



*Advancing Economic Security  
and Community Prosperity*

February 27, 2014

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Travis Wilbert  
[Travis.wilbert@occ.treas.gov](mailto:Travis.wilbert@occ.treas.gov)  
One Financial Place, Suite 2700  
440 South LaSalle Street  
Chicago, IL 60605

RE: U.S. Bank National Association Acquisition of RBS Citizens Charter One Bank

Dear Travis,

I am writing on behalf of Woodstock Institute to comment on the proposed acquisition of RBS Citizens/Charter One Bank (Charter One) branches in the Chicago Metropolitan Statistical Area (MSA) by U.S. Bank National Association (U.S. Bank). While we are not opposed to the proposed acquisition, we encourage the OCC to approve the request with the condition that U.S. Bank make certain commitments to address public needs, including increasing their mortgage lending to African American and Latino borrowers, to borrowers in low- and moderate-income (LMI) census tracts, and to women. We believe both U.S. Bank and Charter One are making positive contributions to communities throughout Illinois, but do see some room for improvement. We ask the OCC to consider how this acquisition would provide a public benefit to all communities throughout the Chicago MSA and to require commitments to increase mortgage lending and sustain existing community development grants and investments in order to ensure that U.S. Bank is adequately serving all communities in its area.

**About Woodstock Institute**

Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally, statewide, and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. We conduct research on financial products and practices, promote effective state and federal policies, convene a coalition of community investment stakeholders working to improve access to credit, and help people use our work to understand the issues and develop and implement solutions.

**Background**

For nearly 50 years, U.S. law has required prudential regulators to consider the public's interest when approving bank mergers and acquisitions. Section 225.24(a) (iii) of Regulation Y specifically states that every applicant has a duty to state the public benefits that can reasonably be expected to result from the acquisition. Assessing both institutions' past records of serving classes protected under the Equal Credit Opportunity Act and underserved borrowers and communities indicates how well the merged institution will address public needs going forward.

Woodstock Institute would like to ensure that the acquisition of Charter One branches by U.S. Bank will result in a clear, significant public benefit to Chicago-area communities. We believe that the proposed acquisition will be more likely to produce a public benefit if U.S. Bank makes firm commitments to: increase mortgage lending traditionally underserved borrowers; maintain or increase combined levels of existing community development investments and grants from both institutions; adopt and expand key products and services offered by Charter One targeted at underserved communities; and, maintain existing branches in LMI and minority communities.

The following analysis of 2012 Home Mortgage Disclosure Act data, small business lending data, and branching data provides a more detailed look at where U.S. Bank is meeting or exceeding peers in the provision of products and services and where it needs improvement.

### **Home Mortgage Lending (Data Attached)**

Examining 2012 home mortgage lending by U.S. Bank, Charter One, and peers in the Chicago MSA, we determined that U.S. Bank slightly underperformed its peers in home mortgage lending to African Americans, Latinos, women, LMI borrowers, and borrowers in majority minority census tracts. Charter One outperformed its peers in lending to African Americans borrowers, Latino borrowers, LMI borrowers, and borrowers in majority minority census tracts, but underperformed compared to peers in lending to women. The universe of loans includes first lien, owner-occupied, one to four unit building mortgage originations.

- U.S. Bank mortgage loans to African American borrowers accounted for 3.4 percent of its total loans, while lending by peers to the same population accounted for 4.6 percent of total loans. Charter One lending to African American borrowers accounted for 5.9 percent of its total loans.
- U.S. Bank mortgage loans to Latino borrowers accounted for 5.2 percent of its total loans, while lending by peers to the same population accounted for 7.5 percent of total loans. Charter One lending to Latino borrowers accounted for 8.3 percent of its total loans.
- U.S. Bank mortgage loans to LMI borrowers accounted for 16.6 percent of its total loans as compared to 20.9 percent of its peers' total loans. Charter One lending to LMI borrowers made up 25.4 percent of its total mortgage loans.
- U.S. Bank mortgage loans to women accounted for 21.4 percent of its total mortgage loans as compared to 25.3 percent of its peers' total loans. Charter One also underperformed as compared to peers with its lending to women, accounting for only 18.6 percent of its total loans.
- U.S. Bank mortgage loans within minority census tracts accounted for 14.2 percent of its total mortgage loans, while lending by peers in the same category accounted for 17.3 percent of total loans. Charter One lending within minority census tracts accounted for 21.7 percent of its total mortgage loans.

Based on the data, Charter One is outperforming peers in lending to traditionally underserved markets, while U.S. Bank is slightly underperforming in those same areas. We urge the OCC to require that U.S. Bank increase its lending in these markets to the same level as Charter One or, at the very least, meet or exceed peer lending levels.

### **Small Business Lending (Data Attached)**

U.S. Bank and Charter One have strong track records in small business lending. Using 2012 data for the Chicago MSA, we found that U.S. Bank is performing equal to or above its peers in lending in LMI census tracts, to businesses with less than one million dollars in revenue, and with loans less than \$100,000. Charter One exceeds peer lending in all categories except loans less than \$100,000.

- In 2012, U.S. Bank small business lending in LMI census tracts accounted for 17.4 percent of its total lending, which is almost equal to peer lending in the same category at 17.2 percent. Charter One lending in LMI census tracts accounted for 24.4 percent of its total small business lending.
- U.S. Bank lending to businesses with less than one million in revenue accounted for 58.1 percent of its total small business loans, while peer lending in the same category was much lower at 38.9 percent. Charter One also outperformed its peers with loans in the same category accounting for 63.2 percent of its total.
- Finally, 96.3 percent of U.S. Bank small business loans were for less than \$100,000, with peer lending in the same category accounting for 90.6 percent of total loans. Charter One underperformed peers with loans in the same category accounting for 85.7 percent of its total.

We commend U.S. Bank and Charter One for their strong record and urge the U.S. Bank to further expand lending in LMI census tracts.

### **Branch Network**

Woodstock analyzed the branch presence for both U.S. Bank and Charter One in the Chicago seven county region. We analyzed the proportion of branch locations in LMI census tracts and the proportion of branches in majority minority census tracts.

- In the Chicago seven county region, 31.2 percent of the population lives within an LMI census tract (which is defined as one in which the median family income falls at or below 80 percent of the entire Chicago MSA median family income). U.S. Bank has 22.1 percent of its branches located in LMI tracts and Charter One has 22.7 percent of its branches located in LMI tracts.
- In the Chicago seven county region, 24.5 percent of the population lives within a majority minority census tract (which is defined as a 50 percent or more non-white population). U.S. Bank has 16.3 percent of its branches located in minority tracts, and Charter One has 20.9 percent of its branches in minority tracts.

Given these numbers, we strongly encourage the OCC to prohibit U.S. Bank from closing any of its branches or newly acquired Charter One branches in LMI tracts or minority tracts. Furthermore, we ask that U.S. Bank commit to opening new branches in LMI tracts and minority tracts to ensure that traditionally underserved populations have adequate access to banking services.

### **Products and Services**

U.S. Bank and Charter One provide a number of products and services that uniquely benefit underserved communities and Woodstock Institute asks that the merged institution commit to maintaining or increasing existing levels of those current products and services (or products and services that meet equivalent needs). Specific products that should be maintained or increased include:

#### **U.S. Bank**

- American Dream mortgage product—The American Dream mortgage is a portfolio mortgage loan product targeted to low- and moderate-income homebuyers and homebuyers with imperfect credit. The product includes a fixed interest rate, 97 percent loan-to-value ratios for home purchase loans, no mortgage insurance, up to \$3,000 in cost assistance, no minimum credit score, and a home repair escrow of up to \$5,000. Nationwide, U.S. Bank originated 1,724 American Dream mortgages worth over \$190 million in 2012. The product addresses many of the barriers that keep prospective low- and moderate-income homebuyers out of the market, such as strict credit score minimums, prohibitively high closing costs and down payment requirements, and difficulty accessing credit for rehab.

We also applaud U.S. Bank’s decision to stop offering its deposit advance product. The product included triple-digit interest rates and posed a high risk of trapping borrowers in a cycle of unaffordable debt. We urge U.S. Bank to commit to leaving deposit advance products out of its future product offerings.

#### Charter One

- Energy efficiency loan—Charter One offers an affordable rehab loan for energy efficient home improvements targeted to low- and moderate-income homeowners. The loan is underwritten based on the borrower’s credit score, rather than home equity, which makes it accessible to underwater homeowners. Annual Percentage Rates (APR) range from three to five percent, depending on the size of the loan. Many struggling homeowners who are now current on their loans or have loan modifications may have deferred maintenance on their homes during periods of hardship, and loans such as Charter One’s energy efficiency loan can help homeowners make repairs that keep their homes livable.
- One Deposit Checking Account—The One Deposit Checking Account waives monthly maintenance fees if the account holder makes at least one deposit per month. Unexpected and high fees encourage low- and moderate-income consumers to avoid the banking system. While we would prefer to see a totally free checking account, the straightforward method for avoiding monthly fees in the One Deposit Checking Account should lower barriers to the banking system for unbanked consumers.
- Credit builder loan program—Charter One offers a savings-secured loan that allows borrowers to build a positive repayment history with the credit bureaus. Borrowers deposit at least \$1,000 into a savings account and receive a loan for the same amount with an 8.25 percent APR. On-time payments reported to the credit bureaus boost credit scores.

if the acquisition of Charter One moves forward, we encourage U.S. Bank to continue offering these products or products that meet equivalent needs and to begin offering them in U.S. Bank branches as well.

#### Community development grants and investments

Both U.S. Bank and Charter One play a large role in supporting community organizations in the Chicago region through investments, grants, and community development lending. One of the risks posed by the proposed acquisition of Charter One branches by U.S. Bank is that the overall community investment provided by the two separate institutions could significantly decrease after the acquisition and negatively impact the operations of community organizations that depend on the two institutions’ support. For example, in 2012 and 2013 Charter One provided over \$29.8 million of community development loans, \$146.8 million of community development investments, and \$1.2 million of philanthropic grants in the Chicago MSA (see below). Woodstock Institute benefitted from both U.S. Bank sponsorship of its 40<sup>th</sup> anniversary research symposium and Charter One’s support for our 40<sup>th</sup> anniversary video in 2013. We ask that U.S. Bank commit to maintaining or expanding the current level of community development grants, investments, and lending in the Chicago region provided by both institutions.

**Table. Charter One Community Development Loans, Grants, and Investments in Chicago MSA, 2012-2013.**

	2012	2013
Loans	\$10,036,363.72	\$19,809,273.00
Investments	\$119,048,661.87	\$27,827,248.06
Grants	\$714,941.07	\$565,500.00

**Recommendation**

As is evident from the analysis above, U.S. Bank and Charter One are performing well in certain areas and need improvement in others. We believe that the OCC should approve the branch acquisition request by U.S. Bank on the condition that it: increase its home mortgage lending in traditionally underserved areas to meet or exceed peer lending levels; maintain or increase the combined levels of community development investments and grants currently made by both financial institutions; and maintain or increase the number of branch locations in LMI and minority census tracts. We believe both banks have strong small business lending histories and urge them to continue performing at or above peer level. We are also encouraged by U.S. Bank's elimination of its deposit advance product and encourage the bank to continue offering products, such as those listed above, that truly benefit underserved communities.

Thank you for the opportunity to comment on the proposed acquisition. We are very happy to discuss the issue further.

Sincerely,

A handwritten signature in cursive script that reads "Dory Rand".

Dory Rand, President  
Woodstock Institute

**Summary of All Single-Family Lending for US Bank and All Lenders in Chicago MSA, 2012**

Characteristics	US Bank		All Lenders		US Bank vs. All Lenders
	Prime		Prime		Prime
	Count of Loans	Percent	Count of Loans	Percent	Percentage Point Differential
Black or African American Borrowers	360	3.4	11,030	4.6	-1.2
Hispanic Borrowers	541	5.2	17,833	7.5	-2.3
Asian Borrowers	1,303	12.5	16,745	7	5.5
White Borrowers	7,747	74.2	191,235	80	-5.8
Low- or Moderate-Income Borrowers	1,729	16.6	49,857	20.9	-4.3
Middle and Upper-Income Borrowers	8,480	81.3	176,789	73.9	7.4
Female Borrowers	2,232	21.4	60,474	25.3	-3.9
Loans within Minority Census Tracts	1,486	14.2	41,310	17.3	-3.1
<b>Total Loans</b>	<b>10,435</b>	<b>100</b>	<b>239,119</b>	<b>100</b>	

**Summary of All Single-Family Lending for Charter One and All Lenders in Chicago MSA, 2012**

Characteristics	Charter One		All Lenders		RBS vs. All Lenders
	Prime		Prime		Prime
	Count of Loans	Percent	Count of Loans	Percent	Percentage Point Differential
Black or African American Borrowers	142	5.9	11,030	4.6	1.3
Hispanic Borrowers	200	8.3	17,833	7.5	0.8
Asian Borrowers	192	8	16,745	7	1
White Borrowers	1,341	55.9	191,235	80	-24.1
Low- or Moderate-Income Borrowers	610	25.4	49,857	20.9	4.5
Middle and Upper-Income Borrowers	1,785	74.3	176,789	73.9	0.4
Female Borrowers	446	18.6	60,474	25.3	-6.7
Loans within Minority Census Tracts	522	21.7	41,310	17.3	4.4
<b>Total Loans</b>	<b>2,401</b>	<b>100</b>	<b>239,119</b>	<b>100</b>	

Summary of Small Business Lending – US Bank							
Chicago IL, MD 2012							
Indicator	Number of Businesses	Percent of Businesses	US Bank		All lenders		Percentage Point Difference: US Bank and All Lenders
			Count of Loans	Percent	Count of Loans	Percent	
LMI Census Tracts	131,020	20.8%	1462	17.4%	22,821	17.2%	0.3%
Businesses <\$1 mil in Revenue	441,535	70.0%	4,980	58.1%	52,468	38.9%	19.2%
Loans less than \$100,000	n/a	n/a	8,254	96.3%	122,129	90.6%	5.7%
<b>Total</b>	<b>630,564</b>	<b>100.0%</b>	<b>8,570</b>	<b>100.0%</b>	<b>134,826</b>	<b>100.0%</b>	<b>0.0%</b>

Summary of Small Business Lending – Charter One							
Chicago IL, MD 2012							
Indicator	Number of Businesses	Percent of Businesses	Charter One		All lenders		Percentage Point Difference: Charter One and All Lenders
			Count of Loans	Percent	Count of Loans	Percent	
LMI Census Tracts	131,020	20.8%	214	24.4%	22,821	17.2%	7.2%
Businesses <\$1 mil in Revenue	441,535	70.0%	566	63.2%	52,468	38.9%	24.3%
Loans less than \$100,000	n/a	n/a	768	85.7%	122,129	90.6%	-4.9%
<b>Total</b>	<b>630,564</b>	<b>100.0%</b>	<b>896</b>	<b>100.0%</b>	<b>134,826</b>	<b>100.0%</b>	<b>0.0%</b>