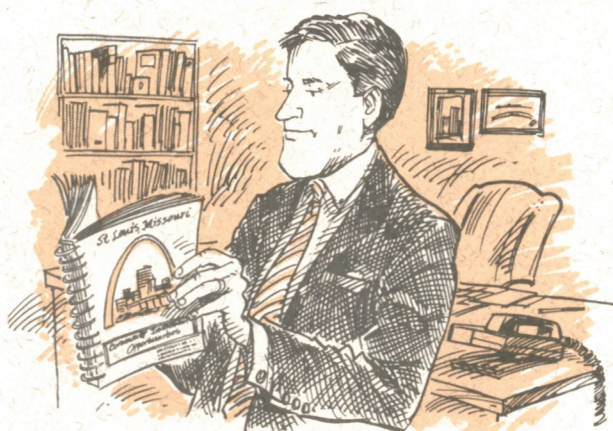


COMMUNITY AFFAIRS

December 1992

News and Views
on Community Affairs
for the
Eighth Federal Reserve District

Fed to Release Profile on St. Louis Credit Needs



To help financial institutions meet CRA requirements, the St. Louis Fed has compiled a community profile to outline the major credit needs in St. Louis city and county, as well as to identify programs that will help meet these needs.

Based on interviews with local community organizations and government agencies, the needs fall primarily into two categories: affordable housing and small business development.

Over the next few years, similar studies will be conducted

in other Eighth District cities.

Copies of the profile will be mailed to St. Louis area financial institutions and community agencies later this month. If you need additional copies of the report or have questions about the study, please contact Judy Armstrong of the St. Louis Fed at (314) 444-8646.

HMDA Data Reflect Little Improvement Over Previous Year

The reports are out, but the news isn't as encouraging as one might hope. In the Eighth Federal Reserve District and nationwide, 1991 Home Mortgage Disclosure Act (HMDA) data show little improvement over that in 1990. Overall, data continue to reflect wide differences in approval and rejection rates for minorities and whites.

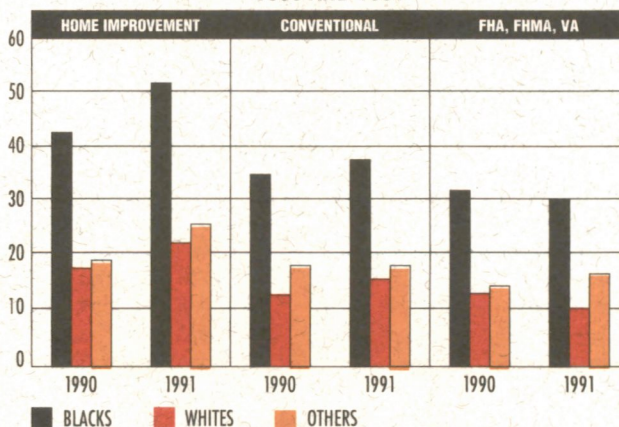
For the combined metropolitan statistical areas (MSAs) of St. Louis, Little Rock-North Little Rock, Louisville and Memphis, the denial rates on conventional home loan applications were 37.1 percent for blacks and 13.7 percent for whites. Based

on these figures, which are a good proxy for trends throughout the entire Eighth District, blacks were denied loans 2.7 times more frequently than were

whites, only slightly better than the 2.8 times difference in 1990.

Both St. Louis and Louisville showed moderately improved
continued on back page

**EIGHTH DISTRICT LOAN DENIAL RATE
1990 AND 1991**



CRA

PERFORMANCE CATEGORIES

- ☐ Ascertainment of community credit needs
- ☐ Marketing and types of credit offered and extended
- ☒ Geographic distribution and record of opening and closing offices
- ☐ Discrimination and other illegal credit practices
- ☐ Community Development

This is the third in a series of articles featuring the five performance assessment categories that determine a bank's CRA rating. This issue discusses "geographic distribution, and record of opening and closing offices."

Knowing The Geographic Distribution Of Loans In Your Community

When it comes down to it, the Community Reinvestment

Act is primarily based on geography—the geographic distribution of a lender's loans, credit denials and credit applications.

Geographic distribution analysis, often referred to as geocoding or geoanalysis, is the way a bank can determine where its loans are made and not made. It also identifies demand through applications. Depending on the size and resources of a bank, geocoding may involve anything from using colored dots to plot loan data on a map to having a sophisticated computer analysis of your bank's loan patterns.

Under this third CRA performance assessment category, examiners determine whether the bank is lending to its delineated community in a fair and nondiscriminatory manner. Examiners also use this analysis to see if loans are concentrated in one part of the community or if they are distributed throughout.

Geocoding provides essential information for your bank as well. Knowing where applications are coming from and where loans are being made is basic market research and good business. Without geographic analysis, you cannot accurately assess the bank's market position, nor can you know whether it is addressing identified credit needs in low- and moderate-income neighborhoods. In addition, geocoding may reveal that a bank's community delineation is outdated and needs adjustment.

The importance of appropriately delineated communities is reflected in the CRA regulation requiring that each bank's community delineation be reviewed at least annually by its management and board of directors.

Geographic analysis is also required for those that submit Home Mortgage Disclosure Act (HMDA) data. If your bank complies with HMDA, you probably already have information on where mortgage applications come from, where loans are made by census tract, what the trends are in loan denials, where the high concentrations of loans are made, as well as areas with few or no loans. Demographic data incorporated with HMDA then provide comparisons by race, gender and income.

If you do not report HMDA data, your bank needs to develop a HMDA-like analysis of housing loans and applications. You can then place information about other loan products, as identified in your CRA statement, in the same geographic context.

Once trends in your bank's credit extensions and denials are identified, the whys and hows to correct any gaps begin. A close look at a number of components may pinpoint ways to affect your geographic distribution: marketing efforts, community outreach, products offered and branch locations, for example.

More important than the maps and graphics, though, is your bank's analysis of the community impact, particularly in its low- and moderate-income areas. Whatever geoanalysis system you choose, the results can be used by your board of directors

and senior management to set and evaluate your bank's CRA program and lending policies.

What To Consider When Opening And Closing Offices

Office locations may play an important role in helping to meet the credit needs in your community. Here are some factors to consider:

- Do low- and moderate-income neighborhoods have convenient access to your banking services?
- What will be the impact on your bank's overall geographic distribution of credit extensions?
- What are the potential repercussions and financial impact on neighborhoods; i.e., loss of community confidence or increased difficulties in attracting new businesses.
- Will the types of services offered at each location ensure accessibility throughout your community?
- Are the bank's hours of operation relatively the same for each office and tailored to meet the convenience of customers?
- Are officers reasonably accessible to all segments of the community?
- Do other financial institutions adequately serve neighborhoods in which branches are located or closed?
- Does the bank have a written policy on opening and closing offices?
- Are advance notices of proposed branch closing given to customers and federal banking agencies?

Giving Due Credit Where Credit Is Due

The following is excerpted from a speech given by Gov. John LaWare, Board of Governors of the Federal Reserve System, to the Conference on Credit and the Economically Disadvantaged. The conference, sponsored by the Federal Reserve Bank of Kansas City, was held in Denver, Colorado, on Oct. 8, 1992.

There are many things banks do in the course of business which, with slight adjustments and very little extra expense, can be enormously helpful in improving access to credit for minorities and other disadvantaged groups.

One is advertising. Advertising in publications, radio stations and other media which are targeted to minority audiences has proven to be an effective way to promote loan products and generate applications. For example, if a bank offers mortgage products, advertising them in minority publications may bring home the point that minority applications are being sought even if the institution doesn't have an office in the minority neighborhood.

Another device is extended outreach and marketing, something banks normally do for many products and services. For example, lender call programs

Outreach meetings and calling programs can help solidify relationships that turn into loans.

designed to reach realtors who operate in minority and low- and moderate-income areas could be quite effective in generating loan applications from qualified applicants. Outreach meetings and calling programs focused on community and church groups can help solidify relationships that turn into loans. One bank runs "Community Loan Day" programs in conjunction with community groups. At one such event held recently in the District of Columbia, the bank brought 30 loan officers to a local community facility in the heart of the minority community to meet with residents, provide credit

information and counseling, and take applications for consumer, mortgage and small business loans. More than 300 people attended and \$100,000 in new loan applications, representing new business for the bank, were taken on the spot. The bank plans to hold additional Community Loan Days in other neighborhoods.

Another part of the answer lies in each institution's service delivery system. Locating branches or loan offices in minority areas is a natural and extremely effective way of increasing applications and loans. Although branches may be expensive, in certain situations, they can be very cost effective in minority communities that are currently underbanked by any standard.

For example, in Dallas, Texas, a new branch of a major financial institution was opened in the South Dallas/Fair Park area, a community of about 80,000 residents that is predominantly minority and lower-income. What is significant here is that no other bank had operated in that area for almost two decades. After one year's operation, the branch had exceeded its target for consumer loans by 40 percent and was a top performer among the institution's branches in Texas. Soon after, another institution opened a branch of its own in the area. Good ideas catch on.

Of course, branches are not the only way to deliver services. Neighborhood loan offices and use of what we call "street bankers" have been very effective and inexpensive means of delivering loan-related services where they are needed.

Some banks have found it

productive to provide loan officers with additional monetary incentives for making small business and consumer loans in minority areas. This may involve the use of commissions, a bonus structure or a combination of non-monetary incentives such as additional vacation days.

Some banks have found it productive to offer incentives for making small business and consumer loans in minority areas.

Another technique used by some institutions is simply providing a second, internal review of small business and consumer loan applications that would otherwise be turned down, with special attention to applications from minorities. Usually this is done by separate officers or committees that can take a fresh look at each application and ensure that policies and exceptions are applied in the same manner for all applicants. It also provides a second opportunity to see if some blemishes on an applicant's credit record or other problems preventing approval can be resolved. As reported in the press recently, one of the largest mortgage lenders in the country instituted such a program and found that almost 35 percent of the applications initially turned down by application-intake officers, were, on second review, eventually approved.

A slightly different approach to second reviews of denied applications is the mortgage review board. Under this approach, lenders with offices in a community agree to join together, often with community representatives, to review denied applications

from all participating institutions. Any lender can agree to fund a loan, or applicants may be referred to public and other partnership programs for financing or credit counseling. This type of approach is part of a broader multi-bank program in the Philadelphia area, called the Delaware Valley Mortgage Plan, which conducts a variety of activities designed to increase mortgage credit availability in lower-income and minority areas.

A common retail business technique being used more frequently of late by financial institutions is the use of hired "shoppers" to visit branches and loan officers to help management determine whether services are being provided effectively and according to policies. We recommend this practice as a way to

assess whether employees are treating minority customers in an equitable manner. Where problems are found, they can be promptly corrected. Certainly, this approach is preferable to a legislative mandate by the government for testing that is being called for by some.

Another way banks are addressing credit issues facing the economically disadvantaged is one of the most fundamental and important. This is employee training. All institutions train and instruct new employees, and most provide continuing training of some sort. Many institutions are incorporating enhanced training for employees on fair lending, and not just on rules and regulations. Lenders need to know more about the minority community, the potential business opportunities there and

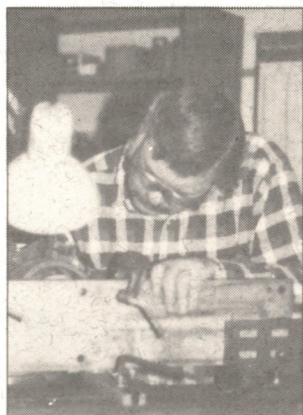
Lenders need greater sensitivity to the existence of racial attitudes in our society.

about how more flexible underwriting standards might be used to facilitate more lending on a safe and sound basis. Most importantly, lenders need greater sensitivity to the existence of racial attitudes in our society and how they can affect their own lending and other business decisions. Increasingly, effective training programs are helping accomplish these ends.

A copy of Gov. LaWare's complete speech is available from the St. Louis Fed's Community Affairs Office. Please call (314) 444-8646 to request a copy.

DEVELOPMENT OPPORTUNITIES

Business Incubators Are Helping Small Companies To Thrive



Business incubators provide shared office, warehouse or production space to nurture diverse new businesses.

Hear the word "incubator" and you probably think of an object used to provide controlled environmental conditions.

With this concept in mind, the St. Louis County Economic Council has established two business incubators—called Enterprise Centers—through their Small Business Development Division. The Council's third incubator, scheduled to open in spring 1993, will be the first in the city of St. Louis. It will be managed by the council along with the St. Louis Development Corporation.

What are business incubators? They are centers that nurture new businesses by providing them with a host of assistance during their critical first years. They offer office, warehouse or production space at

reasonable, short-term lease rates, and shared secretarial and administrative services on a pay-as-needed basis.

The Enterprise Centers also offer development counseling through the Small Business Development Council (SBDC). Twice a week, the SBDC at St. Louis University sends out business counselors to work with tenants on problems.

"The counseling is particularly significant," says Don Kirchgessner, executive director of the Enterprise Centers. "Many of these people are technically very strong, but to achieve the balance—to be a salesperson, an accountant, a marketing person—is difficult."

The atmosphere at the Enterprise Centers is one of camaraderie and support. Tenants receive emotional support from other tenants facing similar challenges in starting their own businesses. In addition, many of the tenants recommend one another to clients in need of their services.

"Teamwork among tenants is not unusual," Kirchgessner says. "The tenants get to know each other and often call upon one another to serve a customer. There's a real sense of community here."

The goal of the centers is to help small businesses get started and ultimately survive on their own. Approximately 75 businesses have used the two Enterprise Centers with a 76 percent success rate.

Businesses average two and one-half years with the center before moving into a building of their own. When they do leave, businesses can still depend on the staff and business counselors to answer questions or help solve problems. The centers also offer free business counseling to other small businesses that are not part of the center.

Rick Curtis, vice president and branch manager of Commerce Bank, University City office, has worked with four businesses that started in the center and are now out on their own.

"The center helps small businesses get established and in a friendly way pushes them along to be self-reliant," says Curtis. "The confidence level that the Center builds in the tenants is great. Working with these small start-up businesses in a protected environment has been good for Commerce Bank, because all of these clients are still in business and are doing well."

How do these incubators operate financially? Center I's monthly budget is financed 80 percent by tenants' rent and 20 percent by the St. Louis County Economic Council. Center II, whose building was donated by McDonnell-Douglas for use through December 1992, currently is financed completely by the tenants' rent. For the third and largest center, housing 32 businesses, Southwestern Bell made a substantial cash donation, Mega Bank donated the building, and federal, state, city and county agencies will also make donations. With such contributions, Center III is planned to break even after a year or two.

These incubators are good examples of the public and private sectors forming partnerships to help very small businesses get started and thrive. To continue this trend, the Enterprise Centers welcome other donations of space or buildings of at least 15,000 square feet, so that they can open additional centers in the St. Louis area.

If you have questions or comments about the Enterprise Centers, please contact Don Kirchgessner at (314) 862-1818 or (314) 994-9070.

1991 HMDA Data

continued from front page

denial ratios, while Little Rock-North Little Rock and Memphis' ratios worsened slightly. The ratio between black and white applicants for government-guaranteed mortgage loans was exactly the same as for conventional loans.

On home improvement loans, 1991 denial rates for both whites and blacks were higher than the previous year. For these same four District

MSAs combined, black applicants were denied 51.8 percent of the time in 1991 compared with 42.1 percent in 1990. White applicants were denied 21.6 percent of the time in 1991, an increase from the 16.7 percent rate in 1990. Overall, the ratio between denial rates for blacks and whites remained virtually the same.

The disappointing figures in the 1991 HMDA report can be attributed at least in part to

the late release of 1990 data, leaving limited time for lenders to develop programs that would more effectively serve minority borrowers. With the earlier release of 1991 data, and the past year to start implementing such programs, however, it is promising that financial institutions will continue to pursue such initiatives. For ideas on initiatives to better serve minority borrowers, see the special insert to this *Community Affairs* newsletter.

COMMUNITY AFFAIRS LENDERS' FORUMS

8:00 am - noon

Louisville, Ky.
December 8, 1992
Hyatt Regency

Memphis, Tenn.
December 9, 1992
Holiday Inn Crown Plaza

Little Rock, Ark.
December 14, 1992
Capital Hotel

New Resources Available

The St. Louis Fed's Community Affairs Office has several new publications available upon request:

A Citizen's Guide to the CRA, from the Federal Financial Institutions Examination Council for use by those who want to know more about the Community Reinvestment Act, the regulatory process and the role the public can play.

Home Mortgage Lending and Equal Treatment, a guide for financial institutions, published by the Federal Financial Institutions Examination Council, highlighting some lending standards and practices that may have discriminatory effects.

Home Mortgages: Understanding the Process and

Your Right to Fair Lending, a brochure from the Federal Reserve Board that tells where to look, what to look for and what takes place when applying for a mortgage.

Bank Holding Company Community Development Investments Directory, a revised directory from the Federal Reserve Board providing descriptions of all community development corporations approved by the Federal Reserve System.

Mortgage Lending in Boston: Interpreting HMDA Data, a study by the Federal Reserve Bank of Boston that follows up on 1990 HMDA data.

To obtain copies of these materials, contact the Community Affairs Office at the Federal Reserve Bank of St. Louis at (314) 444-8646.



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