108

Federal Reserve Bank of St. Louis
www.stls.frb.org
314-444-8444
Community Affairs 314-444-8646

Federal Reserve Bank of San Francisco
www.frbsf.org
415-974-2000
Community Affairs 415-974-2978

Federal Deposit Insurance Corporation
www.fdic.gov
550 17th Street, N.W.
Washington, D.C. 20429
202-393-8400
Division of Compliance and Consumer Affairs 202-942-3662

Federal Financial Institutions Examination Council
Includes access to CRA regulations, CRA national aggregate reports, CRA ratings, interagency questions and answers, interpretive letters, examination procedures, links to other CRA sites.
www.ffiec.gov
www.ffiec.gov/cra
2100 Pennsylvania Avenue, N.W.
Washington, D.C. 20037
202-634-6526
CRA Help Line 202-872-7584
HMDA Help Line 202-452-2016

Office of the Comptroller of the Currency
www.occ.treas.gov
www.occ.treas.gov/crainfo.html
United States Department of the Treasury
250 E Street, S.W.
Washington, D.C. 20219
202-874-5000

Office of Thrift Supervision
www.ots.treas.gov
www.ots.treas.gov/community.html
United States Department of the Treasury
1700 G Street, N.W.
Washington, D.C. 20552
202-906-6000
Compliance Policy 202-906-6000
Community Affairs 202-906-7857

United States Census Bureau
www.census.gov

United States Department of Housing and Urban Development (HUD)
www.hud.gov
Publications: HUD USER
www.huduser.org
P.O. Box 6091
Rockville, MD 20849
1-800-245-2691

United States Department of the Treasury
Office of Community Development Policy
CDFI Fund www.treas.gov/cdfi
United States Government Accounting Office
www.gao.gov

United States House of Representatives

Committee on Banking and Financial Services
www.house.gov/banking
202-225-7502

United States Senate
Committee on Banking, Housing and Urban Affairs
www.senate.gov/~banking
202-224-7391

United States Small Business Administration
www.sba.gov

Appendix D

Non-Governmental Organizations

Center for Community Development
American Bankers Association
1120 Connecticut Avenue, N.W.
Washington, D.C. 20036
Judith Knight, Director 202-663-5359
Fax 202-663-7541

Association of Community Organizations for Reform Now (ACORN)
www.acorn.org
739 8th Street, S.E.
Washington, D.C. 20003
202-547-2500

Center for Community Change
www.communitychange.org
1000 Wisconsin Avenue, N.W.
Washington, D.C. 20007
202-342-0567
Deborah Goldberg

Center for Neighborhood Technology
www.cnt.org
2125 West North Avenue
Chicago, IL 60647
773-278-4800
Fax 773-278-3840
Scott Bernstein

Coalition of Community Development Financial Institutions
www.cdfi.org
924 Cherry Street, Second Floor
Philadelphia, PA 19107-2411
215-923-5363
Fax 215-923-4755

Community Reinvestment Fund
www.crfusa.com
2400 Foshay Tower
821 Marquette Avenue
Minneapolis, MN 55402
1-800-475-3050

Consumer Bankers Association
www.cbanet.org
1000 Wilson Blvd, Suite 3012
Arlington, VA 22209
703-276-1750
Fax 703-528-1290

Economic Policy Institute
www.epinet.org
1660 L Street, N.W., Suite 1200
Washington, D.C. 20036
202-775-8810
Fax 202-775-0819

Enterprise Foundation
www.enterprisefoundation.org
10227 Wincopin Circle, Suite 500
Columbia, MD
410-964-1230

Essential Information
www.essential.org/El.html
P.O. Box 19405
Washington, D.C. 20036
202-387-8030

Fair, Isaac and Company, Inc.
www.fairisaac.com
1-800-999-2955
Home mortgage and small business credit scoring services.

Financial Markets Center (formerly Southern Finance Project)
www.fmcenter.org

P.O. Box 334
Philomont, VA 20131
540-338-7754
Fax 540-338-7757
E-mail finmktctr@aol.com
Tom Schlesinger

Ford Foundation
www.fordfound.org
320 East 43 Street
New York, NY 10017
212-573-5000
Fax 212-351-3677

Local Initiatives Support Corporation (LISC)
www.liscnet.org
733 Third Avenue, 8th Floor
New York, NY 10017
212-455-9800

National Community Capital Association
www.communitycapital.org
924 Cherry St., 2nd Floor
Philadelphia, PA 19107-2411
215-923-4754
Mark Pinsky

National Community Reinvestment Coalition
www.youthlink.net/ncrc
733 15th Street, N.W., Suite 540
Washington, D.C. 20005
202-628-8866
John Taylor, Executive Director
Josh Silver, Vice President and Director of Research and Publications

National People's Action
810 N. Milwaukee Avenue
Chicago, IL 60622-4103
312-243-3038
Gale Cincotta, Executive Director

National Training and Information Center
810 N. Milwaukee Ave.
Chicago, IL 60622-4103
312-243-3065 (or 3035)
Gale Cincotta, Executive Director

Neighborhood Reinvestment Corporation
www.nw.org/nrc
1325 G Street, N.W., Suite 800
Washington, D.C. 20005
202-376-2400
Publications 202-376-3215

PCI Services, Inc.
www.pciwiz.com
30 Winter Street, 12th Floor
Boston, MA 02108-4720
617-350-6700

RTK NET (Right to Know Network)
www.rtk.net
1742 Connecticut Avenue, N.W.
Washington, D.C. 20009
202-234-8494
Free modem access to HMDA data through the internet and a bulletin board system.

Self-Help
www.self-help.org
P.O. Box 3619
Durham, NC 27702-3619
919-956-4400 ext.429

Woodstock Institute
www.nonprofit.net/woodstock
407 S. Dearborn Avenue, Suite 550
Chicago, IL 60605
312-427-8070
Malcolm Bush, President
Daniel Immergluck, Senior Vice President

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EXPLANATION:
A roman numeral in the margin corresponds to the section of Appendix A for which the item is included in a selected bibliography, as follows:

I: Lending Patterns in Central Cities in the 1990s
II: Effects of CRA Regulatory Reform
III: CRA Commitments
IV: Impact of Bank Mergers and Acquisitions on Lending
V: Future of Federal Community Reinvestment Policy
A: Addendum: Profitability of CRA Lending

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