REINVESTMENT ALERT

Woodstock Institute | **October 2003** | **Number 24**

CRA, Financial Modernization and the Policy Implications of Insurance Company Involvement in Banking for Low-Income Populations*

Since the passage of the Gramm Leach Bliley Financial Modernization Act of 1999 (GLBA), insurance companies, banks, mortgage companies, and securities firms have been allowed to merge with and acquire one another for the first time since the Great Depression. Prior to that date, some insurance companies chartered savings banks as subsidiaries of the insurance company. Community groups have been especially interested in the implications of these changes for underserved populations, particularly for lower-income and minority families. This Alert discusses the community development implications of these changes. It also gives an overview of how insurance companies that have opened bank charters are performing in relation to the Community Reinvestment Act (CRA**)** and fair lending.

Background

Insurance company banks and other banks sell their products in different ways. These differences have a significant impact on the application of CRA to the two types of institutions. Insurance company banks utilize the same platforms and people that the parent companies use to sell insurance. Insurance policies are sold directly through agents, telemarketing campaigns, the mail, or, increasingly, the Internet, and so are their banking products. In consequence, banks that are subsidiaries of insurance companies often have only one office or branch, which is the company's headquarters. CRA says that regulated financial institutions have a continuing and affirmative obligation to help meet the credit needs of the local communities, *including low- and moderate-income neighborhoods*. For the purpose of CRA examinations, local communities are aggregated into assessment areas that consist of one or more Metropolitan Statistical Areas (MSAs). CRA regulations stipulate that those MSAs may not reflect illegal discrimination or arbitrarily exclude low- or moderate-income census tracts. CRA regulations also outline that the assessment area should, inter alia, include the census tracts 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.

CRA activists have long argued that as banking practices have changed, these regulations should be appropriately interpreted to recognize those changes. In particular, the assessment areas of insurance company banks should include the areas where agents in fact do banking business and not just where the only branch, the headquarters, is located.

*A version of this paper was produced for the College of Urban Planning and Public Affairs, University of Illinois at Chicago, for the Urban Planning and Policy Program in April, 2003.

The Gramm Leach Bliley Financial Modernization Act (GLBA) and CRA

Consumer groups' major issue with GLBA was that whereas it "modernized" the financial services industry in a way that met the interests of the largest companies, it did not modernize relevant consumer protections. Insurance companies, which are mainly regulated at the state level, are not subject to CRA. During the fight over financial modernization, consumer advocates felt that if banking and insurance firms were to be permitted to merge, CRA and data disclosure provisions should be extended to insurance firms as well, particularly in light of ample evidence of discriminatory and disparate treatment by such firms.[1] But the passage of GLBA was marked by an attempt to weaken, not strengthen, CRA, led by the Chair of the Senate Banking Committee, Senator Phil Gramm (R-Texas). Consumer groups had their hands full defending the statute from being fundamentally weakened. Thus, an unusual opportunity to monitor how insurance companies treat lower-income and minority markets was lost. There was, for example, no chance to use the legislation to amend the Federal Reserve Act to clarify the definition of assessment areas to recognize the new channels for conducting basic banking business.

One consumer concern, the tying of the sale of one financial product to the purchase of another, did get addressed in theory but it is not clear how much attention regulators are paying to it in practice. Insurance company banks could easily "suggest" that buyers shopping for mortgage loans might get more favorable consideration if they also agreed to purchase an insurance product from the bank or the bank's parent company. GBLA prohibits tying, but there is no evidence from the public record that regulators of insurance company banks are paying attention to the issue.

Analysis of Single Family Home Mortgage Lending of Insurance Banks

In order to highlight the issues of the convergence of banking and insurance in relation to CRA, this Alert looks at insurance banks[2] for which there are published CRA performance evaluations (P.E.s) and that made HMDA-reportable loans in 2001.[3] The banks are:

- Acacia Federal Savings Bank (FSB), Falls Church, VA
- AIG Federal Savings Bank, Wilmington, DE
- Farm Bureau Bank, FSB, Sparks, NV
- Guard Security Bank, Wilkes-Barre, PA

[1]See the following for more information on discrimination in the insurance industry: Galster, G., Wissoker, D., and Zimmermann, W. 2001. "Testing for Discrimination in Home Insurance: Results from New York City and Phoenix," *Urban Studies*. 38:1. pp. 141-156; Glenn, B. 2000. "The Shifting Rhetoric of Insurance Denial," *Law and Society Review*. 34:3. pp. 779-808. Squires, G., "Policies of Prejudice: Risky Encounters with the Property Insurance Business," *Challenge*. 39:4. July. pp. 45-50; Squires, G., ed. *Organizing Access to Capital*. Philadelphia: Temple University Press. 2003.

[2]For this study, "insurance bank" includes insurance companies that opened thrift or savings charters in addition to banks that are subsidiaries of financial holding companies whose main business is the provision of insurance. All of the banks discussed here primarily conduct business through insurance agents, the Internet, phone, or the mail, and most operate a single branch, thus distinguishing them from "traditional" branch banks.

[3]In order to be HMDA-reportable in the year 2001, a mortgage loan must have been made by a bank, credit union, or savings association with assets of more than $31 million that had a branch or home office in a metropolitan area (MA). The institution must have originated at least one home purchase loan or refinancing of a home purchase loan secured by a first lien on a one-to-four-family dwelling in the preceding calendar year. Finally, to be HMDA-reportable, loans must be made by institutions that are federally insured or regulated; or, the loan must have been insured, guaranteed, or supplemented by a federal agency or intended for sale to the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac).

- NJM Bank, FSB, West Trenton, NJ
- Principal Bank, Des Moines, IA
- Shelter Financial Bank, Columbia, MO
- State Farm Bank, Bloomington, IL

The Office of Thrift Supervision (OTS) regulates all of these banks.[4]

Scope of Analysis

Ideally, banks should be evaluated on their record in low-income communities on both the provision of retail banking services, especially the provision of checking and savings accounts, and on loan originations. In the absence of publicly available data on account holders, home mortgage lending data must be used to determine how well these companies are serving low-income communities in their assessment areas. Thrifts have limits on the amount of small business loans they can originate and only one of the banks in this sample reported any small business lending.[5]

In general, bank activity outside of designated assessment areas is not reviewed in CRA examinations.[6] As noted above, a key issue with insurance banks is the banks' determination of their assessment areas. In consequence, this Alert examines the proportion of loans made inside and outside the banks' assessment areas, the characteristics of loans made inside the assessment area, and the characteristics of loans made outside of the assessment area.

Most of the banks examined were "small banks" at the time of their last examinations, which meant that they had assets of less than $250 million or that they were affiliates of holding companies with assets of less than $250 million. Small banks receive an "expedited" examination under CRA and that expedited examination is supposed to include an analysis of the percentage of loans made in the bank's assessment area. It should also include an examination of the bank's record of lending to borrowers of different incomes.

This Alert uses a market share ratio approach to look at proportions of loans to low and moderate-income (LMI) borrowers and middle and upper-income (MUI) borrowers[7] and describes the banks' lending record to black borrowers to highlight fair lending concerns. All of these banks received an overall "Satisfactory" rating on their most recent CRA exams. This Alert first looks at each bank's lending record. Then, a detailed analysis of State Farm Bank is included, as it is the largest and most

[4]One of the largest insurers in the country, Allstate, also has a thrift charter. However, Allstate applied for a thrift charter as a trust bank, and was categorized as a special purpose bank for CRA purposes, which means that the bank was analyzed under the community development test for special purpose banks.

[5]According to the OTS' Community Development Investment Authority Guide, up to 20 percent of a thrift's lending may go towards commercial loans. However, if more than 10 percent of a thrift's lending is in the commercial loan arena, the commercial lending that comprises between 10 percent and 20 percent of the bank's total lending must go towards small businesses. {12USC Section 1464 (c)(2)(A).

[6]Some exceptions might occur. For example, the community development lending of wholesale and limited purpose banks is included in CRA examinations regardless of where the loans were made.

[7]For the purpose of this Alert, LMI describes borrowers with incomes between 0-80 percent of the area median, and MUI describes borrowers with incomes of 80 percent of the area median or higher. Moreover, the Institute uses a market share ratio approach when analyzing a bank's lending record. We look at the share of the bank's lending in the LMI market and compare it to its market share in the MUI market. If the ratio is 1.0, the bank is making an equal effort in the markets. If it is below 1.0, the bank's efforts in both markets are not commensurate.

active mortgage lender of the group of insurance banks. Finally, insurance banks are analyzed in aggregate and compared to all lenders nationwide.

Overview of Each Bank's Lending Performance

Except for Acacia Federal and Guard Security, the vast majority of each bank's home mortgage loans were made outside of the banks' assessment areas. So the bulk of these banks' loans are not being examined under CRA. This fact emphasizes the fundamental inadequacy of the banks' and regulators' interpretation of the CRA statute and the regulation that covers the definition of assessment areas. The following paragraphs give a brief description of each bank's lending record. There is a more detailed description of the banks in Appendix 1 and 2.

Acacia FSB

Most of Acacia FSB's single-family home mortgage loans were made inside its assessment area, as shown in Figure 1. The Appendix to this Alert shows that the same might not be true for the bank's small business lending, which was not analyzed here. Table 1 shows that the bank had a poor record of lending to black borrowers.

AIG FSB

FFIEC data reveal that AIG made a total of 174 HMDA-reportable mortgage loans in 2001. As Figure 1 shows, of these, only 29 loans or 17 percent were made inside the bank's assessment area. Further, Table 1 shows that of the small number of loans made inside the bank's assessment area, the bank made very few loans to low- and moderate-income (LMI) borrowers, and made no loans to black borrowers.

Farm Bureau Bank

In 2001, Farm Bureau Bank made the majority of its home mortgage loans outside of its assessment area. This can be seen in Figure 1. We have not included an analysis of the bank's mortgage lending by race and income because all four loans made inside of the assessment area went to middle- or upper-income (MUI) white borrowers.

Guard Security Bank

Guard Security Bank's HMDA-reportable lending is very small. Of the 38 single-family mortgage loans that the bank originated in 2001, 84 percent of them occurred inside the bank's assessment area, as Figure 1 shows. Table 1 shows that the bank under-performed the national average in serving LMI borrowers, as only 22 percent of the loans inside the assessment area went to these borrowers. None of the 32 loans made inside the bank's assessment area were to black borrowers.

NJM Bank, FSB

NJM made a substantial proportion of its loans outside of its assessment area in 2001, as can be seen in Figure 1. Table 1 shows that the bank also under-performed in serving LMI and black borrowers.

Principal Bank

In 2001, Principal Bank was a minor mortgage lender. The bank continued to purchase most of its mortgage loans. A bank of this size could easily originate a greater volume of loans. Moreover, Figure 1 shows that almost all of the bank's loans were made outside of the assessment area. The number of loans inside the assessment area is too small to apply market share analysis. However, Table 1 shows that none of the loans went to black borrowers, though all of them were made to LMI borrowers.

Shelter Financial Bank

Figure 1 highlights the fact that the vast majority of Shelter Financial Bank's mortgage lending was originated outside of the bank's assessment area. Table 1 shows that Shelter Financial over-performed the national average in servicing LMI borrowers. However, none of the 34 mortgage loans made inside the assessment area in 2001 went to a black borrower. It is interesting to note that in the most recent Performance Evaluation (P.E.), the OTS made some effort to analyze Shelter's lending in the 13 state region that the bank named as its target area for doing business. The OTS contended that in the 13 state region, 20 percent of households were low-income, though Shelter only made 7 percent of its loans to low-income households in those states. In contrast, while 39 percent of those states' households were upper-income, Shelter made 57 percent of its loans to those households.

Figure 1: Percent Single Family Mortgage Loans Outside Official CRA Assessment Area, 2001

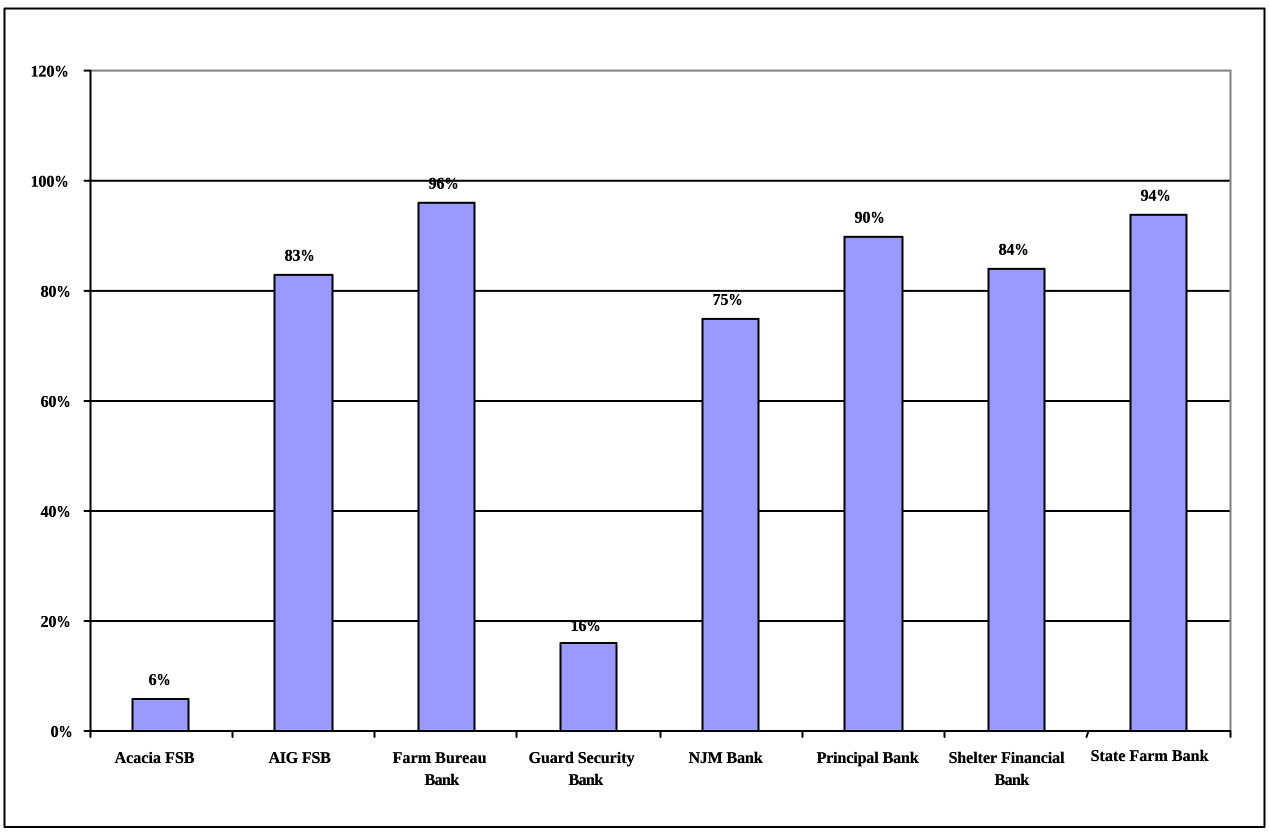

Table 1: Single Family Mortgage Loans to LMI and Black Borrowers Inside Assessment Area, 2001[8]

Bank Name	Total Number of Loans Inside A-A	Number of Loans to LMI Borrowers	Percent of Loans to LMI Borrowers	Number of Loans to Black Borrowers	Percent of Loans to Black Borrowers
Acacia FSB	719	149	21%	30	4%
AIG FSB	31	5	17%	0	0%
Farm Bureau Bank	4	0	0	0	0
Guard Security Bank	32	8	22%	0	0
NJM Bank FSB	94	18	19%	5	5%
Principal Bank	3	3	100%	0	0
Shelter Financial Bank	34	10	30%	0	0%
State Farm Bank	375	36	10%	31	8%

State Farm Bank

Because State Farm Bank made many more mortgage loans than the other insurance banks, additional analyses of the bank's lending patterns are included in this Alert. Fully 94 percent of its 2001 loans were made outside of the bank's assessment area. We should note that when State Farm Insurance was applying to the OTS for a thrift charter in 1998, the company contended that although its official assessment area would be the Bloomington-Normal MSA in central Illinois, it had a CRA obligation to all the communities it served. This statement, made under pressure from the OTS and from community organizations, read:

> SFFS [State Farm Financial Services] takes its obligations under the CRA very seriously, both in its designated service area and in those areas in which SFFS will ultimately generate loans and deposits. Therefore, SFFS's commitments to CRA will be implemented in a way that recognizes not only its commitment to its assessment area, but also its duty to be responsive to all communities in which it markets its products and services.[9]

Table 2 shows that State Farm achieved a high market share ratio of black to white borrowers in its assessment area. It is possible, however, that this ratio conceals a low penetration by all lenders of the potential black home owners market in Bloomington-Normal. State Farm did a very poor job at serving LMI borrowers in its assessment area. The bank made roughly one-third of the effort in lending to LMI borrowers as it did to MUI borrowers for home purchase loans. For refinance loans, the bank made roughly one-fifth the effort in servicing the LMI population in its own assessment area.

[8]FFIEC data show that in 2001, approximately 29.5 percent of home purchase loans originated in the U.S. went to LMI borrowers (defined as borrowers with incomes at 80 percent of area median or less). Further, about 7 percent of home purchase loans went to black borrowers (www.ffiec.gov). Some of this data might be incomplete, as race of borrower is often missing from HMDA data. This is because institutions make loans over the Internet or phone and might not collect this information. Also, the percentages for refinance or home improvement loans going to LMI or black borrowers might differ from home purchase loans. These percentages are simply being used as a proxy in order to compare the performance of insurance banks.

[9]Letter from Stanley R. Ommen, President and CEO, Executive Officer, State Farm Financial Services, FSB (in formation) to Timothy R. Burniston, Director, Compliance Policy, Office of Thrift Supervision, Washington, D.C., November 4, 1998.

Table 2: State Farm Bank Mortgage Lending, Bloomington-Normal, IL Assessment Area, 2001

Year 2001	Market Share for Loans to Whites	Market Share for Loans to Blacks	Black/ White Market Share Ratio	Market Share for Loans to LMI	Market Share for Loans to MUI	LMI/MUI Market Share Ratio
Home Purchase	0.043848	0.190839	4.35	0.024721	0.066666	0.37
Refinance	0.012316	0.050420	4.09	0.003108	0.015656	0.20

Table 3 shows that the bank had a fairly strong record in reaching black borrowers across the United States. However, it is very alarming for CRA purposes that the bank's nationwide market share for home purchase lending to LMI borrowers is less than half its market share to MUI borrowers. Home purchase lending is a vital part of the lending market that enables families to achieve the dream of homeownership, and home purchase loans to LMI borrowers are a key part of the intent of the statute. Thus, State Farm, the largest lender by far of the insurance banks studied here, is falling far short of adequate CRA performance.

Table 3: State Farm Bank Mortgage Lending, Entire U.S., 2001[10]

Year 2001	Market Share for Loans to Whites	Market Share for Loans to Blacks	Black/ White Market Share Ratio	Market Share for Loans to LMI	Market Share for Loans to MUI	LMI/MUI Market Share Ratio
Home Purchase	0.000325	0.000451	1.39	0.000165	0.000337	0.49
Refinance	0.000256	0.000235	0.92	0.000229	0.000224	1.02

All Insurance Banks in Aggregate

In order to accurately look at how insurance banks perform as a group, it is important to compare them against all other lenders in the United States, as there is no single assessment area where these banks operate. The majority of all of these banks' loans (76 percent, according to Table 1) are being made outside of their given assessment areas. Tables 4 and 5 show that insurance banks are seriously underperforming the national averages in the percentages of home purchase and refinance loans that they make to low- and moderate-income borrowers. The banks' aggregate lending performance in relation to black borrowers is slightly above the national average. Insurance banks' LMI-MUI market share ratio for home purchase lending is particularly troublesome at 0.53, indicating that these banks are making roughly half the effort in making home purchase loans to LMI borrowers as they are in

[10]Additional information on State Farm's lending record can be found in Appendix 2.

lending to MUI borrowers. Refinance lending is better for these banks in relation to LMI borrowers, but is still not on par with lending to MUI borrowers.[11]

Table 4: Insurance Banks' (IBs) Single Family Mortgage Loans to LMI and Black Borrowers Throughout the United States, 2001[12]

Year 2001	IBs' Percent of Loans to LMI	All Lenders Percent of Loans to LMI	IBs' Performance in Relation to Market	IBs' Percent of Loans to Blacks	All Lenders Percent of Loans to Blacks	IBs' Performance in Relation to Market
Home Purchase	17.7%	29.5%	**-40%**	8%	7%	**+14.3%**
Refinance	22.1%	31.2%	**-29.2%**	4.7%	4.2%	**+11.9%**

Table 5: Insurance Banks Home Mortgage Lending Market Share, United States, 2001

Year 2001	Market Share for Loans to Whites	Market Share for Loans to Blacks	Black/ White Market Share Ratio	Market Share for Loans to LMI	Market Share for Loans to MUI	LMI/MUI Market Share Ratio
Home Purchase	0.000458	0.000539	1.18	0.000256	0.000483	0.53
Refinance	0.000398	0.000355	0.89	0.000334	0.000365	0.92

Conclusion

Overall, the results of HMDA analyses of insurance banks' lending patterns show that the vast majority of these banks' loans are made outside of their self-declared CRA assessment areas. Because of the OTS' restrictive interpretation of the Community Reinvestment Act and the regulation that governs assessment areas, insurance banks are being allowed to exclude most of their business from CRA oversight. In consequence, a federal statute to protect lower-income families from disparate treatment by financial institutions is much less effective than it should be. This evasion of federal law, serious in itself, is made more serious by the fact that most of these banks are underperforming national averages

[11]It is important to note that these trends might be skewed by the inclusion of State Farm Bank, which accounts for roughly two-thirds of the home purchase and refinance lending for all of the insurance banks combined. It is for this reason that State Farm Bank is analyzed separately in this report.

[12]In addition to the approximately 29.5 percent of home purchase loans originated in the U.S. that went to LMI borrowers and the 7 percent of home purchase loans went to black borrowers, FFIEC data reveal that in 2001, about 31 percent of all refinance loans went to LMI borrowers and 4.2 percent of all refinance loans went to black borrowers throughout the U.S.

in servicing low- and moderate-income (LMI) and minority borrowers. The federal bank regulators should, as a matter of urgency, reframe the gravely inadequate way in which they apply CRA to insurance company banks.

Policy Recommendations

1. The Community Reinvestment Act (CRA) should be extended to nonbank entities such as insurance agencies, securities firms, and mortgage companies that engage in banking or bank-like activities. Such legislation would establish uniform treatment and hence a level playing field so that any company engaging in banking activities would be treated the same for CRA purposes.

2. HMDA-like data disclosure must be made publicly available on account holders at financial institutions, including banks and credit unions. This data should include race, income, gender, and census tract of the resident account holder, with appropriate methods for protecting the privacy of individual consumers. This would enable regulators and the public to examine banks' track record in providing basic financial services to lower-income and minority households. Such data would be particularly important for judging the record of insurance company banks. These banks operate through insurance agents; there is some evidence that there are fewer insurance agents operating in minority communities, thus creating disparate treatment in the banks' outreach to those areas.[13]

3. Regulators should proactively examine banks for any evidence of "tying" and make sure that in the post-GLBA world, financial services companies are not abusing their new powers and forcing customers into products that they do not want or need. Such scrutiny is particularly important for insurance company banks. CRA Performance Evaluations should document any evidence of tying. Violating firms should be penalized and forced to take measures to ensure that the integrity of the separation of their different financial products functions is effective.

4. CRA assessment areas must be updated to reflect the reality of today's banking market. This issue is brought glaringly to light with the information presented here on the scale of insurance banks' unexamined lending outside their assessment areas. The federal regulators should urgently revise their narrow reading of the CRA statute and regulation in regards to the definition of financial institutions' assessment areas. A financial institution should include the following in its definition of its assessment area:

    a) MSAs or counties where it has branches and ATMs;

    b) Any MSA or non-metro county where it has originated a significant portion of its loans or taken a significant amount of its deposits (e.g., 0.5 percent);

    c) Any MSA or non-metro county where it has originated or taken a significant portion of its total loans or deposits in those geographies in the most recent year (e.g., 0.5 percent); and

    d) Adjustments to these areas to include only a portion of an MSA or county should be limited to those institutions with less than $100 million in deposits in the MSA or county.

---

[13]For example, see Tisdale and Wertheim, " Giving Back to the Future: Citizen Involvement and Community Stabilization in Milwaukee," in *Organizing Access to Capital*. Ed. By G. Squires. Philadelphia: Temple University Press. 2003.

e) For a bank that cannot, because of size or other limitations, fulfill the above criteria, the bank's national aggregate market share of low- and moderate-income customers (for all product lines) should be compared to its national aggregate market share of middle- and upper-income customers. This market share ratio should then be compared to the national ratio of such households during CRA examinations.

Insurance company banks are a recent arrival in the financial services scene and several of them have become major institutions in a short period of time. While neither the Community Reinvestment Act or its governing regulation anticipated that bank services would be delivered by means other than the traditional branch venue, these services are now delivered in a variety of ways, especially by insurance company banks. It is time for both federal regulators and financial institutions to recognize this reality for the purpose of community reinvestment.

By Katy Jacob

Appendix 1: Additional Information about Insurance Banks

Acacia Federal Savings Bank (FSB)

Acacia FSB is owned by the holding company Ameritas Acacia, which owns Ameritas Life Insurance Corporation and Acacia Life Insurance Company. The bank has assets of about $687 million,[14] which qualifies it for the large bank CRA examination. According to the most recent P.E., from August of 2000, Acacia does the majority of its banking business through insurance agents. The bank's assessment area includes portions of the Washington, DC Metropolitan Statistical Area or MSA. The bank's sole retail office is in Falls Church, VA. Perhaps because the bank is large and one office is not sufficient to service a diverse population, the OTS gave Acacia a "low satisfactory" rating on the Service Test portion of the examination. On lending and investments, Acacia received "high satisfactory" ratings.

According to the OTS's P.E.: "The Institution originates a substantial volume of loans in relation to its asset size" (August 21, 2000:7). The OTS examined all types of mortgage and small business lending and found that the bank did not make a majority of its loans inside its assessment area. The regulator claimed that "the low percentage of mortgage loans within (the) assessment area is directly related to the Institution's business strategy of generating mortgages through a large network of brokers" (op.cit:8).

AIG Federal Savings Bank (FSB)

AIG is headquartered in Wilmington, DE, and has assets of $983 million, making it a fairly large savings institution. Its thrift charter application was approved in 1999 and it began banking operations on May 15, 2000. The date of the institution's first CRA examination is May 29, 2001. The holding company, American International Group, Inc., is a major provider of insurance and other financial services throughout the country. Like many insurance banks, AIG has only one office, in its hometown of Wilmington, DE, and no branch offices. Its CRA assessment area is the Wilmington-Newark, DE-MD metropolitan statistical area, which consists of two counties and has a population that is 25 percent low- or moderate-income.

The 2001 P.E. states that AIG did not originate most of its small number of mortgage loans, but rather purchased them through other lenders. CRA examinations do not normally scrutinize these loans for possible predatory features. This examination does not mention the nature of any of these purchased loans, nor take into consideration the difference between originations and purchases.

Farm Bureau Bank

Farm Bureau Bank is operated by the holding company FB Bancorp, an entity which exists primarily to serve over three million Farm Bureau members with insurance products. The bank, which opened in July of 1999, has assets of $332 million, making it a large bank for CRA purposes. However, when the CRA P.E. was released in September of 2001, the bank still qualified for the small bank examination, as it held less than $250 million in assets. Farm Bureau is located in Sparks, NV, where it has its only

[14] All asset sizes are as of June 30, 2003, and are taken from www.fdic.gov.

branch location. All other services are done by phone, Internet, mail, or through insurance agents. The bank's assessment area consists of the Reno, NV MSA.

Guard Security Bank

In July of 1999, Guard Insurance group Inc., Guard Financial Services, Inc., Guard Insurance Companies, Inc., AmGUARD, East GUARD, and GUARD America Insurance companies united with four trusts to apply to the OTS to organize a thrift charter called Guard Security Bank. The bank began operations in October 1999, and its one office is located in Wilkes-Barre, PA. The bank is still very small, with assets of only $68 million. Its first and only CRA examination was made public when the P.E. was released in November of 2000. The bank's assessment area consists of the Scranton-Wilkes-Barre-Hazleton, PA MSA. As of the date of Guard's P.E., the bank was primarily involved in financing auto rather than mortgage loans.

NJM Bank

NJM Bank, a subsidiary of NJM Insurance Corporation, opened shop in West Trenton, NJ, on September 13, 1999, and has assets of about $213 million. This bank has undergone one CRA examination, and the P.E. was made public on May 7, 2001. OTS examiners included four New Jersey counties in NJM's assessment area: Mercer, Ocean, Monmouth, and Middlesex. For the analysis, we utilized the West Trenton, NJ, MSA when reviewing HMDA data available through FFIEC.

In the P.E., OTS stated that "during the review period, a majority of the HMDA-reportable loans were originated within the assessment area" (May 7, 2001:5). This is barely true—OTS goes on to say that 51 percent of the bank's loans were made in the assessment area. Moreover, OTS claims that NJM's lending to LMI borrowers is "below the ratio reported by the aggregate" {of all lenders} (op.cit:6). However, when taken with consumer loans made by NJM, OTS deemed the Bank's lending to LMI borrowers to be "Satisfactory." The bank operates one retail branch and works through the mail and telephone.

Principal Bank

Principal Bank, which opened in February of 1998, has assets of about $1.67 billion. This makes the bank a large institution. However at the time of Principal's June 1999 CRA P.E., the bank was fairly small. Thus, it was examined utilizing the small bank standards. Principal is based in Des Moines, IA, and in 1999, the bank's assessment area consisted of the Polk County portion of the Des Moines MSA. Our analysis of HMDA data will include the entire Des Moines MSA.

The OTS outlines the bank's business strategy as primarily being a purchaser of mortgage loans, rather than a loan originator. Even with the inclusion of purchased loans, OTS states in the P.E. that "lending to low-income borrowers lags area demographics and peer HMDA data. Lending to moderate-income borrowers more closely aligns with peer HMDA data and area demographics" (July 12, 1999:6). It is on this basis that the OTS considered the bank's lending performance to LMI borrowers reasonable.

Shelter Financial Bank

Shelter Financial Bank is a subsidiary of Shelter Mutual Insurance Company and, according to the 2001 CRA P.E. released for the bank, "Shelter is a regional lender providing residential real estate mortgage and consumer loans through a non-branch network of insurance agents located throughout a 13-state area" (April 30, 2001:1). The bank has assets of about $87 million. The OTS contends that only ten Shelter Mutual insurance agents, the conduits through which the bank does most of its business, are actually located in the bank's assessment area of Boone County, MO. Thus, most of the bank's business is generated by agents located in states as diverse as Arkansas, Illinois, Nebraska, and Oklahoma. Shelter holds its one retail office in Columbia, MO. The Bank's assessment area is the Columbia, MO, MSA.

State Farm Bank

In 1998, State Farm Insurance Company was the first major insurer that applied to open a thrift charter. Congressional hearings ensued, community activists testified, and eventually the charter was granted and what was then called State Farm Financial Services, FSB, began operations on March 12, 1999 (before the passage of GLBA). The bank started off small but has grown exponentially, topping $5 billion in assets in just over three years. Despite its size, this large bank still claims a CRA assessment area that is limited to the Bloomington-Normal, IL MSA.

Appendix 2: Additional Tables for Insurance Banks

Table I: Single Family Mortgage Loans Made Outside Assessment Area, 2001

Bank Name	Total Number of Loans	Number of Loans Outside Assessment Area	Percent of Loans Outside Assessment Area
Acacia FSB	768	49	6%
AIG FSB	174	143	83%
Farm Bureau Bank	103	99	96%
Guard Security Bank	38	6	16%
NJM Bank FSB	375	281	75%
Principal Bank	73	70	90%
Shelter Financial Bank	216	182	84%
State Farm FSB	2,866	2,691	94%
Total	**4,613**	**3,521**	**76%**

Table II: Insurance Banks (aggregate) Home Mortgage Lending, United States, 2001

Year 2001	Loans to Whites	Loans to Blacks	Loans to LMI	Loans to MUI	Black/White MSR	LMI/MUI MSR
Home Purchase	1516	158	347	1612	1.18	0.53
Refinance	2112	118	562	1968	0.89	0.92

Table III: State Farm Bank Mortgage Lending, Bloomington-Normal, IL Assessment Area, 2001

Year 2001	Loans to Whites	Loans to Blacks	Loans to LMI	Loans to MUI	Black/White MSR	LMI/MUI MSR
Home Purchase	129	25	31	144	4.35	0.37
Refinance	67	6	5	70	4.09	0.20

Table IV: State Farm Bank Mortgage Lending, Entire U.S., 2001

Year 2001	Loans to Whites	Loans to Blacks	Loans to LMI	Loans to MUI	Black/White MSR	LMI/MUI MSR
Home Purchase	1075	132	224	1121	1.39	0.49
Refinance	1360	78	386	1208	0.92	1.02