

May 17, 2000

Mr. Art Zaino  
Director of Operations, Compliance and CRA  
Federal Reserve Bank of Chicago  
230 S. LaSalle Street  
Chicago, IL 60604

Dear Mr. Zaino:

The Woodstock Institute is a 27-year-old nonprofit organization that works locally and nationally to increase community reinvestment and economic development in lower-income and minority neighborhoods. We understand that Harris Trust and Savings Bank is currently undergoing its CRA exam and that the Bank received a Satisfactory rating for its CRA exam in 1998. We would like to take this opportunity to comment on some shortcomings in Harris Trust and Savings Bank's community development performance. We hope that you take these comments into consideration during the CRA exam.

Harris Trust and Savings Bank is not an active small business lender in low-and moderate-income (LMI) communities. The Bank's market share in LMI areas in its assessment area is only 57% of its market share in middle and upper-income (MUI) neighborhoods. In the MSA as a whole, Harris Trust and Savings Bank ranks 34th in LMI small business lending in Illinois despite being the third largest bank in terms of Illinois assets. Many much smaller banks make far more small business loans in LMI areas than Harris, including Banco Popular, Manufacturer's Bank, Cole Taylor Bank and Mid-City National Bank. Also, the other biggest banks in the Chicago area make a much larger percentage of their small business loans in LMI areas (see Woodstock Institute report: Where Banks do Business).

In addition, the bank's residential lending to LMI borrowers is quite poor. The attached chart prepared by Woodstock Institute shows that Harris Trust and Savings Bank's market share for home purchase, refinance, and home improvement loans to low-and moderate-income people is significantly below its market share for middle and upper-income borrowers. The overall residential lending track record of Harris Trust and Savings Bank shows a lack of commitment to lower-income people and communities.

As you know, the Woodstock Institute and members of the Chicago CRA Coalition have been very concerned about the growth in the predatory lending industry over the last several years. One of the reasons predatory lending occurs is because lower-income consumers do not have viable alternatives for home finance due to a lack of commitment by mainstream financial institutions. For example, Harris Trust and Savings Bank has a

very poor record of refinance lending to LMI borrowers: The Bank's market share in LMI areas is only 72% of its market share in MUI areas for this type of lending. Chicago CRA Coalition members are very pleased that Harris Trust and Savings Bank has developed, in cooperation with the NHS of Chicago and Freddie Mac, a refinance product for lower-income homeowners. Although the program is too recent to allow us to draw conclusions about its performance, it is a step in the right direction. Further, we hope that other Harris banks in the Chicago region will offer similar products.

Overall, Woodstock Institute believes that in order for the CRA exam process to be effective, the Harris Banks should be examined as a whole rather than as separate entities. As we mentioned in our comments on the previous examination, the holding company's ability to have its many banks adopt individual assessment areas enables it to exclude low and moderate-income areas from the total holding company's effective assessment area. For instance, if the Harris Banks were examined in aggregate, the true nature of the banks' collective and extremely poor small business lending performance would be even more striking. As per the attached chart prepared by Woodstock Institute, the Harris Banks' collective market share ratio of lending to businesses with revenue of less than \$1 million in LMI areas would be a mere 32% of its share of such lending in MUI areas (compare to an LMI-MUI market share ratio of 74% for such lending when Harris Trust and Savings Bank is examined independently). In addition, this disaggregation makes it difficult to hold the bank accountable to specific CRA commitments and to measure the bank's community development services, lending and investments as part of a regular community monitoring process. As a result, the 1996 agreement with the Chicago CRA Coalition only covers Harris Trust and Savings Bank, even though it is but a small part of the family of Harris Banks in the Chicago region.

Thank you for this opportunity to comment on the CRA exam of Harris Trust and Savings Bank. Please call me if you have any questions.

Sincerely,

Malcolm Bush  
President