HMDA Data Goes Public. Now What?

Now that 1990 Home Mortgage Disclosure Act reports are available to the public, where do we go from here?

First, we need to understand what HMDA data tells us. Though it's easy to misinterpret, HMDA data alone will neither support nor disprove discrimination. It does, however, reveal if disparities exist in a lender's loan approval rates in a particular geographic area based on race, sex or income. And the Fed's Community Affairs Office believes this information can be useful to both lenders and community groups.

Lenders may use the data, for example, to better target geographic areas for home lending activities and to review their success—and their competitors—in making home-related loans in these areas. Both lenders and community groups can also use the data to reach out to new customers. Through case studies contribute to meeting CRA requirements.

If you have any questions about how to interpret HMDA data, please call Glenda Wilson at (314) 444-8317.

Fed Releases CRA Ratings

If you receive the Fed’s mini H.2 weekly report, you may have noticed an extra feature in the last few issues. The mini H.2, which last year began listing state member banks that were recently examined for Community Reinvestment Act (CRA) compliance, now is reporting actual ratings as well.

Since the FFIEC recently endorsed the periodic release of CRA ratings by supervisory agencies, the Fed began reporting those that became public during the week of November 18-22, 1991. State member bank ratings that were available to the public between July 1, 1990, and November 15, 1991, will soon be issued by the Federal Reserve Board.

One year after CRA ratings disclosure began, 88 percent of the banks and savings and loans examined nationwide were rated satisfactory or better, according to summary evaluations.

The Federal Reserve examined a total of 552 banks, with 90 percent earning ratings of satisfactory or outstanding. In the Eighth District, examiners performed 57 CRA examinations of state member banks during this first year—one bank rated outstanding, 33 satisfactory and three were rated as needs to improve.
Identifying Credit Needs in Your Community

Why should a lender assess community credit needs?

Quite simply, it’s good business.

As a bank takes steps to fulfill its CRA responsibilities, it follows a marketing plan similar to that of any other business—identifying a need, developing products to meet that need and marketing those products. To comply with CRA, a bank should first identify credit needs.

Because the credit needs of individual communities differ, the process by which a bank defines its community, determines its credit needs and takes steps to help meet those needs will vary. Likewise, a bank’s outreach efforts will depend on its size and resources, as well as the size, resources and nature of the community.

Data on the demographic makeup of a community may be a good starting point in defining credit needs. Information on the average income, availability of affordable and public housing, low- and moderate-income areas, age of population, other sources of credit and overall lifestyles provide many clues to a community’s credit needs.

But an effective ascertainment program also needs regular contact with representatives in government, businesses and community organizations. Lenders are encouraged to designate one of its officers to help coordinate the bank’s ascertainment program. This officer would communicate with community representatives and may also be responsible for keeping the board of directors up-to-date on the bank’s ascertainment efforts.

The extent of participation by a bank’s board of directors in CRA issues is one of the factors examiners consider under the ascertainment of community credit needs category. Often, evidence supporting their involvement is limited to formal approval of the Community Reinvestment Act Statement required annually. Because directors are often involved in other CRA-related activities as well, examiners would like to see written evidence of these activities.

Directors’ participation in call programs and routine credit meetings, for example, should be documented. Periodic review of marketing efforts, CRA-related policies, community involvement and analysis of credit applications are other indicators of their involvement. And don’t overlook the discussions of community activities that are exchanged between directors before or after meetings. CRA-related items could be included as part of the board minutes or as a separate item at the end of each meeting.

It is important to keep in mind that all contacts need to be documented, regardless of the method used to determine community credit needs. Preparing a written record helps establish how meaningful the contact was, as well as what was learned. It also becomes a record that can be shared with senior management, directors, examiners and the public.

**ASCERTAINMENT TECHNIQUES**

- If your bank reports HMDA data, compare your mortgage record to other lenders in the same census tracts to see if they’re successful in making loans.
- Send customers questionnaires as statement stuffers or conduct a formal credit-needs survey (mail-in, telephone, personal interviews or other technique).
- Expand officer call programs to include comments and questions on community needs.
- Meet with local government officials, community groups and small business associations to review local economic problems and projects; credit needs, loan products, underwriting criteria and government-sponsored loan programs.
- Attend seminars on community development; housing, small business and credit needs.
- Join local organizations (community groups, chambers, local development corporations, etc.) to discuss credit needs.
- Get regular feedback from your staff, focusing on what customers tell them about credit needs or why certain loan products are not used.
- Periodically analyze adverse action notices to identify if certain categories of customers, or reasons for denial, are more frequent than others. Investigate why this might be the case and use this as the basis for developing new or modified credit products or underlying criteria.
The American dream is to have a home, and Neighborhood Housing Services of St. Louis (NHS) is in the business of turning dreams into reality.

NHS has organized block units, its office has become the neighborhood headquarters for the Community Oriented Police Services (COPS) program, it has made rehab loans to several residents, and it has provided insurance and rehab counseling programs for many homeowners.

NHS' goals for the Tower Grove East neighborhood are simple, yet will have a major impact on this multicultural, culturally diverse neighborhood: an increase in home ownership, stabilization of declining blocks, a decrease in density, the organization of additional block units and the reduction of the number of vacant properties through acquisitions, rehabs and sales.

According to Executive Director Carol Clounch, NHS is now considering three new neighborhoods, one of which will be chosen for the next NHS program. "The neighborhood will be chosen in the spring of 1992 with work beginning in the fall," she says. "We are anticipating that this project will run for about five years."

Usually, NHS neighborhoods include a multiracial population, a high percentage of people over 65 years of age, single-parent households and people living below the poverty level. From experience, the St. Louis NHS found that a neighborhood of 3,000 or fewer homes is ideal for the type of program it offers. At the heart of NHS is the Revolving Loan Fund (RLF) for people who cannot meet conventional lending criteria. Loans are generally secured by the property and are made at flexible interest rates with terms designed to meet the borrower's ability to pay. Despite their high-risk nature, RLF delinquency rates are lower than those of commercial lending institutions. Clients who already meet conventional credit criteria are referred to local lending institutions for home improvement financing.

NHS provides its clients with both financial counseling and technical assistance. Counseling often resolves credit, title and cash flow issues that might prevent lower-income households from purchasing or rehabilitating their homes.

To make sure construction work is done properly, NHS provides home inspections, estimates, referrals, construction monitoring and follow-up inspections. Thus, NHS provides a full range of inspection, credit and construction management services that protect both homeowners and lenders.

To respond to other neighborhood needs, the NHS board administers other improvement programs such as:

- Face-Lift Loan Program, for minor exterior facade improvements;

Continued on back page
New Resources Available

The St. Louis Fed’s Community Affairs Office has several new CRA-related resource materials available upon request:

Community Development Investments—a guide for bank holding companies about the formation of CDCs and other uses of equity investments for community development. Published by the Federal Reserve Board.

Bank Holding Company Community Development

Investments Directory—published by the Federal Reserve Board, this directory provides descriptions of all CDCs approved by the Federal Reserve System.

From Conflict to Cooperation, a CRA video intended for wide use in training and education rather than as “cutting-edge” information for experienced professionals. Just released from the Federal Reserve System. To obtain copies of these materials, or to borrow the video at no charge, write or call the Community Affairs section at the Federal Reserve Bank of St. Louis at (314) 444-8317.

Housing Issues

continued from previous page

• Code Enforcement Revolving Loan Program, to correct city code violations;
• The Homeownership Project, to provide mortgage lending programs;
• Insurance Full Partnership Program, to help inner-city homeowners obtain good insurance coverage at reasonable rates; and
• Senior Citizen Home Weatherization Program, to caulk, weather-strip and insulate homes.

Through the St. Louis NHS Partnership, more than 50 businesses, foundations and individuals provide management skills, financial expertise, tax-deductible contributions and revitalization strategies to keep good neighborhoods from going bad.

Randall Sumner, the Fed’s community affairs officer, says, “Neighborhood Housing Services provides a vehicle for banks and lending institutions to define local community credit needs. NHS is a unique organization that allows banks to more easily be connected to the residents they serve.”

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