COMMUNITIES & BANKING

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THE HMDA DEBATE:

CAN WE ACHIEVE EQUITY IN MORTGAGE LENDING?

According to federal reports released last year, in 1990 lenders denied home mortgage loans to blacks and Hispanics nearly three times as frequently as they did to whites. In the ensuing debate over the cause of this disparity, lenders have argued that their loan policies are based strictly on safety and soundness considerations that have nothing to do with race, while community organizations have insisted that the lenders' own data prove the fallacy of their argument.

The data in question were compiled under the Home Mortgage Disclosure Act (HMDA), a federal law that requires mortgage lenders to submit information on the applications they receive for home loans to their federal regulators. Changes to HMDA effected in 1990 have enabled regulators to compare the disposition of applications by race, among other factors, and pick up on such disparities. Initially, it appears that the central issue in the debate is discrimination. Do banks treat all applicants similarly, regardless of race? As the following articles suggest, however, larger and more complex issues lie beneath the surface.

High denial rates for blacks and Hispanics are explained away by some lenders through the criteria employed in the application review process. Wealth, income, and debt, for example, are commonly cited by banks as determinants of the creditworthiness of a borrower. If minority applicants fare worse than whites in these categories, as studies indicate, bank lending policies would have a disparate impact even when applicants are treated equitably.

As Harvey Koizim points out in his article, however, banks have a responsibility to help meet the credit needs of their *entire* communities. As stated explicitly by Congress in the Community Reinvestment Act, in return for special privileges, banks are expected to effectively serve the communities in which they are chartered. This means understanding the demographics of their neighborhoods and the credit needs of the people who live there; developing products for their lower-income customers; ensuring that their marketing programs reach all parts of their communities, including poor, minority, and non-English speaking neighborhoods; and, most importantly, having a plan which maps out their strategies and goals.

OUTREACH

PRESENCE
•
PRODUCTS
•
PROMOTION

In her article, Bonnie Heudorfer describes how Bank of Boston has been able to capture a larger share of the market in minority communities through an active outreach effort. As she notes, the primary element of such outreach is a visible presence in minority neighborhoods. Lenders may also find that by modifying some of their existing loan products, offering financial counseling for prospective homeowners, or working with public financing programs, applicants previously assumed to be uncreditworthy become profitable customers.

Many, of course, believe that minority and white applicants who are equally creditworthy are being treated differently because lenders somehow perceive minorities as riskier borrowers. HMDA data alone cannot prove or disprove this argument. Of the three criteria mentioned above–wealth, income, and debt – only income is listed in the HMDA reports. Detecting discrimination requires a thorough review of individual bank lending policies and practices. Jim McGovern, of the Federal Reserve Bank of Boston's Bank Examination Department, describes

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in his article how the Federal Reserve's examination process detects inconsistencies in the treatment of applicants and other discriminatory lending practices.

The HMDA debate is not just about what the data do or do not say. Rather, it concerns the role of mortgage lenders in providing credit to all segments of their communities, including the poor and minorities. Improvements in the ability to monitor bank lending practices and increased public awareness of the issue will help reduce the likelihood of overt discrimination. The real challenge for banks lies in developing active and effective programs that reach the people who need their services the most. **CB**

Free subscriptions and additional copies are available upon request to the Community Affairs Department, Federal Reserve Bank of Boston, P.O. Box 2076, Boston, MA 02106-2076, or call Sheryl Snowden at (617) 973-3097.

Financial institutions, community-based organizations and other organizations involved in community development that have interesting projects, programs or ideas that they would like to have mentioned in the next issue of *Communities & Banking* should contact:

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Community Reinvestment: Doing Good While Doing Well

Harvey L. Koizim, Connecticut Urban Reinvestment Endowment, Inc.

For years, banks and thrifts have taught people how to save for definable goals. In the last three decades, however, this potentially powerful message has not been effectively delivered to minority communities. As indicated by recent Home Mortgage Disclosure Act (HMDA) filings, African-American and Hispanic applicants are three or more times more likely than whites to be denied home mortgages. In their defense, bankers argue that many African-Americans and Hispanics are ineligible as borrowers for purely economic reasons. A recent Census Bureau study[1] seems to support their position.

The study utilizes information on income, assets, and debt to determine whether families and individuals are capable of obtaining a home mortgage and maintaining its payments. It establishes that, on average, minority families have lower incomes, fewer assets, and more debt than white families. As a result, they are less likely to qualify for a standard home mortgage loan. Lenders point to these economic circumstances and maintain that banks and thrifts are not social agencies and cannot be expected to cure the ills of society.

Banks and thrifts do, however, have an affirmative obligation to help meet the credit needs of all members of their communities. They are chartered by state and federal governments because they serve a public need. In return, special privileges are granted to them by the government: their deposits are guaranteed by the U.S. government, they are allowed franchises offering them protection from competition, they are entitled to borrow from government entities at low rates, and they can sell their home mortgages to federally sponsored secondary markets while retaining profitable servicing.

Congress enacted the Home Mortgage Disclosure Act and the Community Reinvestment Act in the 1970s because they concluded that banks and thrifts were not meeting the mandates of their charters fairly and fully to serve the credit needs of their delineated communities. CRA directs banks and thrifts to help meet the credit requirements of all segments of the communities they are chartered to serve. In interpreting CRA, regulators instruct bankers to market their products affirmatively and to actively solicit business from low– income groups. In their "Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act,"[2] all the bank regulatory agencies jointly direct that:

"The CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas....

"The Agencies consider it important that financial institutions act effectively to meet the requirements of the CRA in a positive and ongoing manner. The Agencies believe that this can be done in a way that will not only benefit local communities, but also will be consistent with the safe and sound operation of financial

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Boston First Banking

Bonnie Heudorfer, Bank of Boston

When the first of the revised and expanded HMDA data were released last October, they represented the most extensive examination yet of who gets mortgage credit. Covering nearly 6.5 million 1990 loan applications taken by 9,500 lenders in more than 350 metropolitan areas across the country, the data show that blacks and Hispanics consistently are turned down for mortgages more often than whites, in virtually every part of the country and at all income levels.

Too much of the debate since then has centered on whether the HMDA data prove illegal discrimination. If nothing else, they document that the process of obtaining a home mortgage operates in a way that disadvantages minorities. The data indicate that current lending practices – even when applied equally to applicants regardless of race – are having a disparate impact on blacks and Hispanics. Certainly differential treatment cannot be tolerated and antidiscrimination statutes ought to be rigorously enforced. Eliminating disparities in denial rates, however, will require a sustained commitment to removing the underlying impediments, not only to minority homeownership but to full economic participation by minorities.

Bank of Boston relocated its Codman Square branch in Dorchester to the renovated Lithgow building. The bank helped finance the project and Codman Square Housing Development Corporation was the developer.

Bank of Boston's 1990 HMDA data suggest that we have made progress toward addressing some of the historical inequities in the mortgage process. By no means are we satisfied that these efforts alone have been adequate, but they suggest that we are on the right track. We attribute this progress to specific measures we have taken over the past two and one-half years to serve more effectively the banking needs of Boston's lower-income, minority communities.

A number of studies, including those commissioned by the Federal Reserve Bank of Boston and the Boston Redevelopment Authority, had identified a number of deficiencies in the banking industry's relationship with Boston's communities of color. Specifically cited were a lack of physical presence in these neighborhoods, insufficient minority hiring, failure to call on local brokers and otherwise inadequate marketing of products and services, failure to use local appraisers, use of inappropriate loan products and criteria, and the failure to help mortgage applicants – many of them first-generation homebuyers – understand the ins and outs of the credit process. These issues concerned us. Even though Bank of Boston had seven branches serving the Roxbury, Dorchester, Mattapan, and Jamaica Plain neighborhoods at that time, we had a low – and declining – share of the mortgage market. We were challenged to do better.

With considerable community input, we developed a comprehensive program called Boston First Banking that built on some of the bank's key strengths: an extensive existing branch network, a commercial as well as retail banking focus, and a growing

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FannieMaps

The Federal National Mortgage Association (Fannie Mae) has developed a new computer software service, FannieMaps, for lenders who subscribe to its MORNET service. Computer-generated maps provide lenders with the minority and income compositions of a targeted community – from a census tract to a Metropolitan Statistical Area. All data is based on the 1990 census. For more information about FannieMaps, call the:

Public Relations Department
Fannie Mae
Washington, D.C.
(202) 752-3421

Homeownership Counseling

Homeownership counseling is increasingly viewed as an integral part of a succesful bank program to target lower-income homebuyers. A new publication by the Federal Home Loan Mortgage Corporation (Freddie Mac), *Working Together to Expand Homeownership Opportunities*, offers some valuable suggestions for lenders interested in working with nonprofit organizations to develop counseling programs. The publication is the result of a series of seminars conducted by Freddie Mac, the Mortgage Bankers Association of America, and the National Low Income Housing Coalition. Together, lenders and housing experts came up with a number of recommendations in designing such programs. To order this free publication, write to:

Freddie Mac
Affordable Housing Initiatives Department
Mailstop 240
8200 Jones Branch Drive
McLean, VA 22102
Or call Cheryl Regan at
(703) 903-2445 or
Katherine Billings at
(215) 748-1220

CONTINUED FROM PAGE 3 BOSTON FIRST BANKING

FED TO SURVEY BOSTON MORTGAGE LENDERS

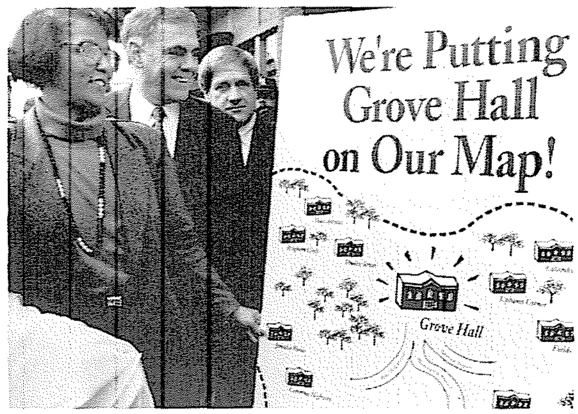
In order to better interpret the results of the 1990 HMDA reports, the Federal Reserve System, with support from the other federal regulatory agencies, is conducting a survey of the Boston metropolitan area mortgage lending market. The Boston Fed will be collecting and analyzing information from a sample of loan applications from blacks, Hispanics, and whites to evaluate claims that debt-to-income and other commonly cited loan criteria account for much of the disparities in denial rates. The results of the study will be released to the public when completed.

HOW TO GET HMDA DISCLOSURE STATEMENTS

The Federal Financial Institutions Examination Council has created disclosure statements for every mortgage lender required to comply with the Home Mortgage Disclosure Act (HMDA). These statements are available to the public at each institution's main office and in at least one office in every Metropolitan Statistical Area (MSA) in which it operates. Disclosure Statements for all lenders that operate in a particular MSA can be found in the local HMDA depository. For the name and address of the nearest HMDA depository, or to get more information on additional HMDA data sources, call the Community Affairs Department at (617) 973-3097.

mortgage banking business. Management and lending resources for the new organizational structure were centralized under the leadership of a 20-year bank veteran and Roxbury native, Gail Snowden. Other elements of the strategy included:

- expansion and upgrading of banking hours and facilities;
- introduction of First Step Banking, a product line of low-cost banking services primarily targeted to community residents who were not currently bank users;
- local job fairs and commitment to a work force reflective of the race and ethnicity of the community;
- expansion of the First Step Mortgage, introduced in the spring of 1989, and featuring reduced rates, points and closing costs, more flexible underwriting criteria, and an automatic second look at marginal applications;
- extension of commercial lending activities;
- creation of a community advisory board; and,
- consumer education and outreach programs.



BOSTON FIRST BANKING DIRECTOR GAIL SNOWDEN, MAYOR RAYMOND FLYNN, AND ATTORNEY GENERAL SCOTT HARSHBARGER AT THE RIBBON CUTTING FOR BANK OF BOSTON'S NEW BRANCH IN ROXBURY'S GROVE HALL. THE COMMUNITY HAD BEEN WITHOUT A BANK FOR TWENTY-THREE YEARS.

These efforts were augmented by the major commitment the bank made to the Community Investment Program negotiated between the Massachusetts Bankers Association and the Community Investment Coalition.

In addition to the normal complement of retail banking personnel serving what is now a 10-branch region with a deposit base of $280 million, the Boston First Banking unit is staffed by two commercial lenders, two business development officers, a consumer finance underwriter, a real estate lender, and a mortgage originator. The 80-person staff reflects the ethnic diversity of the communities served. Forty percent of the employees live in the targeted area. Over 25 percent immigrated here from other countries, mostly Caribbean and Asian. One-half are minority and two-thirds are women – ratios that, significantly, hold true even at the professional and managerial levels.

We believe these efforts are making a difference. Particularly encouraging has been our increased penetration of minority and lower-income markets. Between 1987 and 1990, the percentage of our total mortgage lending in Boston metropolitan area neighborhoods with a greater than 80 percent minority population nearly tripled, from just over 2 percent to just over 6 percent. The resulting 1990 distribution accurately reflects the demographics of this market, in which 6 percent of the area's census tracts are more than 80 percent minority. By comparison, less than 2 percent of the industry's total Boston area lending was in such tracts. Further, blacks represented nearly 13 percent of our metropolitan area applicants for home purchase mortgages and nearly 36 percent of our City of Boston total, exceeding in both cases their share of the population.

Looking at Bank of Boston's overall share of the mortgage market, we received about 3 percent of the Boston metropolitan area's total applications for mortgage credit, but more than 9 percent of the applications submitted by blacks. Our share of mortgage applications from homebuyers seeking to purchase in census tracts with greater than 80 percent minority populations – all located in the Roxbury, Dorchester, and Mattapan neighborhoods – exceeded 16 percent of the market.

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PUBLICATIONS

Directories

* ***Directory of Community Development Organizations in Connecticut***, The Banks' Association of Connecticut, Bank Compliance Association of Connecticut, and Federal Reserve Bank of Boston (1991). A directory of community-based and government agencies in Connecticut. Each description includes a mission statement, key accomplishments, and relationships to local financial institutions. Write to Randall Miller, Vice President, New Haven Savings Bank, 195 Church Street, New Haven, CT 06510. Or call (203) 787-1111. $4.00.

* ***Directory of Community Development Organizations in New Hampshire***, New Hampshire Bankers Association, Institute of Cooperative Community Development, and Federal Reserve Bank of Boston (1991). A directory of community-based and government agencies in New Hampshire. Each description includes a mission statement, key accomplishments, and relationships to local financial institutions. Write to Sheryl Snowden, Community Affairs Department, Federal Reserve Bank of Boston, Boston, MA 02106-2076. Or call (617) 973-3097. Free.

* ***Census Catalog and Guide: 1991***, U.S. Bureau of the Census (1991). A guide to census products, including reports, microfiche, maps, tapes, and on-line services. The catalog provides prices, descriptions, and data sources. The phone numbers and addresses of bureau specialists, local affiliates, and other data providers are also listed. (GPO Stock No. 003-024-07271-8). Write to Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Or call (202) 783-3238. $15.00.

Housing

* ***Affordable Housing Loan Consortia: Financial Institutions Responding to Community Needs***, National Association of Affordable Housing Lenders (1991). A review of 20 consortia, describing their programs and organizational and financial structure. Write to NAAHL, 43 Commercial Wharf, Suite Nine, Boston, MA 02110. Or call (617) 742-0532. $20.00 for members, $40.00 for nonmembers.

* ***Housing Discrimination Study: Synthesis***, U.S. Department of Housing and Urban Development (1991). Examines the level and types of discrimination faced by blacks and Hispanics in the housing market - both rental and ownership. Write to HUD USER, P.O. Box 6091, Rockville, MD 20850. Or call (301) 251-5154. $4.00.

* ***AFL-CIO Survey of Union-Sponsored Housing***, AFL-CIO (1991). Profiles union-affiliated affordable housing projects, including cooperatives, special needs housing, and urban homesteading. Write to AFL-CIO, Department of Economic Research, 815 16th Street N.W., Washington, D.C. 20006. Or call the Economic Research Department at (202) 637-5000. Free.

* ***Building on Success: A Report on State Capacity-Building Programs Targeted to Nonprofit Housing Developers***, Low-Income Housing Information Service and National Housing Law Project (1991). Thirty-seven states were surveyed to assess their efforts to provide technical assistance, administrative grants, and predevelopment loans to nonprofit housing developers. Call LIHIS at (202) 662-1530. $20.00.

* ***A Compendium of Affordable Housing Finance Programs***, Massachusetts Housing Partnership (1990). Describes innovative private financing strategies and tools for affordable housing development that have been successful in Massachusetts and across the nation. Write to MHP, 88 Broad Street, Boston, MA 02110. Or call (617) 338-7868. $5.00.

* ***Unraveling the Mortgage Loan Mystery***, Fannie Mae (1991). A brochure designed to help homebuyers understand the steps involved in the mortgage loan process. Write to Fannie Mae, Public Affairs, 3900 Wisconsin Avenue, NW, Washington, DC 20016-2899. Or call (202) 752-7124. Free.

Community Development

* ***Exchanging Ideas Across the Globe: Successful Economic Development in the U.S. and Abroad***, National Council for Urban Economic Development (1991). Covers economic development programs in Japan, Germany, the United Kingdom, Canada, several Third World nations, the United States, and other countries. Write to CUED, 1730 K Street N.W., Suite 915, Washington, D.C. 20006. Or call (202) 223-4735. $22.50.

* ***A Salute to Imaginative Economic Development Programs***, National Council for Urban Economic Development (1989). Highlights 45 economic development programs recognized by a panel of Economic Development Administration and CUED experts for their outstanding creativity. Programs were evaluated on their ability to create jobs, diversify the local economy, and improve incomes, among other criteria. Write to CUED, 1730 K Street, N.W., Suite 915, Washington, D.C. 20006. Or call (202) 223-4735. $25.00 for members, $27.50 for nonmembers, plus $3.00 postage.

* ***The Silent Partner: The Insurance Industry's Potential for Community Reinvestment***, Woodstock Institute (1989). Makes the case for increased community reinvestment by the insurance industry, and traces the industry's reinvestment history. Write to Woodstock Institute, 53 W. Jackson Blvd., Chicago, IL 60604. Or call (312) 427-8070. $10.00 for government agencies, universities and nonprofits, or $20.00 for individuals and for-profits

Contested Ground: Collective Action and the Urban Neighborhood, John Emmeus Davis (1991). Explores the reasons why community-based action in western nations over the last three decades has tended to be organized where people live, rather than where they work. Highlights the arguments with a case study from Cincinnati, and assesses the implications for those involved in neighborhood politics and planning. Write to Cornell University Press, 124 Roberts Place, P.O. Box 250, Ithaca, N.Y. 14851-0250.

* ***Expanding Horizons II***, Council for Community-Based Development (1991). A follow-up to the 1989 study that examines foundation support of community-based development. The report ranks 307 foundations according to the number and amount of grants made in the area of community development. Write to Council for Community-Based Development, 1070 Thomas Jefferson St. N.W., Washington, D.C. 20007. Or call (202) 342-9262. $18.00.

Trends in Economic Development Organizations: A Survey of Selected Metropolitan Areas, National Council for Urban Economic Development (1991). This 580-page report details and analyzes the findings of a comprehensive national survey of 114 economic development organizations in 35 metropolitan areas. Describes key initiatives and successes. Examines marketing efforts by metro area and by organization. Write to CUED, 1730 K Street, N.W., Suite 915, Washington, D.C. 20006. Or call (202) 223-4735. $145.00 for members, $225.00 for nonmembers, plus $3.00 postage.

CRA

* ***Considering Supportive Services in a CRA Examination***, Federal Reserve Bank of New York (1991). Discusses ways in which lenders and examiners should assess the community economic development value of specific projects, the role that supportive services play, and how a lender's financial support of these services should be assessed. Write to the Federal Reserve Bank of New York, Community Affairs Unit, 33 Liberty Street, New York, N.Y. 10045. Free.

* Denotes publications available for review in the Community Affairs Department Resource Library.

CONFERENCES

March 14-16

"Building Housing Resources: From Your Community to Capitol Hill," National Low Income Housing Coalition and National Low Income Housing Information Service. Washington, D.C. Topics to be covered include current national housing policies, developing effective organizations, and accessing available resources. Participants will also have the opportunity to meet with their Senators and Representatives. For more information, call the National Low Income Housing Coalition at (202) 662-1530.

April 4-6

"National People's Action Annual Conference," Washington, D.C. Issues to be addressed include affordable housing, community reinvestment, health care, and crime. For more information, call National People's Action at (312) 243-3038.

April 5-8

"Transitions to the Future American Economy," National Council for Urban Economic Development. Washington, D.C. Focus will be on keeping America competitive through local economic development strategies. Policy discussions and case studies will be utilized. For more information, call Jenny Murphy of CUED at (202) 223-4735.

June 18-19

"Real Estate Public/Private Partnerships," National Council for Urban Economic Development and National Association of Industrial and Office Parks. Newark, N.J. Exact date to be announced. Will focus on issues surrounding public/private partnerships, including financing and negotiation. For more information, call CUED at (202) 223-4735.

The Community Reinvestment Act and Fair Lending Laws: The Role of the Bank Examiner

Jim McGovern, Federal Reserve Bank of Boston

The 1990 Home Mortgage Disclosure Act (HMDA) data indicate a severe disparity in the denial rates of white and minority applicants for home mortgage loans. Since the data were released, various groups have been trying to determine their significance. Community advocates posit that the HMDA findings clearly indicate discrimination, and have called on federal regulatory agencies to get tough with banks and enforce community reinvestment and fair lending laws. Financial institutions, on the other hand, argue that the HMDA data are flawed, in that they do not capture key factors on which credit decisions are based, such as the applicant's debt-to-income ratio and credit history. Into this fray steps the bank examiner.

The Exam Process*

Before an examiner even sets foot inside a bank, he or she will review myriad pieces of information to get a sense of the size and scope of the bank's activities and the type of community in which it does business. Among other things, the examiner will review the bank's most recent balance sheet and income statement, its Community Reinvestment Act (CRA) statement, and recent census data. This information enables the examiner to determine the bank's financial condition, its delineated community (see box), the products it offers, the location of its branches, and the size and location of lower-income and minority neighborhoods.

Perhaps the most important information on bank lending activities, however, is found in the Loan Application Register (LAR). Revisions to HMDA effected in 1990 require virtually all mortgage lenders to record every application they receive for a home loan, whether or not it is actually approved. The race, gender, and income of the applicant are recorded, as are the amount and type of the loan requested. The new LAR data can be used to create tables that allow examiners to detect disparities in lending patterns suggestive of violations of fair lending laws. In the adjacent example, the examiner has created a table that aggregates LAR data by race to determine if black applicants are being treated differently than white applicants. As Table 1 shows, denial rates were significantly higher at "Big City Bank" for black applicants than for white. When the on-site examination is conducted, the examiner will ask the bank to explain this disparity.

Community Delineation

For CRA purposes, a bank's community delineation is a geographic area in which it is physically located. A very large bank may have a whole state as its delineated community, while a small, single office bank may have no more than a few towns. Medium sized banks with several branches may have a delineated community around each branch. In each case, an examiner will look at the reasonableness of the delineation, and will especially note any attempts to exlude lower-income neighborhoods or towns.

Computer-based analysis is also used to assess a bank's compliance with the Community Reinvestment Act. The examiner is primarily concerned with the geographic distribution of the bank's credit applications, extensions, and denials (although compliance with antidiscrimination and other related credit laws are an integral part of the examination). A majority of credit applications and extensions should come from within the bank's delineated community. In addition, an adequate number of applications received and loans originated should come from low- and middle-income census tracts. Table 2 combines LAR and

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TABLE 1

BIG CITY BANK
Disposition of Home Mortgage Applications by Race of Applicant

Applicant Race	White	Black
Total Applications	65	37
Originated	52 (80%)	23 (62%)
Approved Not Accepted	2	1
Denied	9 (14%)	11 (30%)
Withdrawn	1	0
Incomplete	1	2

census data to compare the distribution of Big City Bank's loans in low-, moderate-, and high-income census tracts to all other HMDA reporters in the same market. Big City Bank made a disproportionately small percentage of loans in low- and moderate-income census tracts. Again, the examiner will request an explanation from the bank for this disparity.

The On-Site Examination

The initial phase of the examination typically elicits questions that can only be answered by conducting a thorough internal review of the institution's lending records, marketing plans and strategy, advertising material, letters received from the public, and other related materials. Before discussing the on-site phase of the examination, two precautionary statements are in order. First, examiners cannot and do not conclude that disparate impact (for example, higher denial rates for blacks than for whites) automatically means illegal discrimination. If the examiner determines that the disparate impact results from purely economic factors, then the impact while unfortunate, is not illegal. Second, examiners can only evaluate applications for loans that are actually submitted and maintained in the bank's records. If a potential candidate did not submit an application because of actual or perceived discouragement, the examiner cannot review the situation since no record exists.

During the on-site examination, the examiner first reviews the bank's written lending policy to determine whether it, in and of itself, discriminates against an applicant on the basis of race, gender, national origin, or the like. The lending policy should be based strictly on economic or other relevant factors, such as length of employment, stability of income, and length of residency. If the bank cannot substantiate the reasonableness of its policy, the examiner will recommend a change in policy. Any direct and continued violation of fair lending laws may result in substantial penalties and regulatory enforcement action.

The second step in the on-site examination involves a review of the bank's records and lending documentation. At this point, any issues raised in the initial phase of the examination will be addressed. For example, if preliminary analysis indicated that the denial rate for middle-income black applicants was two times higher than that for middle-income white applicants, the examiner might hypothesize that the bank discriminates against blacks. The examiner will then review the files of a sample of denied black applicants and approved white applicants to determine if the bank's lending policy is consistently applied. Because the applicant's entire file is available for review, the examiner, unlike the public-at-large, is in a unique position. The file includes the completed application form; income, employment and resident verification data; credit bureau report(s); and property appraisals. If the examiner notes inconsistencies in the application of the bank's lending standards, corrective action by the bank will be required.

TABLE 2

Mortgage Loans Originated by income of Census Tracts

Category of Census Tracts	# of Loans	% of Market Total
Institution Report for Big City Bank		
Low-Income	20	27
Middle-Income	32	42
High-Income	23	31
Market Total	75	100
Aggregate Report for All HMDA Reporters		
Low-Income	761	36
Middle-Income	1120	53
High-Income	231	11
Market Total	2112	100

The examiner will also review the bank's marketing and advertising programs during the on-site examination. Is the bank's advertising program directed at all segments of the community, including low- and moderate-income neighborhoods? Does the bank review its advertising program for compliance with applicable fair lending laws and regulations? Does the bank provide staff assistance to individuals and groups in understanding and applying for credit? Is the bank's senior management and board of directors involved in all aspects of its CRA program, from planning to monitoring? The examiner will evaluate the bank's effectiveness in all of these areas.

Public Participation: An Integral Part of the Process

Once the on-site phase of the examination is completed, the examiner prepares a CRA Performance Evaluation and sends a copy to the examined institution to place in the public comment file. Community residents, whether or not they are customers of the bank, are encouraged to read both the CRA Performance Evaluation and the bank's CRA Statement. They are also strongly encouraged to comment in writing about their perception of the bank's performance in meeting the credit needs of the community. Comments on a bank's record provide the bank with a community-based view of how it is doing its job, and assist it in developing credit services that are responsive to community needs. Comments also provide examiners with valuable input about a bank's CRA performance and play a significant role in the examination process. Developing strong community-oriented banking programs is a three-way effort among examiners, bankers, and the communities they serve. **CB**

*The examination process refers here specifically to that of the Federal Reserve System. Other federal regulatory agencies may use different methods when examining for compliance with CRA and fair lending laws.

CONTINUED FROM PAGE 2 COMMUNITY REINVESTMENT

institutions....An institution's processes for meeting the credit needs of its community must reflect an understanding of those needs and take into account changes that may occur in the community's credit needs. *By applying sound management techniques to the challenges presented by the CRA, financial institutions can be agents of positive change for the cities, towns and rural areas of this country—thereby benefiting themselves as well as the communities that they serve."* (italics added)

As the agencies note, banks and minority group consumers have common interests. Yet, not only do banks rarely market their products in minority neighborhoods, they place barriers in the path of urban minority customers who could do business with them. For example, banks make it difficult for members of minority groups to open and maintain checking and savings accounts by frequent restrictions imposed as normal bank requirements, such as balance maintenance standards, inconvenient banking hours, and few branch locations in minority neighborhoods. As a result, many members of minority groups, for want of banking services and through lack of sophistication, deal exclusively in a cash economy.

A further impediment to the development of programs that effectively target communities of color is the fact that few members of minority groups become senior officers or sit on boards of banks. Therefore, at the level where policy is made, minorities have no effective representation.

It may very well be that *some*, maybe quite a few, members of minority groups lack the assets or credit history to qualify for home mortgage loans sold into secondary markets. *Some is not all!* And alternatives exist for those who may not qualify under traditional mortgage programs. Fannie Mae has new programs to benefit urban areas and low-income consumers. Bankers can also develop cooperative programs with community loan funds, and with community development corporations, foundations, and government entities. They can do equity participations earning more than 18 percent at little or no risk by taking advantage of federal low income housing tax credits, and they can utilize the tax credit programs offered by various states. Federal Home Loan Bank members can profitably partake in the Affordable Housing Program and Community Investment Program for relending at under-market rates. Banks can "be tough minded about loans, qualify borrowers according to strict standards, satisfy the most demanding federal bank examiners, make a profit, and still transform an inner-city neighborhood without driving out those who lived there."[3]

For their mutual benefit, banks and thrifts must make common cause with urban communities. Servicing communities by offering substantial, useful, much needed banking services to targeted markets in minority neighborhoods is not only profitable but also fair and just. In the words of Martin Luther King: "We must learn to live together as brothers or perish together as fools."**CB**

Mr. Koizim is President of CURE, a nonprofit organization that works to ensure and promote equality in lending, and of Housing Operations Management Enterprises, Inc., a low-income housing development and management organization. In addition, he teaches a course on housing and community development at Yale Law School. Mr. Koizim formerly worked in the banking industry.

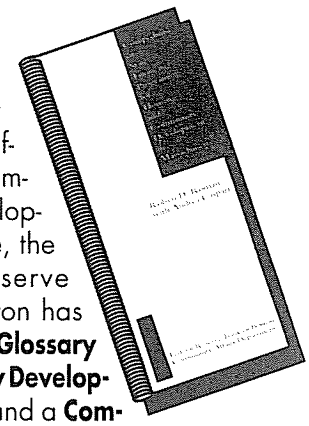
Endnotes

1. U.S. Bureau of the Census, Current Housing Report, Series H121/91-1, *Who Can Afford to Buy a House?* Government Printing Office, Washington, D.C., 1991.

2. "Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act," (a comprehensive road map to CRA compliance, sometimes referred to as the "Joint Statement."). March 21, 1989 (Xerox).

3. Ronald Grzywinski, "The New Old-Fashioned Banking," Harvard Business Review, May/June 1991.

NEW FED PUBLICATIONS



As part of a training course for bank loan officers on community development finance, the Federal Reserve Bank of Boston has developed a **Glossary of Community Development Terms** and a **Compendium of State Financing Programs for Housing and Community Development in New England**, which should prove useful for lenders, nonprofits, and other organizations involved in community development.

The **Glossary** provides brief definitions of alternative financing sources, alternative housing structures, consumer credit laws, and other terms often used in the community development field.

The **Compendium** is a five-volume directory summarizing the financing programs of every state agency in New England involved in housing and economic development. In addition to providing a brief description of the agencies, the compendium gives a overview of each of the programs they offer, including eligibility criteria, terms and rates, and a contact name.

Both publications are available free of charge from the Community Affairs Department. To order, write to:

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CONTINUED FROM PAGE 4 BOSTON FIRST BANKING

These targeted initiatives in Boston's inner-city neighborhoods are an integral part of the bank's overall effort to serve all of its communities more effectively. Fully 30 percent of the mortgages the bank wrote in New England in 1990 had affordability features specifically designed to meet the needs of people with low and moderate incomes, and first-time homebuyers. These include state housing finance agency and FHA loans, in addition to the bank's First Step Mortgage.

This progress notwithstanding, a differential in approval rates persists, with black applicants turned down at a higher rate than whites. Our ongoing monitoring of 1991 activity suggests that minorities seeking to purchase homes last year had an even more difficult time qualifying for mortgages. These concerns prompted us to take a closer look at whether the pool of black applicants is different from the pool of white applicants. Preliminary indications are that it is.

- There is a significant difference in incomes between black and white applicants which is obscured by the HMDA Disclosure Statement presentation of data in low-, moderate-, middle-, and high-income categories. Closer examination reveals that only 7 percent of the white applicants earned less than $30,000 annually, versus 13 percent of the black applicants. At the upper end of the spectrum, more than one-third of all white applicants, but only 5 percent of black, reported annual incomes of more than $80,000.

- A sampling done in early 1990 found that nearly 90 percent of the black applicants seeking First Step mortgages requested 90 or 95 percent financing, whereas only one-half of the white applicants required such high ratios, suggesting that black applicants had less wealth than whites of comparable income.

- Nearly two-thirds of the so-called high-income black applicants (those with incomes greater than 120 percent of the median) sought financing for homes in low- or moderate-income neighborhoods. The corresponding figure for whites in that income category was 7 percent. This disparity reflects a regionally segregated housing market in which blacks comprise 26 percent of the City of Boston's population and only 7 percent of the population of the metropolitan area.

The aggregated HMDA statistics for all lenders in the Boston metropolitan area indicate that blacks accounted for little more than 4 percent of the applicants for home purchase mortgages. Recent studies help explain the disproportionately lower number of applications. In *The State of the Nation's Housing 1990*, Harvard's Joint Center for Housing Studies found that during the mid-1980s, only 4 percent of the nation's black renters, versus 20 percent of the white, had the required income and accumulated cash to purchase a typical starter home with a 10 percent downpayment. The eligible pool of homebuyers drops to 1.5 percent of blacks and 17 percent of whites when a 20 percent downpayment is required.

These findings are a sobering reminder that as a society we have a long way to go toward leveling the playing field. Narrow focus on loan approval rates does not address the root causes of the problem or promote lasting change. The disparities evident in the HMDA data reflect the effects of past inequities that have limited minorities' employment opportunities, mobility, and accumulation of wealth, as well as the fragility of the emerging black middle class. These circumstances will not be easy to change, but Bank of Boston is committed to being part of the solution.**CB**

Bonnie Heudorfer is a Vice President of the Bank of Boston and has been instrumental in developing and implementing the Boston First Banking Program. The model is now being expanded to other New England urban centers. As a loaned executive from the Bank of Boston, Ms. Heudorfer served as the first executive director of the Boston Housing Partnership. In addition, she is co-founder of the Women's Institute for Housing and Economic Development and former president of the Citizens Housing and Planning Association.

COMMUNITIES & BANKING

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