



*Advancing Economic Security
and Community Prosperity*

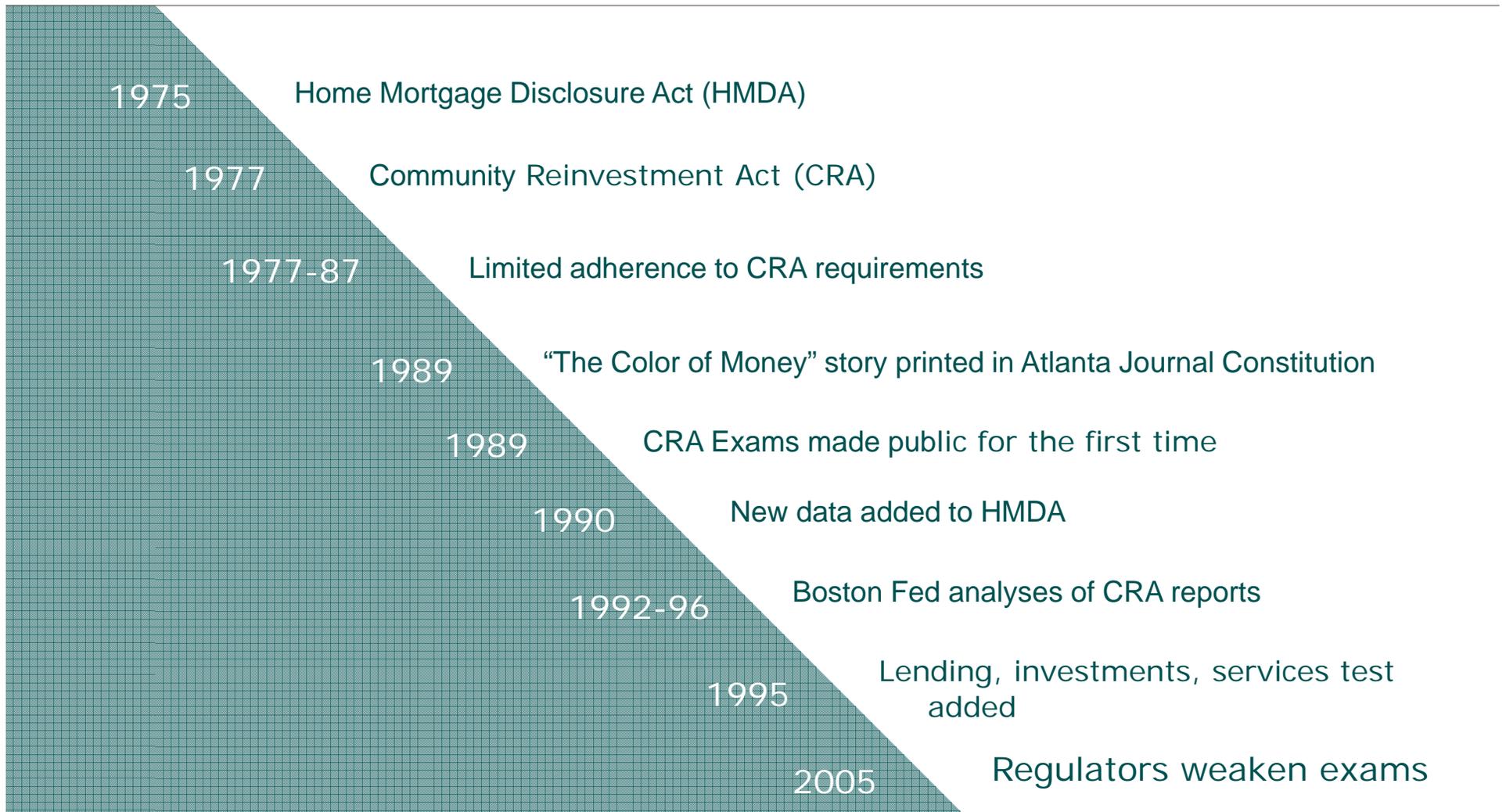
Modernizing the CRA

Opportunities to improve the community investment responsibility of the financial services industry



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The History of the Community Reinvestment Act (CRA)



Participating in the Federal Reserve CRA Modernization Public Hearings

Sign up to present testimony

Space is limited

Select organizations will be assigned to present on a panel or at the open-mic session.

<http://www.ffiec.gov/cra/hearings.htm>

August 12, 2010
Federal Reserve Bank of Chicago
230 S La Salle Street
Chicago, Illinois 60614

Attend the public hearing

Regulators consider the number of organizations and the types of organizations in attendance.

The questions, concerns, and issues raised can inform your written comments

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Prepare written comments

Written comments are a way that you can share your investment success or disinvestment concern with regulators

Woodstock Institute will provide draft comments at www.woodstockinst.org and distributed to mailing list

Comments must be submitted by August 30, 2010. Comments can be emailed to:

regs.comments@federalreserve.gov

Expanding the scope of the CRA

Figure 1. Shares of Households' Financial Assets

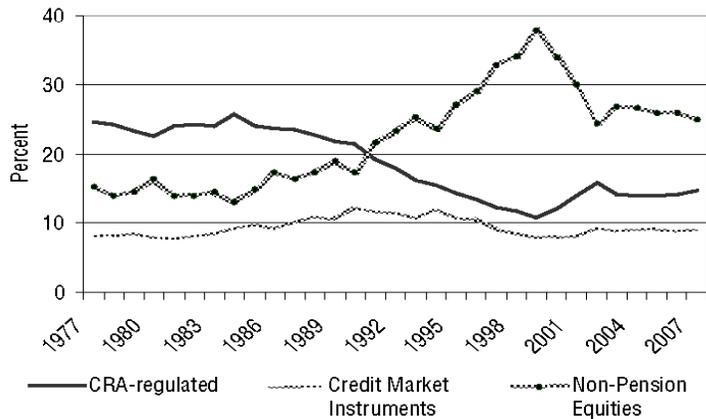
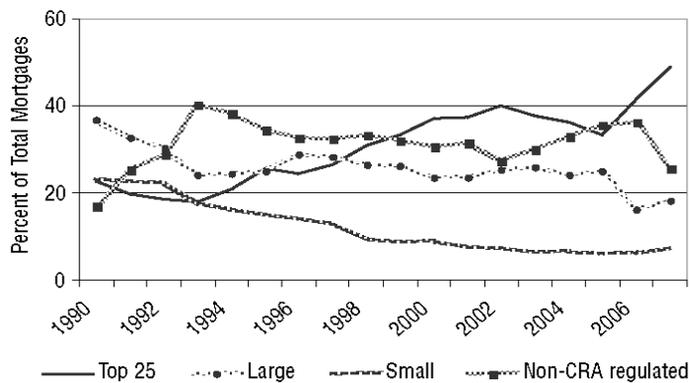


Figure 2. Mortgages Originated by Institution Type



Source: Avery, et al. "The CRA within a Changing Financial Landscape"

Issues

Percent of household financial assets deposited in CRA-regulated financial institutions continues to decline

Increasing role and market share of non-CRA regulated mortgage lenders

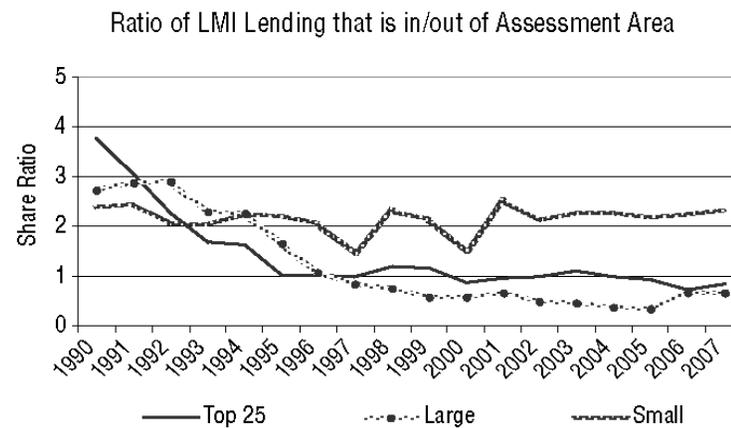
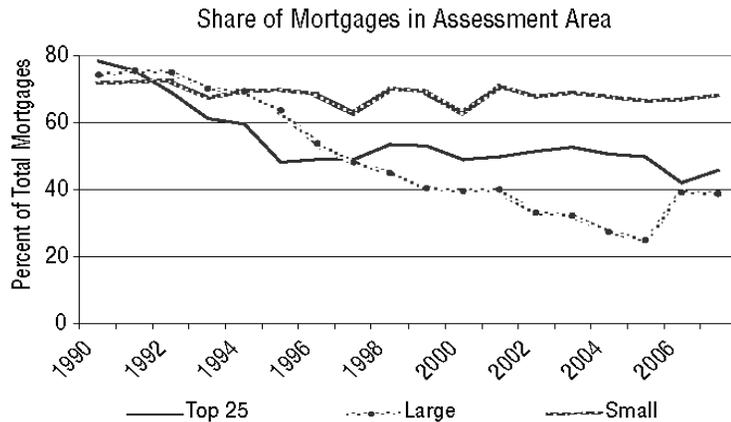
Mainstream credit unions, which have a mission to serve people of "modest means," in many cases do not do so.

Insurance companies, online bankers have few locations but sell financial products across the country

Recommendations

Apply the CRA to mortgage companies, mortgage brokers, mainstream credit unions, insurance companies, securities companies and others

Modernizing assessment areas



Source: Avery, et al. "The CRA within a Changing Financial Landscape"

Issues

Assessment areas are defined by the location of bank branches, not where financial institutions actually lend

Mortgage lending is far more likely to occur through large mortgage banking affiliates or mortgage brokers than through banks.

Insurance companies selling financial products currently only have a community commitment where they are headquartered

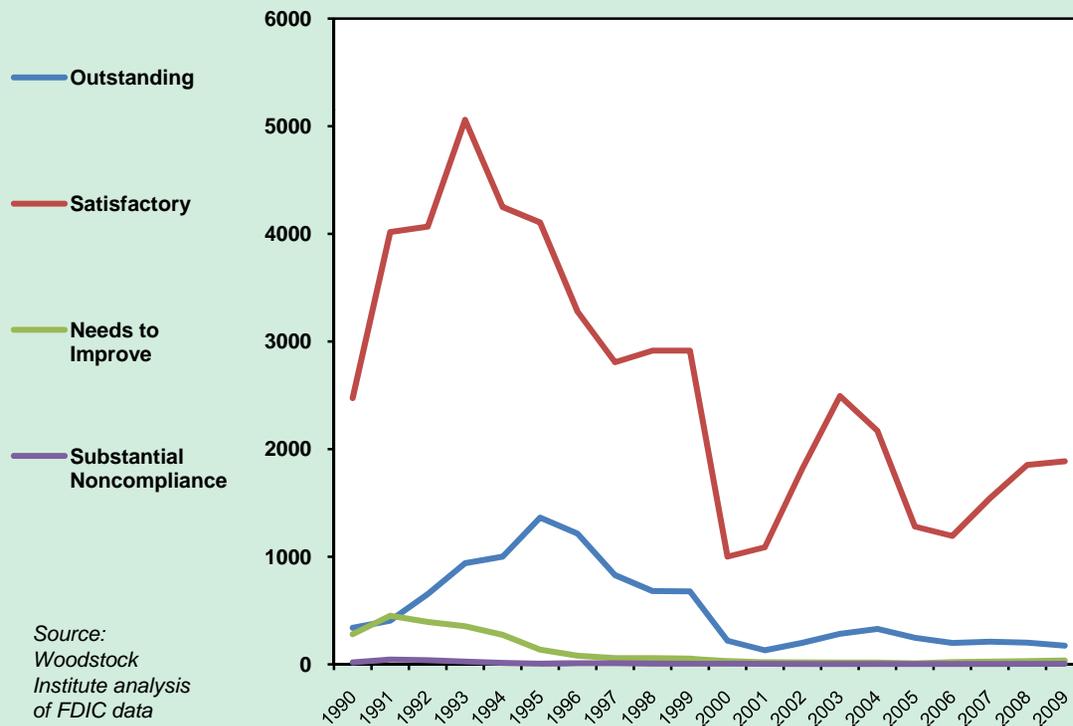
Large online banks gather deposits and make mortgage loans across the country, but only have a physical presence where their headquarters are located.

Recommendation

Define assessment areas as any state, metropolitan area or rural county where that institution maintains retail office or is represented by an agent, or has at least a 0.5 percent market share

Preventing grade inflation and increasing transparency of CRA ratings

Figure 3. CRA Ratings 1990 to 2009



Issues

92 percent of all banks receive a satisfactory score

Recommendations

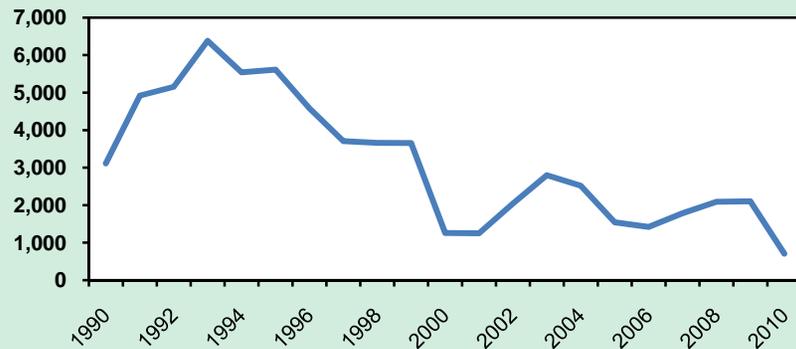
Require public improvement plan for low ratings

Rate banks on a numerical scale of 1 to 100, and define ratings based on those scores to improve ratings transparency

Improve criteria for Satisfactory and Outstanding ratings. For example reward diversified grant-making strategy, special consideration for financial institutions that develop local or regional CRA agreements

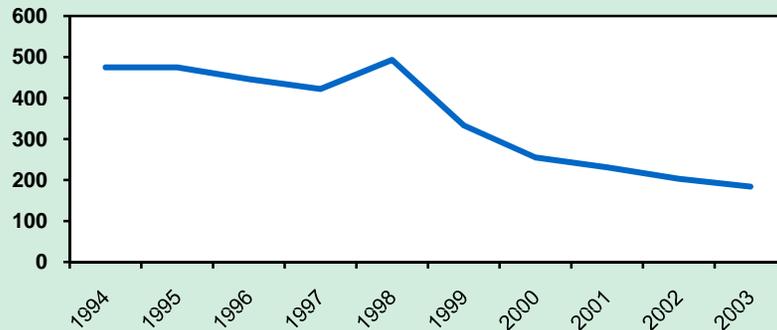
Developing new mechanisms to encourage CRA compliance

Figure 4. Number of CRA Exams conducted 1990 to 2009



Source: Woodstock Institute Analysis of FDIC data

Figure 5. Bank mergers 1994-2003



Source: Pillot, Steven. "Bank Merger Activity in the United States 1994-2003"

Issues

Fewer CRA exams conducted by regulators

The consolidation of the banking and thrift industry means fewer opportunities for actionable public scrutiny of a bank's CRA performance.

Fewer mergers of healthy institutions. Many recent mergers happened on an emergency basis with no opportunity for public comment.

Recommendations

If a bank receives a low satisfactory or lower, require a public improvement plan.

For financial institutions that still do not improve, prohibit sale of mortgages to the GSEs or contracts with federal agencies, and/or pay any applicable fines to a national reinvestment fund.

Favorable consideration should be given to banks that enter into local or regional CRA agreements with community organizations

Modernizing small business data disclosure

Our recent work



Issues

Expanding data disclosure for small business loans is also critical to ensuring that financial institutions are working to build the economy and create jobs in the communities where they do business.

The current disclosure requirements do not include important demographic information.

Only applies to the largest financial institutions, leaving out many community banks, niche lenders, and small de novos.

Data are not available at the loan level, making analysis difficult.

As far back as 1999, Woodstock Institute has called for the collection of race and gender data for small business loans, but, to date, the Federal Reserve has not adopted these recommendations.

Recommendation

Expand disclosure requirements to include the race and ethnicity, and gender, of borrowers.

Lower reporting requirements to include financial institutions with more than \$250 million in assets, not just the largest banks.

Include loans made in non-metropolitan areas.

Collect information on the type and purpose of financing being provided.

Make data available at the loan level.

Modernizing the CRA Services Test

Name	Regulator	CRA Rating	Service Test Score	Provided No Information About Community Development Services	Provided General Information About Community Development Services	Provided Detailed Information About Community Development Services	Percent of Assessment Area in LMI Census Tract	Branch Distribution (% in LMI Census Tract)	LMI Branch Distribution- Assessment Area	LMI Branch Distribution Compared to Assessment Area
Banco Popular North America	FRB	O	6		X		43.5	65.0	21.5	Above Average
Bank Calumet, N.A.	OCC	O	6	X			23.3	0.0	-23.3	Below Average
Busey Bank	FDIC	O	6			X	29.0	20.0	-9.0	Average
Citibank, FSB	OTS	O	6		X		39.6	17.7	-21.9	Below Average
Cole Taylor Bank	FRB	O	6		X		40.9	40.0	-0.9	Average
Fifth Third Bank	FRB	O	6			X	38.6	8.2	-30.4	Below Average
First Midwest Bank	FRB	O	6		X		9.4	0.0	-9.4	Average
Harris Trust & Savings Bank	FRB	O	6			X	41.6	20.0	-21.6	Below Average
MB Financial Bank, N.A.	OCC	O	6		X		41.7	23.4	-18.3	Below Average
Northern Trust Company	FRB	O	6		X		40.6	5.9	-34.7	Below Average
Pullman Bank and Trust Company	FRB	O	6		X		38.4	50.0	11.6	Above Average
Regency Savings Bank, FSB	OTS	O	6		X		37.7	20.0	-17.7	Below Average
ShoreBank	FDIC	O	6			X	45.0	80.0	35.0	Above Average
World Savings Bank, FSB	OTS	O	6	X			43.4	16.7	-26.7	Below Average
Bank of America	OCC	O	4	X			29.3	0.0	-29.3	Below Average
Bank One National Association, Illinois	OCC	O	4	X			18.9	30.8	11.9	Above Average
LaSalle Bank, N.A.	OCC	O	4		X		37.3	7.2	-30.1	Below Average
Marquette Bank	FRB	O	4		X		51.1	43.8	-7.3	Average
National City (Bank of the Midwest)	OCC	O	4	X			9.4	8.0	-1.4	Average
State Farm Bank, FSB	OTS	O	4		X		24.4	0.0	-24.4	Below Average
U.S. Bank, N.A.	OCC	O	4	X			29.6	6.3	-23.3	Below Average
Mid America Bank, FSB	OTS	O	3		X		37.9	18.4	-19.5	Below Average
Bridgeview Bank Group	FDIC	S	4		X		37.6	36.0	-1.6	Average
Citizens Financial Services, FSB	OTS	S	4		X		27.2	13.6	-13.6	Below Average
EFS Bank	FDIC	S	4		X		11.0	11.1	0.1	Average
First American Bank	FDIC	S	4		X		37.0	8.8	-28.2	Below Average
First Bank and Trust	FRB	S	4		X		48.0	0.0	-48.0	Below Average
Midwest Bank and Trust Company	FRB	S	4		X		30.4	17.6	-12.8	Below Average
Morton Community Bank	FDIC	S	4		X		20.0	10.0	-10.0	Average
Oak Brook Bank	FDIC	S	4			X	6.7	0.0	-6.7	Average
Standard Bank and Trust Company	FDIC	S	4		X		10.0	9.1	-0.9	Average
TCF National Bank	OCC	S	4	X			31.1	14.2	-16.9	Below Average
The Bank of Edwardsville	FDIC	S	4	X			39.0	14.3	-24.7	Below Average
The PrivateBank and Trust Company	FDIC	S	4		X		33.0	0.0	-33.0	Below Average
West Suburban Bank	FDIC	S	4			X	6.0	3.0	-3.0	Average
Amcore Bank, N.A.	OCC	S	3	X			27.7	5.7	-22.0	Below Average
American Chartered Bank	FDIC	S	3	X			33.0	0.0	-33.0	Below Average
Centier Bank	FDIC	S	3		X		39.0	3.5	-35.5	Below Average
CIB Bank	FDIC	S	3	X			40.0	0.0	-40.0	Below Average
Lake Forest Bank and Trust Company	FRB	S	3	X			8.8	0.0	-8.8	Average
Parkway Bank and Trust Company	FDIC	S	3		X		25.0	0.0	-25.0	Below Average
Total				12	23	6				
Percent of Total				29.27	56.10	14.63				

Source: Woodstock Institute analysis of CRA public evaluations

Modernizing the CRA Services Test

Our recent work



Issues

Simply because a branch is located in a lower-income community does not automatically mean that the bank is offering retail products appropriate for low-wealth consumers or effectively reaching those consumers with its existing products.

Recommendations

Disclose, collect, and consider information on account holders, accounts, and transactions including such critical variables as census tract location, account holder, number of new accounts opened, age of account, and percent of bank income generated by fees.

Key reforms necessary to modernize the Community Reinvestment Act

Legislation is necessary to modernize the Community Reinvestment Act

Regulatory changes are not enough to expand investment requirements to all financial institutions

Expand the scope of the CRA to include financial institutions such as:

1. Mortgage companies and brokers
2. Insurance companies
3. Securities companies
4. Mainstream credit unions

Financial institutions should invest where they do business

Assessment areas should be defined as any state, metropolitan area or rural county where that institution maintains a retail office or is represented by an agent, or has at least a 0.5 percent market share

Ensure investment obligations are applied consistently

Require public improvement plan for low ratings. Limit activities of failing banks. Improve criteria for Satisfactory and Outstanding ratings. For example, reward diversified grant-making strategy, special consideration for financial institutions that develop local or regional CRA agreements

Expand small business data disclosure requirements

Disclosure requirements should be expanded to include the race and ethnicity, and gender, of borrowers. Data should be provided by financial institutions with assets of \$250 million or more, not just the largest banks

Modernize the CRA Services Test

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