ASSESSMENT OF

THE NORTHEASTERN BANK OF PENNSYLVANIA'S

COMMUNITY REINVESTMENT ACT MATERIALS

PREPARED FOR

NORTHEASTERN BANK OF PENNSYLVANIA

BY

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INTRODUCTION

At the request of the Northeastern Bank of Pennsylvania, the Woodstock Institute has agreed to assist the Bank in reviewing its compliance with the Community Reinvestment Act (CRA). The Community Reinvestment Act was passed by Congress in 1977 with the purpose of ensuring that every financial institution takes the responsibility to help meet the credit needs of its community. As part of this process, each bank and savings and loan association must prepare an annual CRA statement which delineates its local community and identifies the ways in which the bank is helping to meet the credit needs of that community; it must post in its lobby a CRA Notice informing the public of its rights under CRA; and it must maintain a public file of all signed letters pertaining to the institution's CRA statement or lending performance.

Oversight of CRA compliance is the responsibility of banking regulatory agencies. These agencies regularly examine each institution to ensure compliance. In addition, any application by the bank for a deposit facility, including a branch, acquisition, merger, relocation, or establishment of a new holding company, may be protested or challenged by community organizations if they feel that the action will have adverse consequences on meeting community credit needs. During the past several years, these community protests and challenges have markedly increased, reflecting the increase in merger, acquisition, and interstate banking activity throughout the banking industry. Many financial institutions are now reviewing their community reinvestment records prior to embarking on expansion plans to ensure: 1) that they have established and maintained relationships with local community organizations, particularly low-income and housing advocacy groups; 2) that their CRA statements and other published materials accurately reflect their lending and other service to their communities; and 3) that they are meeting the credit needs of their community to the greatest possible degree, consistent with sound banking business.

Project Goal and Description. The Northeastern Bank of Pennsylvania (referred to as "Bank") requested that the Woodstock Institute assess the Bank's compliance with both the letter and the spirit of the Community Reinvestment Act, and identify ways for the Bank to better meet community needs within the parameters of institutional goals and objectives and sound business practices. A three-phase project was proposed to meet this goal: 1) review of current CRA materials and assessment of strengths and weaknesses; 2) analysis of information about the Bank and its service communities; and 3) development of recommendations to strengthen the Bank's CRA-related business.

After discussion with the Bank, it was decided to proceed with Phase I, the review of the Bank's current CRA materials and assessment of their strengths and weaknesses. This included five activities:

1. Review the Bank's HMDA statements for 1985 and 1986, its CRA statement, and its CRA file. Use CRA performance categories to identify areas in which more information is needed.

2. Review the Bank's marketing materials, annual report, and product mix to assess their usefulness in meeting credit needs identified by the Bank.

3. Prepare housing lending profiles from the National Home Mortgage Disclosure Act data base showing the Bank's market share relative to every other bank and savings and loan association which reports in each of the Bank's MSA service areas.

4. Prepare a report on the strengths and weaknesses of current materials in satisfying CRA requirements.

5. Decide with the Bank whether to continue on to Phase II or III.

This report contains the results of the first four of these work items:

Part One consists of an analysis of Northeastern Bank's CRA statement using Community Reinvestment Act performance categories.

Part Two reviews the Bank's 1985 and 1986 HMDA statements describing its housing lending during those two years; it reviews Northeastern Bank's product brochures for their effectiveness in conveying information on the products that the Bank offers which meet community credit needs; and it reviews the Bank's media materials for their usefulness in marketing community credit-related products throughout the Bank's service area.

Part Three summarizes the analysis of these materials and makes recommendations to the Bank about improvements.

Part Four contains profiles of housing lending in each census tract of the Bank's service area, showing the lending of Northeastern Bank and that of all other banks and savings and loans located in the same metropolitan statistical area.

PART ONE

ANALYSIS OF NORTHEASTERN BANK'S CRA STATEMENT USING COMMUNITY REINVESTMENT ACT PERFORMANCE CATEGORIES

INTRODUCTION

Northeastern Bank's CRA statement is its public statement of its performance in serving the credit needs of its community. As such, it is important that the CRA statement clearly and accurately describes the needs of the community in such a way that would be recognized by both customers and regulators alike. It is also important that the CRA statement of the Bank fully reflects the ways in which the Bank has met community credit needs over the past year, and additional ways that the Bank and its personnel have served the community.

Overall, Northeastern Bank's CRA statement appears to be better than average for similar banks. It includes all of the minimal information required by law, and provides some additional information as well. The CRA Coordinator and the establishment of advisory boards with community representatives when banks are acquired are two creative responses that point to the Bank's interest in serving its community. SBA loans and business education seminars are also creative responses to community needs. However, other information provided by the Bank, and conversations with the staff, suggest that much of the Bank's community service may have been under-represented in the CRA statement. Most of Part One addresses areas in which the current CRA statement can be strengthened in its presentation of the ways in which the Bank currently meets community credit needs and provides other services to its community.

This section evaluates Northeastern Bank's CRA statement against the five CRA "Performance Categories" which are used by bank examiners in their CRA examinations. In each category, comments are made about the Bank's CRA performance in that category as reflected in its CRA statement, and suggestions are made as to ways to strengthen the CRA statement and make it more informative both to regulators and to members of the Bank's community. The five Performance Categories are:

I. Community Credit Needs and Marketing

II. Types of Credit Offered and Extended

III. Geographic Distribution

IV. Discrimination and Other Illegal Credit Practices

V. Community Development

Each performance category contains one or more of the twelve assessment factors which are attached to the end of this chapter.

I. Community Credit Needs and Marketing

This category relates to the Bank's activities in delineating its community, determining the credit needs of its community and marketing its services. It incorporates assessment factors 1, 2 and 3. (See attachment.) Excellent performance in this category consists of "identifying the demographic makeup of the community and making meaningful contact with a reasonably full range of organizations to assist in determining the credit needs of all segments of the community; taking into consideration comments to the public file which describe existing unmet credit needs; contacting local government officials to identify any needs for private lender participation in . . . community development or redevelopment programs;" and actively marketing programs to all segments of the Bank's community.

A. **Delineating the Communities.** The Bank has designated as its service areas the Northeastern Pennsylvania metropolitan statistical area which contains Lackawanna, Luzerne and Monroe counties; the Allentown, Bethlehem, Easton MSA which includes Northampton county and portions of Carbon and Lehigh Counties; and areas around branches in Newfoundland, Kutztown and Milford. While it is customary to designate entire MSA's or counties, the following questions arise regarding the partial county designations:

1. Why is only the southern section of Carbon County designated? It would appear appropriate to serve the western portion of Carbon County through the Hazle Township or Hazleton branches and the eastern portion through the Effort Mountain branch. There may be geographic barriers or explanations based on population density. If so, they should be mentioned in the CRA report.

2. Delineated areas surrounding the Newfoundland, Kutztown and Milford branches are described as "a delineated radius of the bank's one office." The size of the radius should be noted and if the radii differ among the three areas (in order to correspond to township boundaries, for example) a brief explanation should be provided.

B. **Determining Community Credit Needs.** This topic is the core of an effective CRA statement. It should clearly describe the Bank's assessment of the credit needs of its delineated community, and the process by which the Bank arrived at that assessment.

Northeastern Bank begins this section with a description of "interaction with the communities" and follows with its description of "special credit-related needs." The unstated implication in so doing is that community interaction led to the credit needs determination. This approach has two serious deficiencies as the sole method for determining community credit needs:

1. The determination of community credit needs should be based in part on an analysis of demographic data at the census tract level about the makeup of the communities. It is customary to evaluate data on housing stock age and quality to assess housing credit needs; to analyze economic conditions, particularly those affecting small business, prior to forming conclusions about small business needs; and to identify especially needy segments of the service community through review of income, race and employment data to define "special" credit needs. It is also customary to present such data in the CRA report. **The absence of this data seriously weakens Northeastern Bank's CRA report.**

2. While interaction with the communities is desirable, and can contribute substantially to an understanding of community credit needs, it must be conducted with all of the important community actors and must take place in a serious and ongoing manner. The Bank's description of its interactive activity is too vague to be distinguishable from marketing or community service activities. It does not contain enough specific information to reassure that all important sectors of the community have been contacted, particularly low-income and housing activists, and fails to explain how the interaction resulted in the definition of the specific community credit needs.

C. **Interaction with Communities.** There are additional specific questions that arise from the Bank's description of interaction with communities:

1. CRA Coordinator and Representative. The activities of the CRA Coordinator and assistants should be described more explicitly in order to demonstrate the effectiveness of these activities. For example, a list of organizations met with during the last year and topics discussed could be provided.

2. Organizational Involvement. The involvement of the Bank's Directors, Officers and employees in community activities is generally undertaken as a form of community service through volunteerism. It is appropriate to include community service activities in the Bank's CRA statement. However, this community service will only contribute to a clearer understanding of the community's credit needs if the organization's work is development-related or there is a credit component. For example, participating in the board of directors of a college, United Way or day care center would be defined as community service; helping a local industrial council or chamber of commerce develop a revolving loan fund would also contribute to an understanding of community credit needs. If this latter type of organizational involvement did take place, that process should be specifically described.

3. Advisory Boards. Establishment of advisory boards with community representatives is a creative way to provide a highly useful transition for the community of an acquired bank. The CRA statement should describe which advisory boards were active in the past year, who the community representatives were for each and how they were selected, what credit and banking service needs they brought to the Bank's attention, and how those needs were addressed.

4. Community Interaction. Branch Managers and Commercial Lending Officers may maintain contact with residents, public officials, local merchants, etc. through sales calls and volunteerism, which may indirectly help them to assess local credit needs, or through more systematic involvement. In particular, meetings, their topics, and the credit needs discussed in the past year with non-profit agencies, community organizations and public officials should be identified and described.

D. **The Credit Needs of Northeastern Bank's Communities.** The Bank defines its community's credit needs under a discussion headed "Special Credit-Related Needs." This is an inappropriately narrow definition of community credit needs, and therefore falls short of a full determination of community credit needs. This CRA "Performance Category" calls upon the Bank to define all of the credit needs of the local community, not just "special" ones.

In addition, because of the deficiencies in the process used to identify community credit needs, it is difficult to determine whether, in fact, those listed are the only credit needs of the community and, if not, whether they are the most pressing. Specifically:

1. Small business needs are defined by the Bank as "lack of financial strength and business knowledge." While these are certainly characteristic of most small businesses, there are also many **credit** needs that are faced by businesses in the Bank's community.

   In the Bank's brochure on corporate banking services, many different types of commercial loans and other financial services are listed. Each of these products meets a need for credit that occurs in the community, and many meet the needs of small businesses as well as large ones. As a large commercial bank, over half of the Bank's loan activity is addressed to the needs of businesses of different sizes. This is a strength of the Bank in meeting community credit needs and should be highlighted.

2. Housing needs are very poorly defined. Presumably a range of mortgage loan options is needed to meet the needs of different segments of the community. For example, there may

be segments of the community where new housing development is taking place, where apartment buildings are in need of rehabilitation, or where older housing is requiring home improvement loans. The Bank may serve areas where new families are hoping to become first time homebuyers or where senior citizens are hoping to move from larger homes into mobile homes. In fact, the Bank has programs for mobile home financing (often directed towards lower-income families and senior citizens) and vacation home financing. Clearly if the Bank offers a product it is because it has identified a need in its community for that product. Therefore the need should be described.

3. Municipal needs are also vaguely defined. Apparently, the Bank provides tax anticipation loans, which suggests that municipal cash flow is a problem. Presumably the underwriting of tax exempt bonds addresses need for financing of municipal housing and economic development programs as well.

4. Educational financing needs could be clarified by estimating the number of low- and middle-income families in the Bank's service areas needing higher education financing.

5. Health Care Needs are a puzzling addition to this list. Is there a particular need for new hospital construction in the Bank's service area? Is this due to population growth in specific communities? Some sort of explanation should be provided, and the particular financing needs associated with health care should be identified.

6. If you offer any special services such as low cost "lifeline" accounts to senior citizens or students, or free cashing of government checks, the needs that these programs address should be discussed.

E. **Marketing the Bank's Products and Services.** The section of the CRA statement entitled "Advertising and Publicity" appears to clearly describe the Bank's media work. Are any of the newspapers, radio stations, or televisions stations in which advertising is placed operated by or directed to minorities? If so, they should be identified. If any minority media exist but do not receive bank advertising, consideration should be given to doing so.

Other Bank marketing efforts could also be included in the CRA statement. If Bank employees meet with business groups, community organizations, residents of minority communities, etc., to discuss the Bank's products and services, these additional marketing efforts should be described. Some of the activities alluded to in the "Interaction with the Community" section of the CRA report might be discussed as marketing efforts.

Are there communities where marketing activities are not taking place? A review of HMDA data and other loan distribution data might point to opportunities for increased marketing activities in particular areas.

II. Types of Credit Offered and Extended

This performance category relates to the types and amounts of credit extended to the community and the degree to which those extensions help to meet the community credit needs. This category includes CRA assessment factors 9 and 10. Excellent performance in this category involves investigating the need for different types of credit in the community, making an explicit effort to assure that loan policies are responsive to the need, and examining the extent to which the institution is meeting the need for such loans.

A. **Listing of Credit Products and Credit-Related Programs.** The Bank's CRA statement lists two **small business** programs: its small business education program and its status as an SBA certified lender. Regarding the small business education program, information should be provided on where that program was offered during the last year and which local organizations were participants in the program. More information should also be provided on the scope of the SBA loan program, as well as information about how the SBA loans are marketed by the Bank and to whom. Finally, a list of organizations is provided as those "referred to above." It is not clear what that refers back to and what is the status of the relationship between the Bank and these organizations.

Under **housing** programs, there is basically a generic description of the Bank's mortgage loan products. These would not be generally considered "special programs." Also listed under "housing" are SBA loans. This is confusing. Finally under housing is the mobile and modular home financing product. If this meets the needs of a particular market segment that segment should be described. Is there some reason why FHA/VA loans are not mentioned in this section? Does the Bank offer government-insured home improvement loans? If so, why are these programs or products not described?

The **municipal and student loan** programs are adequately described. However, tax exempt bonds are included in the list of Bank products and services, and should probably be included as special programs as well.

The list of credit services (Exhibit II) fails to list any government-related housing loans. Are these products offered by the Bank?

B. **Adequacy of Programs to Meeting Credit Needs.** Because the credit needs of the Bank's service community were poorly defined, it is not clear whether the products and services offered meet the needs. Of particular concern is the lack of any information on the different segments, such as low-income people, senior citizens, first time homebuyers, racial or ethnic minorities, or farmers within the Bank's community and their particular needs. Nor is any information given about which credit needs are met by other institutions.

C. **Community Sensitive Loan Policies.** There is no information provided describing the responsiveness of the Bank's loan policies to meeting community needs. While this need not be contained in the CRA statement, the Bank's loan policies do explicitly express commitments to "promote economic and social growth in the communities served" (memorandum 101), to conduct "the majority of the Bank's lending activities . . . in the regional marketplace" and to promote "economic and social growth in the communities served" (memorandum 104). The expression of these strong local commitments in the Bank's loan policies might be highlighted in the CRA statement.

III. Geographic Distribution

This category relates to the geographic distribution of the institution's loans throughout its service area, and the impact of the opening or closing of offices on this distribution. It includes assessment factors 4, 5, and 7. Excellent performance in this category includes a record of credit extensions, applications and denials appropriately spread throughout the service area.

No information on geographic distribution of loans is included in the Bank's CRA statement. This information should be included, particularly if some segments of the service area contain substantial numbers of low- and moderate-income people or racial or ethnic minorities.

IV. Discrimination or Other Illegal Credit Practices

This category relates to the Bank's compliance with anti-discrimination and other credit laws. It includes assessment factor 6. Excellent performance in this category is constituted by substantial compliance with anti-discrimination and other credit laws.

Information on this performance factor is not expected to be included in the Bank's CRA statement.

V. Community Development

This category relates to the Bank's participation in community development and other factors relating to meeting local credit needs. It includes assessment factors 8, 11 and 12. Excellent performance in this category includes the Bank's active participation in the development or implementation of community development and redevelopment programs.

The CRA statement should clearly describe any participation by the Bank in community development efforts. While the CRA statement speaks only of "public and quasi-public loan programs which assist in the economic development of small businesses and communities which enhance the creation and expansion of jobs," many of the Bank's business loans and investments described elsewhere are for "non-profit community development" and "encourage economic expansion." These should be described with enough detail to define the location, scope and purpose of the project, the Bank's role, the other participants' roles, and the community development impacts. It is perfectly appropriate for the Bank's role to be as a lender or investor in the project.

PART TWO

I. Review of Northeastern Bank's HMDA Statements for 1985 and 1986

Because of the singular importance of housing credit to the continued vitality of communities, Congress passed the Home Mortgage Disclosure Act (HMDA) in 1975. This law requires financial institutions located in metropolitan areas to annually report, by census tract, the number and dollar amount of each type of housing loan made. Individually, this information allows the Federal regulators to make sure that institutions are not discriminating against certain portions of their service area in loan originations. Taken together, it allows community organizations to identify locations of unmet credit need, and each financial institution to evaluate its market share relative to other lenders.

The Bank's 1985 and 1986 HMDA reports show that a significant amount of housing loans were originated during those two years in the Bank's service area. Over $60 million were lent in 1985, and this grew to almost $82 million in 1986. This includes both MSA and non-MSA housing loans.

A. **Housing Loan Types.** Most of the housing loans made by the Bank were either conventional mortgage loans or home improvement loans on 1-4 unit properties. In 1986, no mortgage loans were made under the FHA, FMHA or VA programs, and only a small number of such loans were originated in 1985. These loans can be particularly useful to low- and moderate-income families within a community.

Because the Bank's CRA statement identifies the need for "options to meet the housing financing requirements of all segments of the community," it seems likely that demand would exist for FHA, VA and FMHA loans. Have these programs been discontinued by the Bank?

No multifamily loans were reported during either year. It is not clear whether there are a significant number of multifamily structures within the Bank's service area. If so, it is likely that a need exists to finance such housing.

B. **Housing Loan Concentration.** Within the Bank's service area, the majority of housing loans appear to be concentrated within a small number of census tracts. This concentration is particularly apparent in 1986, when 15 census tracts each received over $1 million in housing loans, totaling $36.3 million, or almost half the total service area lending. The remainder of the loans were fairly evenly distributed, but activity levels were low. It is not possible to determine from the HMDA data the reasons for this concentration, nor was demographic information provided by census tract. It may be explained by new development taking place in these areas. An issue of more concern is the majority of census tracts which received very few loans. While the evenness of the distribution of the remaining loans suggests a lack of discrimination against particular areas, it may also reflect a lack of marketing activity in much of the Bank's service area.

II. Review of Northeastern Bank's Product Brochures

Central to adequately serving the credit needs of a community is the provision of adequate information on the available products through brochures, media, and other marketing contacts. The brochure is the basic document which allows all customers access to equal information about all Bank products and services. It insures that every customer who enters a Northeastern Bank branch will have the opportunity to be informed about all Bank products.

The Northeastern Bank has identified several credit needs of its community and it has developed a set of products to address these needs. It is therefore important that information be readily available to customers about each product. In the area of small business, no brochure was provided for review describing the SBA loans and none which describes the small business education program. Only one brochure describing a mortgage product was provided, and that was solely about the Accelerated Mortgage Payment Plan. A brochure describing conventional mortgage products was not provided for this review. Similarly, a brochure is available on the Home Equity Credit Line, but none on alternative home improvement loan options or on mobile home financing.

Because municipal and hospital financing programs are generally individually designed, it is not necessary to describe these services in a brochure. However, no brochure was provided on the Bank's student loan program which might be of interest to a broad range of Bank customers.

The Bank's brochures on its savings, checking and investment products were more complete. The Bank may want to consider adding the designation, "Equal Opportunity Lender," to its loan brochures.

Finally, as a commercial bank whose customers are largely businesses of different sizes, it is surprising to see that its business banking products are only described in one, combined brochure on corporate banking services. Those products which are marketed to small and medium-sized businesses should probably have their own brochure.

III. Review of Northeastern Bank's Media Materials

Advertising bank products in the media is an extremely important method of reaching existing and potential customers, and thus serving community credit needs.

Northeastern Bank has an active media program, which appears to cover a range of newspapers, radio, and television stations. Of the newspaper advertising, the majority would fall into the category of "public service and information" including signature advertisements, information on facility opening, closing and remodeling, and recognition of national and religious holidays. About half of the fifty newspaper tear sheets received fell into this category.

Over half of the remainder were for deposit and checking accounts and investment services. Only nine newspaper advertisements were for loan products. These included student loans (1), business financing (1), home equity loans (4), car loans (1), credit cards (1), holiday club (1), and municipal finance services (1).

Just as with brochures describing Bank products, the media emphasis is on deposit and checking products, rather than on the products which meet community credit needs. Those community credit needs identified by the Bank which had little or no advertising addressed to them included SBA loans, small business seminars and workshops, mortgage loans, mobile home financing, and home improvement loans.

Finally, attention should be paid to ensuring that media serving particular segments of the service area population are utilized. In particular, newspapers and radio stations serving low-income communities, racial or ethnic minorities, farming areas and senior citizens should be utilized.

PART III

ANALYSIS AND RECOMMENDATIONS

The first step in evaluating Northeastern Bank's compliance with the "letter and spirit" of the Community Reinvestment Act is through careful review of the public information about the Bank's community lending and other community service. This public information includes the CRA statement, the housing lending data prepared under provisions of the Home Mortgage Disclosure Act (HMDA), and the brochures and advertising which describe and market credit products. Together, these materials must fully describe the ways in which the Bank is serving its community in a way which addresses the potential concerns of both banking regulators and community activists.

I. Northeastern Bank's CRA Statement

While the Bank's CRA statement is better than average in its compliance with the "letter" of the law, and it describes some creative community-oriented programs that have been instituted by the Bank, it falls short in a number of areas. First, its assessment of credit needs is unconvincing; second, it does not clearly demonstrate the Bank's performance in addressing credit needs with credit products; and third, it fails to highlight the areas in which the Bank's performance is strong, including commercial lending in the community, community service, and any philanthropy or corporate contributions. In addition, the CRA statement does not clearly reflect activities of a particular year.

A. **Credit Needs Assessment.** The Bank's assessment of its community's credit needs should be based on both demographic data **and** community interaction. Using demographic data, overall credit needs should be identified which include different types of housing loans, different types of business loans, and a range of consumer and personal loans. In addition, attention should be paid to identify any appropriate special market segments of senior citizens, first time homebuyers, racial or ethnic minorities, low-income people, farmers, etc.

The Bank's set of ongoing community interactions should also be carefully reviewed to ensure that it reflects all organized perspectives in the community. For example, the Bank may have ongoing interaction with business organizations, but fail to get to know the housing groups or the advocacy organizations working on behalf of the poor within particular neighborhoods. These organizations are often initiators of CRA protests.

Once the credit needs have been more carefully assessed, the Bank's products should be reviewed to ensure that most of these needs are being addressed. For example, a sub-community within the Bank's service area might contain a large number of lower-income families which could benefit from FHA/VA mortgage programs.

B. **Credit and Services Offered.** Each credit product listed in the CRA statement should be reviewed and checked against the credit needs identified. All needs should have a corresponding product, although many products will not address a particular credit need. Additional products should be considered that may be both profitable to the Bank and useful to the community.

Credit programs should be distinguished from non-credit community services, but these services should be described in the CRA statement. There may be corporate donations, volunteerism and other community services that have been overlooked.

In addition, special efforts in community development should be described. These might include underwriting of municipal bonds which are used for housing or industrial development, assistance to local economic development or housing organizations, special loan funds, etc.

If the Bank markets its products through a method other than media, that marketing program should be described as well.

C. **Commercial Credit.** Commercial banks are increasingly called upon by regulators and CRA protesters to provide information on their commercial lending to businesses in their service area. This is because the Community Reinvestment Act calls upon banks to help meet all of the credit needs in their community, yet the Home Mortgage Disclosure Act requires public reporting only of housing loans. Many commercial banks have not gathered and analyzed data on their commercial lending, and thus overlook an important way in which they serve their community's credit needs.

The Bank may want to consider preparing a report that describes, by census tract, the number, amount and type of commercial loans it originates. Because commercial lending constitutes over half of the Bank's business, this will substantially strengthen its CRA statement.

D. **Loans and Deposits.** While not essential to demonstrating activity in meeting community credit needs, it may be helpful for the Bank to analyze which census tracts its depositors live in and which census tracts receive loans. If there is a substantial mismatch, it is likely that there is a market that is not being adequately reached and may result in disgruntled customers.

II. Northeastern Bank's Home Mortgage Disclosure Data

The housing loan data showed many areas of low housing lending within the Bank's service area. This data should be reviewed to identify additional market opportunities. Data contained in Part Four can be used to find out whether other financial institutions have found customers in census tracts where Northeastern Bank has not.

In addition, existing housing loan products should be reviewed to make sure that they cover the need. Brochures and advertising should be directed at housing lending. If basic products like mortgage and home improvement loans are not now offered, they should be considered. If they are offered, information on them should be available to all customers.

III. Northeastern Bank's Brochures and Media

Northeastern Bank's marketing efforts were clearly directed at deposit and checking products to a greater extent than loan products. This could make the Bank vulnerable to serious criticism. It is particularly important to cover the most basic housing and business loan products with brochures and some advertising. Additional marketing efforts might include statement stuffers, meetings with chambers of commerce and other business groups, and meetings with civic and other homeowner organizations.

RECOMMENDATIONS

1. The Bank should substantially revise its CRA statement, giving full, appropriate attention to its current activities in providing credit and other services to its community.

2. The Bank should reassess its community credit needs using demographic data along with information derived from community interaction. (This was proposed as Phase II of the work with Woodstock Institute.) All community organizations active in the service area should be contacted, and special attention should be paid to the special needs of population or geographic segments of the community.

3. The Bank should review its commercial lending within the community and consider making information about that lending available to the public on a regular basis.

4. The Bank should prepare brochures on basic housing and commercial loan products.

5. The Bank should review community credit needs and its current products and develop a plan to expand its products and services so that it better meets its community's credit needs in the future. (This was proposed as Phase III of the Bank's work with Woodstock Institute.)

PART FOUR

HOUSING LENDING PROFILES BY CENSUS TRACT

This part contains data on all housing lending reported as required by the Home Mortgage Disclosure Act for MSAs in which Northeastern Bank is active.

Data for two years, 1984 and 1985, are provided separately. Within each year, data is provided for one MSA at a time. Within each MSA, census tracts are given, and within each census tract is an alphabetical list of all banks and savings and loans which reported housing lending. After each listing of census tracts is a listing of total lending for all census tracts.

This data should be reviewed along with housing, race and income data at the census tract level. This analysis will allow the Bank to identify particular areas of need, target particular programs, and evaluate its market share in areas in which it wishes to expand its business.

CRA Examinations

Examiners of each of the four agencies are required to assess how well an institution has helped to meet the credit needs of its community and through the examination process to encourage it to respond to those needs. These assessments are made as part of the regularly scheduled examinations of the institution.

The CRA regulations list twelve factors for examiners to use in determining how an institution is meeting the credit needs of its community. Individual institutions may find these factors helpful in assessing their own performance. Members of the public can also use the factors to assist them in making their views known to local institutions and the regulatory agencies by placing comments referring to the factors in the institution's public file. The twelve factors are:

1. Activities conducted by the institution to ascertain the credit needs of its community, including the extent of efforts to communicate with members of its community regarding the credit services being provided by the institution.
2. The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.
3. The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.
4. Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement.
5. The geographic distribution of the institution's credit extensions, credit applications, and credit denials.
6. Evidence of prohibited discriminatory or other illegal credit practices.
7. The institution's record of opening and closing offices and providing services at offices.
8. The institution's participation, including investments, in local community development and redevelopment projects or programs.
9. The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.
10. The institution's participation in governmentally insured, guaranteed, or subsidized loan programs for housing, small businesses, or small farms.
11. The institution's ability to meet various community credit needs based on its financial condition and size, and legal impediments, local economic conditions, and other factors.
12. Other factors that, in the agency's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Source: A Citizens Guide to CRA, Federal Financial Institutions Examination Council, 1985.