July 14, 2004

Mr. John Woodruff
Assistant Deputy Comptroller – Compliance
Office of the Comptroller of the Currency
One Financial Place, Suite 2700
440 South LaSalle Street
Chicago, IL 60605

Dear John:

I am writing from Woodstock Institute to comment on the ongoing CRA examination of Bank One. Woodstock Institute is a Chicago-based non-profit research and policy organization with a focus on promoting economic development in lower-income and minority communities. Woodstock convenes the Chicago CRA Coalition, an association of over 100 Chicago-area community groups with a mutual interest in working with financial institutions to increase investment in the Chicago's underserved neighborhoods.

Since 1998, the Chicago CRA Coalition has had a community reinvestment agreement with Bank One. The agreement sets goals for mortgage and small business lending to low- and moderate-income (LMI) borrowers and communities; levels of grants and investments for community development organizations serving LMI communities; and increasing levels of services in LMI communities. Over the past five years, the CRA Coalition has annually met with Bank One to monitor the bank's progress in meeting these goals.

Over the course of the agreement, Bank One has met many of the goals set, but some recent trends in the bank's community reinvestment performance have been troubling. The bank has consistently met goals for refinance and home improvement lending to LMI borrowers, and they have provided adequate levels of grants and investments to Chicago area community development groups. The bank has also opened a number of new branches in LMI communities and developed a deposit account designed to reach the unbanked. Despite these successes, however, the Coalition has concerns about other aspects of Bank One's recent performance.

Home Purchase Lending

Over the course of the agreement, Bank One's home purchase lending has been problematic. The bank has consistently fallen well short of home purchase lending LMI/ MUI market share ratio (MSR) goals. Table 1 shows that the bank's adjusted home purchase market share ratio[1] was .71 implying a much stronger focus on lending to MUI borrowers than LMI borrowers. Table 1 also shows that the bank's home purchase lending

[1]Adjusted MSR should be interpreted as having a goal of 1.0. This measure was used to gauge Bank One's progress toward meeting goals over the course of the agreement (1999 to 2002). Given that the MSR goals changed from .90 to 1.05 in some cases, an adjusted MSR was calculated by subtracting the difference between the bank's actual MSR for a given year and its goal for that year. The average difference was taken and added to 1.0.

volume has declined by 74 percent over the course of the agreement while market-wide, Chicago area home purchase lending has increased by 22 percent. For the Chicago area, Bank One's 2002 home purchase lending market share ranked 28th despite being the area's largest bank by deposit and asset size. Given the push for increased homeownership and the demand for prime credit in LMI and minority communities, this is a troubling trend for the area's largest bank.

Table 1. Bank One Adjusted LMI/MUI Chicago Area Market Share Ratios and Change in Lending Volume, 1998 – 2002[2]

Loan Type	Adjusted LMI/MUI MSR	1998-2002 Bank One Volume Change	1998-2002 Market Volume Change
Home Purchase	0.71	-74%	22%
Home Improvement	0.95	-65%	-56%
Refinance	0.96	-35%	56%
Multifamily	5.2	-85%	28%
Small Business	0.97	159%	213%
Very Small Business	0.93	-62%	64%

Multifamily Lending
Additionally, although the bulk of Bank One's multifamily lending occurs in LMI census tracts, the bank has seen its level of lending for multifamily housing plummet by 85 percent over the course of the agreement. This is despite an increase in region-wide multifamily lending (see Table 1). Bank One claims to have diversified its community development work, focusing more effort on projects related to for-purchase housing and commercial development. However, given the dire shortage of affordable multifamily rental housing in the region, we are troubled by the bank's apparent shift away from this market.

Small Business Lending
For small business lending, Bank One has generally been able to meet agreement goals, but in 2002, the bank's small business lending took a significant shift away from lending to businesses in LMI tracts and away from lending to businesses with less than $1 million in revenue. In 2002, Bank One's LMI/MUI MSRs declined by 17 percent from 2001 to 0.83 for general small business lending and declined by 23 percent to 0.76 for lending to very small firms. Additionally, over the course of the CRA agreement, Bank One's lending to small firms declined by 62 percent, while, over the same period, the Chicago market grew by 64 percent. Given the importance of small business development for economic recovery and job creation, particularly in LMI communities, it is troubling that the bank appears to have decided to focus its recent efforts on larger firms in middle- and upper-income communities.

[2]For home purchase, home improvement, and refinance lending the level of analysis is income of borrower. For multifamily and small business lending, the level of analysis is census tract.

Foreclosures and Trustee Loans

We have also been troubled by Bank One's activity as a frequent foreclosure in the Chicago area. One of the most troubling trends in community development in recent years has been the meteoric rise of foreclosures in LMI and minority communities. Foreclosures not only harm individual homeowners both financially and emotionally, but also destabilize neighborhoods and threaten a city's property tax base. Woodstock Institute's analysis of foreclosure records for the Chicago area in 2002 show that Bank One was associated with 5.2 percent of area foreclosure starts[3] while the bank's share of single-family mortgage originations and purchases typically fell well below that in preceding years. The bank has stated that many of these foreclosure are of loans for which the bank serves as trustee.

Closer analysis of the bank's 2002 foreclosures illustrates some disturbing trends. Forty-nine percent of Bank One's foreclosures were in neighborhoods greater than 75 percent minority. This outpaces the Chicago area average of 42 percent of all foreclosures in these communities. Additionally, loans for which Bank One acts as trustee are foreclosing faster than the regional average. Over 50 percent of Bank One's foreclosures occurred within two years of origination and over 20 percent occurred within one year of origination. Regionally, less than 42 percent of area foreclosures were within two years of origination and roughly 20 percent of foreclosures were within one year. These foreclose data raise serious questions about the standards Bank One has for loans for which it acts as trustee and how those standards differ from those for loans the bank directly originates.

Relationships with Payday Lenders

Another troubling issue related to Bank One is its relationships with payday lenders. An examination of Uniform Commercial Code filings with numerous Secretary of State offices reveals that Bank One has financial relationships with a number of payday lenders including First American Cash Advance (Tennessee), Sunset Cash Advance Corp (Ohio), and EZ Cash Advance (Ohio) among many others. Given Bank One's seemingly questionable standards for mortgage loans for which it acts as trustee, these relationships with payday lenders are extremely troubling. The CRA Coalition has asked Bank One to supply details of its relationship with payday lenders and believes that the bank should stop all relationships with payday lenders. The OCC has been aggressive pursuing national banks that directly participate in financing payday loans through a third party, and we believe the agency should be equally aggressive in examining commercial relationships between national banks and payday lenders that facilitate and perpetuate the payday lending industry.

Refund Anticipation Loans

Bank One is one of the leading providers of tax Refund Anticipation Loans (RALs). RALs are high fee, short term loans that carry virtually no risk for the lender as they are secured by a tax return that has been filed by a registered tax preparer. These loans are frequently accessed by lower-income consumers and Earned Income Tax Credit recipients who can little afford to not receive their full return. Additionally, financial institutions often enter into relationships that allow them to garnish tax refunds to pay back collections due with other lenders. The CRA Coalition has asked the banks to stop their current RAL product and instead offer a low-interest loan where tax refund recipients can open a low-cost bank account with their refund on-site.

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[3]Analysis of 2002 data from Foreclosure Report of Chicago.

We ask that you consider the above concerns as you evaluate the bank's community reinvestment performance.

Sincerely,

Geoff Smith
Project Director

GS/bab

cc: Byron Reed, Bank One
Paul Ginger, OCC
Norma Polanco, OCC
Jame Sloan, OCC