

COMMERCIAL LENDING DISCLOSURE

AND ECONOMIC DEVELOPMENT:

A PLAN FOR ACTION

BY

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(This is a working proposal for discussion.
The Woodstock Institute welcomes comments.)

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The Woodstock Institute

The Woodstock Institute is a not-for-profit organization based in Chicago. For the past fifteen years, the Institute has carried out applied research, and developed and implemented programs which increase private sector investment in modest-income and minority communities for the benefit of those who live there. It designs programs which bridge the gap between the needs of communities and the resources of banks, savings and loan associations, foundations and others.

The Institute provides a variety of services to community-based organizations, financial institutions, foundations and government agencies, including applied research, policy analysis, program design and program evaluation.

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EXECUTIVE SUMMARY

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For the past ten years, a growing number of urban and rural economic development practitioners have worked to implement a wide range of programs seeking to foster entrepreneurial efforts, small business development, job creation and retention strategies, and economic activity in depressed low- and moderate-income communities. Many of these communities have been devastated as the rural economy collapsed, as urban areas suffered massive disinvestment, as the national economy shifted from a manufacturing to a service base, and as different regions of the country suffered successive boom to bust cycles.

These economic development practitioners face a growing need for information that would answer questions about the accessibility of capital for job creating enterprises. This information can be most comprehensively obtained through requiring financial institutions to annually report data which describes the commercial loans they make.

Commercial lending disclosure would provide: 1) a tool for local economic development; 2) a tool for broad economic planning; and 3) a tool for monitoring bank compliance with the Community Reinvestment Act of 1977.

Commercial lending disclosure can give economic development advocates the ability to track the level and appropriateness of business investment in their communities; identify financing gaps which might be addressed through partnerships with both private and public bodies; analyze individual bank capacity and performance; aid job retention efforts by identifying under-capitalized industries; allow governmental economic development departments to focus their scarce resources where they can be most effective; and leverage increased appropriate investment into small business growth and job creation.

The importance of commercial lending disclosure was recognized by the Chicago City Council when it passed the Chicago Municipal Depository Ordinance in 1974. Data generated under this law provides the one source of long-term information on commercial lending. For that reason, the Woodstock Institute examined this model to determine what the Chicago experience teaches about commercial lending disclosure. Recommendations cover the type of commercial lending data to be reported, the format for reporting, and ways to make the collected information more usable for furthering economic development. In addition, an addendum discusses how lending disclosure data can be used to aid public deposit and program decisions, and an appendix explains other existing and proposed municipal and state commercial lending disclosure legislation.

In developing practical, workable commercial lending disclosure recommendations, the Woodstock Institute has attempted to balance the interests of economic development practitioners in both breadth and depth of information.

Commercial lending should be disclosed at two levels. First, information which contributes to an understanding of the lending experience and specialization of the individual bank should be reported at the aggregate level. This would include such information as: Minimum Size Business Loan; Small Business Administration (SBA) Lending; Total Commercial Lending; Total Loan Participations; Lending by Loan Size and Type of Borrower; and Lending by Terms for Type of Loan.

Second, information which contributes to an understanding of the location and type of lending done should be disclosed at the census tract level. This information will aid in understanding the lending patterns of an individual bank, as well as where credit is flowing in the community and what credit needs are unmet. This would include: Census Tract Level Disclosure of Commercial Lending, and Type of Loan by Type of Borrower.

The Woodstock Institute recommends that this combination of aggregate information on the nature and terms of the bank's lending and the geographic breakdown on both the type of borrower and the type of loan should be included in any commercial lending disclosure legislation. This combination of information would provide economic development practitioners, small business advocates, and governmental economic development departments with the tools to successfully understand the unmet credit needs of business and to design appropriate programs to address these needs and create healthier, job producing economies.

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I. INTRODUCTION

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Loans to purchase and expand businesses, credit for commercial and industrial mortgages, capital to modernize plants and equipment, financing for small businesses and entrepreneurial start-ups, and operating capital for established businesses are essential to the economic survival and vitality of the businesses themselves, and in turn to the economic health of communities and regions. As was clearly established with the passage of the Community Reinvestment Act (CRA) by Congress in 1977,* credit can make the difference between the economic life and death of a community.

When commercial loans are made in an area, the results are visible; factories are built and modernized, commercial strips thrive, and small businesses expand and create jobs. By contrast, an area being denied credit exhibits the signs of a lack of confidence in the future. Storefronts lie empty, factories deteriorate and are abandoned, equipment ages, and unemployment mounts.

Many urban and rural communities across the United States are suffering from the effects of a radically and rapidly changing economy, and of massive disinvestment. The shift from a manufacturing to a service economy has left a trail of middle-aged displaced workers, many of whom will never work again. "Main Street" in many American small towns is a string of empty storefronts and secondhand stores. Factories lie abandoned in cities which were previously industrial powerhouses. Few opportunities remain for youth beyond low-wage jobs in the service economy. Cutbacks in federal initiatives further exacerbate the situation.

To address these problems, a whole generation of innovative local economic development initiatives has been developing over the last decade. Local development corporations are actively promoting city shopping strips. Industrial development corporations are working with manufacturers to encourage them to remain in inner city neighborhoods. Not-for-profit business support organizations maintain "incubator" buildings to nurture entrepreneurial efforts. Chambers of commerce, development finance corporations, equity funds, small business associations, and other public and private business support organizations have

* The Community Reinvestment Act (CRA) was passed by Congress as Title VIII of the Housing and Community Development Act of 1977. The law states banks and savings and loan associations have a "continuing and affirmative obligation to help meet the credit needs of the local communities . . . including low- and moderate-income neighborhoods.

grown up to aid and advocate for small business and new business development. Many local and state government economic development departments are focusing their limited resources and subsidies on promoting and reinforcing the job-producing sectors of the economy.

Over the past ten years, these economic development practitioners have greatly increased their knowledge and sophistication. They have successfully implemented local economic development strategies, industrial development programs, rural revitalization projects, and job creation efforts. This experience has brought with it an increasing concern about access to appropriate financing as a crucial element of business growth and stability.

Small business and start-up financing remains difficult to obtain. Competitive pressure in a deregulated banking industry, rural bank failures, and industry consolidation have meant that larger banks are focusing on bigger "prime" deals and larger companies. There is less likely to be a "friendly, local banker," and even small community banks have set minimum commercial loan amounts that exclude many small businesses.

Economic development practitioners face a growing need for information that would answer questions about the accessibility of capital for job creating enterprises in distressed rural and urban communities. This information can be most comprehensively obtained by requiring financial institutions to annually report data which describes the commercial loans they make.

There is a growing consensus among neighborhood activists, urban and rural economic development practitioners, and small business advocates across the country that commercial lending disclosure will provide them with an essential source of basic data on business lending patterns in their communities.

Commercial lending disclosure can give economic development advocates the ability to track the level and appropriateness of business investment in their communities; identify financing gaps which might be addressed through partnerships with both private and public bodies; analyze individual bank capacity and performance; aid job retention efforts by identifying under-capitalized industries; allow governmental economic development departments to focus their scarce resources where they can be most effective; and leverage increased appropriate investment into small business growth and job creation.

The importance of commercial lending disclosure was recognized by the Chicago City Council when it passed the Chicago Municipal Depository Ordinance in 1974. The law mandates that all banks and savings and loan associations applying for deposits from either the City of Chicago or the Chicago Board of Education

must disclose by census tract all residential, consumer, and commercial loans, as well as both checking and savings deposits. Data generated under this law provides the one source of long-term information on commercial lending. For that reason, the Woodstock Institute examined this model to determine what the Chicago experience teaches about commercial lending disclosure.

In this report, **Commercial Lending Disclosure and Economic Development: A Recommendation for Action**, the Woodstock Institute examines the lessons learned from analysis of the Chicago experience with commercial lending disclosure legislation. The report discusses the potential uses of commercial lending disclosure, and proposes a model of commercial lending disclosure that builds on the Chicago model. Recommendations cover the type of commercial lending data to be reported, the format for reporting, and ways to make the collected information more usable for furthering economic development.

An addendum to this report, "The Use of Lending Disclosure Data for Public Deposit and Program Decisions," provides a practical initial guide for municipal and state comptrollers, treasurers, banking commissioners, and finance directors charged with using lending disclosure data to implement reinvestment legislation. An appendix lists existing and proposed commercial lending disclosure laws in states and municipalities around the country.

A companion Woodstock Institute report, **Tracking Chicago's Business Bucks: Commercial Lending and the Chicago Municipal Depository Ordinance** presents an in-depth analysis of two years of commercial lending data in Chicago.

II. THE CHICAGO MUNICIPAL DEPOSITORY ORDINANCE

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Background

On August 8, 1974, the Chicago City Council passed the Chicago Municipal Depository Ordinance, an amendment to the Municipal Code, mandating extensive loan and deposit disclosure from all banks and savings and loan associations bidding for deposits from the City of Chicago or the Chicago Board of Education.

The municipal disclosure ordinance was a victory for a number of activist community organizations fighting the severe housing decline that the city was experiencing. This decline was exacerbated by a pattern of racially discriminatory lending practices known as "redlining." This was a period of crisis in urban housing policy and of a powerful and well organized "anti-redlining" constituency. The Chicago ordinance focused on residential lending and reflected the acute need to foster reinvestment in neighborhood housing.

Like the Home Mortgage Disclosure Act (HMDA)*, which was passed several years later, the ordinance mandates extensive census tract level disclosure of the number, type and dollar amount of residential loans. (See Appendix II for HMDA report forms) In addition to residential lending disclosure provisions, the Chicago ordinance requires disclosure at the census tract level of where the bank's deposits come from and where the bank is doing its consumer and business lending. (See Appendix III for Chicago Municipal Depository Ordinance report form).

In addition to providing the one long-standing example of commercial lending disclosure, the ordinance is also a unique and valuable source of information on where bank deposits come from and on consumer lending patterns. Analyses of the sources of bank deposits and comparisons of the ratios of bank deposits to loans within a community are possible with this data.

The Chicago ordinance was a seminal piece of legislation in the reinvestment movement. It established a working model for the residential lending disclosure requirements of HMDA and provided specific data demonstrating the need for federal reinvestment legislation. It now plays a similar role in

* The Home Mortgage Disclosure Act of 1975 (HMDA) requires all banks, savings and loan associations and credit unions with more than \$10 million in assets located in metropolitan areas to disclose the number, type and dollar amount of their housing loans by census tract.

providing both a model for commercial loan disclosure and initial information on the patterns of commercial lending. The ordinance remains, 13 years after its passage, one of the most comprehensive lending disclosure laws in the nation.

Analysis of the Chicago Ordinance

The Woodstock Institute reviewed all of the bank applications for city deposits submitted under the Chicago Municipal Depository Ordinance to the Office of the Comptroller of the City of Chicago since 1980. It then conducted an analysis of the commercial lending disclosed by census tract in 1986 and 1987.¹

The most striking finding of the study was the huge volume of commercial lending when compared to housing loans. **The commercial lending of the 27 reporting banks over two years totaled close to \$10.9 billion in Chicago alone, and another \$21 billion in the suburbs.** This compares to the \$10.3 billion in housing loans made by all Chicago area financial institutions over a four-year period.² When one takes into account the limited scope of the sample studied, it becomes clear that the dollars available for commercial lending are many times greater than those available for residential lending.

Within Chicago, the commercial lending reported was extremely concentrated. Seventy-six percent of the commercial lending was concentrated in only 15 of Chicago's 712 census tracts. All but three of these census tracts are located either downtown or around O'Hare Airport. It is not possible to draw definitive conclusions due to the limited sample size, data problems and the lack of specificity required under the ordinance. However it appears that while vast amounts of credit are extended to business, this credit is not reaching either small or start-up businesses, or Chicago's neighborhood businesses. (For a complete analysis of two years of commercial lending in Chicago, see the companion Woodstock Institute report, **Tracking Chicago's Business Bucks: Commercial Lending and the Chicago Municipal Depository Ordinance.**)

The Lessons Learned from Chicago Commercial Lending Disclosure

The analysis of commercial loan data generated under the Chicago Municipal Depository Ordinance provides insight into the type of useful information which would be available to economic and neighborhood development practitioners through a comprehensive commercial lending disclosure legislation. As the only source of deposit and commercial loan data, the ordinance

has been extremely helpful in fully evaluating the CRA performance of commercial banks. Both community groups and regulators have used this information to encourage reinvestment efforts by the banks.

The extensive disclosure requirements of the ordinance and the ready compliance with these requirements by both large downtown "money center" banks and small neighborhood banks which desire city deposits show that the collection and reporting of this data can be completed with relative ease.

In addition, even the limited commercial lending disclosure which reports only total loans and total dollars by census tracts provides information on trends in commercial lending. Rough comparisons of where the dollars are lent between the city and the suburbs can be made. Comparisons of dollars loaned for commercial and residential purposes are possible. The differences in the nature and amount of lending by neighborhood banks and downtown banks can begin to be defined. Finally, the reinvestment performance of a commercial bank in any community can be determined, along with comparisons of commercial lending reinvestment levels between communities.

However, these simple commercial lending disclosure provisions are of limited use in either evaluating an individual financial institution's lending record, or in understanding how a community's credit needs are being met. This limited disclosure cannot adequately assess whether the needs of small businesses and start-up businesses are being met, nor if the particular instruments of credit being offered in a community are appropriate. Without the reporting of loans in the census tract of their eventual use (as opposed to reporting them at the location of the corporate headquarters), this simple lending disclosure may be inadequate in even tracking credit flows and in determining if a community's overall credit needs are being met.

The Chicago ordinance teaches important practical lessons about commercial lending disclosure in three categories: 1) data collection; 2) data processing and access; and 3) policy. The following section discusses the lessons learned and makes recommendations to facilitate effective commercial lending disclosure data collection for use in future disclosure laws.

Recommendations

Data Collection

1. **Standard Formatting:** Although the City of Chicago provides a standard form for reporting the required data, several banks reported data on computer printouts. Some of these printouts included additional breakdowns of loans within census tracts by unexplained codes signifying loan type, or by individual listings of loans and loan recipients. While the bank's ease of reporting is an important consideration, additional and non-standard reporting renders the data more difficult to read and to work with.

Recommendation: All commercial loan disclosure should be reported in a standard format.

2. **Standard Reporting Dates:** It is important that all data be reported by a common deadline and that the data reported represents a common time period. In the case of the Chicago commercial loan disclosure, the timeframe is unspecified. As a result, the data reported by banks bidding in a given year might represent lending over a three-year period commencing and ending on a variety of dates.

Recommendation: Commercial lending disclosure data should be reported for a uniform time period, preferably a specific calendar year. It should also be reported by a specified deadline.

3. **Standard Reporting Units:** While the Chicago ordinance mandates that loans be reported in thousands of dollars (000's), many of the smaller banks instead reported total lending to the dollar. This creates confusion when attempting to analyze the data.

Recommendation: All lending disclosure reporting should be in standard units.

4. **End-Use Location Reporting:** Geographic disclosure of commercial lending is more complex than that of residential lending. With residential loans the question of where the loan is reported is very simple; a home mortgage or a home improvement loan is reported in the census tract where the home is located, and a multi-family loan is reported in the census tract where the apartment building is located.

With commercial lending, a business may receive a major loan for plant modernization which would be reported at the corporate headquarters instead of at the plant itself, or a real estate developer may receive a loan for a large shopping center which might be reported at the office of the

developer instead of in the location of the commercial development. The Chicago ordinance does not mandate the reporting of commercial loans in the census tracts in which they are to be used. This may cause lending to appear unrealistically concentrated in the downtown area and around the airport, the locations of most corporate headquarters.

Recommendations: Commercial loans should be reported in the census tract where they will eventually be used. This will help to ensure that commercial lending disclosure provides accurate data on the credit reaching each neighborhood, and thus meets the needs of economic development organizations interested in determining if the commercial credit needs of a particular neighborhood are being met by an individual bank or by the banking industry.

5. **Standard Reporting Guidelines:** The Chicago commercial lending disclosure ordinance lacks guidelines which define what should be reported in which category. This makes analysis more difficult. Should, for example, a major project with both apartments and stores be listed as a commercial or residential loan? Should short-term, 90-day rollover notes be disclosed as commercial loans each time that they are renewed? How should banks report participations in loans originated at another bank?

Recommendation: Because commercial lending is much more complex than residential lending, **commercial lending disclosure legislation should mandate that a set of reporting guidelines, including definitions, be developed for the financial institutions by the appropriate regulatory body.** This is necessary in order to develop practical, uniform commercial lending disclosure information.

Processing and Access

The purpose of disclosure laws is to encourage reinvestment in housing and business. Data collected must be accessible, complete, and correct to be useful to those persons involved in economic development. The following recommendations reflect processing and access concerns arising from thirteen years of data collection under the Chicago Municipal Depository Ordinance.

1. **Verification Measures:** It is important for the public collector of lending disclosure data to develop simple procedures to verify the accuracy of the data submitted. The lack of any verification procedures at the City of Chicago has meant that data of questionable quality is submitted. The most extreme example of this is the case of one bank which, unnoticed, submitted identical disclosure forms for at least five years in a row, merely whitening out and writing in a different year each time.

Recommendation: Most of the problems with data quality can be corrected through closer monitoring of the data submitted. Past experience has shown that disclosure data quality improves markedly when the public collectors carefully review the data submitted and the financial institutions know that the data is being reviewed and used. **The regulator enforcing commercial lending disclosure legislation should develop simple administrative procedures to screen data quality and follow up with the reporting institution when questions arise about accuracy.**

2. **Public Access:** Currently, the information disclosed by banks bidding on Chicago deposits is stored in the Office of the Comptroller of the City of Chicago. The information would be of the most use to economic development practitioners if it were available to the public at a central location.

Recommendation: In order to ensure that the information collected is actually used to encourage reinvestment, a provision should be included in the commercial lending disclosure legislation for **a set of both the raw data and any accompanying analyses to be kept on file at a public library or public data depository.**

3. **Data Processing:** Currently, the report forms collected under the Chicago disclosure ordinance are difficult to copy or review. It is the experience of community development practitioners that large numbers of paper report forms are rarely used as a tool for public policy, largely because it is so time consuming and expensive to collect and process the information. Fair and effective use of the data begins when it is computerized and analyzed annually by the regulatory agency or its delegate. This has been illustrated by the reform of the Home Mortgage Disclosure Act (HMDA) in 1980, which resulted in annual computerization of all housing lending records.

Recommendation: **Commercial lending disclosure legislation should include provisions to computerize and analyze the data received.** Disclosure and analysis would be facilitated if the monitoring agency provided a software program to all financial institutions disclosing their lending. All pertinent information could easily be entered on such a system and the data could easily be transferred to a central data depository.

Policy

The ultimate purpose of any lending disclosure legislation is to foster reinvestment in underserved communities in order to improve housing and create and preserve jobs. **Any lending**

disclosure legislation, especially legislation covering public deposits, should clearly state the intent of the legislation to foster and reward good reinvestment performance. This language should specify that the data disclosed will be verified, processed, analyzed, and acted upon. This will help to ensure that the ultimate economic development purposes of the legislation are achieved.

Unfortunately, the purpose and intent of the Chicago Municipal Depository Ordinance are not clearly spelled out in the legislation. This has weakened the legislation and limited its effectiveness. An example of disclosure legislation with a clearly expressed mandate is the 1986 Minnesota Interstate Banking Bill, which specifically declares that, "the commissioner of commerce shall annually rate each financial institution owned by an interstate bank holding company on its lending performance . . . in meeting the credit needs of the community," and then lays out a specific five point rating scale.

Conclusion

The Chicago Municipal Depository Ordinance is an important piece of legislation in the history of the reinvestment movement. Its extensive residential lending disclosure provisions were a precursor to the national Home Mortgage Disclosure Act of 1975. Its deposit and consumer loan disclosure provisions provide information on banking patterns available nowhere else in the country. And its commercial loan disclosure data provide one of the few long-term examples of information on the provision of commercial credit, as well as a working model of commercial lending disclosure.

The Chicago commercial lending disclosure is important for both what it shows about commercial lending in Chicago and for its limitations as a disclosure tool. It describes the vast scale of commercial lending in Chicago, and begins to answer the questions of where commercial loan dollars are going and where they are not. It also provides insight into what additional provisions should be included in commercial lending disclosure legislation to ensure that the information collected is accurate and accessible for economic development practitioners.

However, the limited data provided by the Chicago disclosure ordinance does not answer many of the questions which are important to economic development efforts. It does not provide information on the types of loans being made, the size of the loan, or the terms of the loan. Without the reporting of loans in the census tract of end-use, it is not even clear that the Chicago data provides an accurate picture of where commercial loans are being made in the City, nor the adequacy of the reinvestment performance of an individual bank.

The remainder of this report discusses the types of information which community and economic development practitioners and small business development advocates need from commercial lending disclosure, the uses of this information and specific recommendations on the form commercial lending disclosure should take to ensure that it is an effective tool for economic development and job creation. When combined with the lessons learned from the Chicago ordinance on commercial lending disclosure data collection, processing and access, and policy, this report provides a thoughtful proposal for future commercial lending disclosure legislation.

III. THE PURPOSES OF COMMERCIAL LENDING DISCLOSURE

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Commercial lending disclosure requirements, in order to be effective, must be linked to the purposes the information will serve. In order to determine the commercial lending disclosure needs of economic development practitioners, the Woodstock Institute reviewed the existing Chicago legislation and its past use, surveyed current literature on commercial lending disclosure,³ and conducted interviews with activists, academics, and economic development practitioners. The Institute found that the potential uses of commercial lending disclosure data fall into three categories: 1) a tool for local economic development; 2) a tool for broad economic planning; and 3) a tool for monitoring CRA compliance.

Local Economic Development

The most important use of commercial lending disclosure information is in aiding local economic development efforts. When aggregated, proper commercial lending disclosure can aid in **identifying unmet community credit needs**. It shows what types of credit are being extended in a community and which areas are receiving it. This information can be used to identify the financing gaps and determine the extent to which credit needs are being met.

Currently, residential lending information data can be aggregated for a community using HMDA data. This type of information has been very useful in developing programs and strategies to deal with residential financing gaps. (See Community Housing Lending Profile, Appendix III.) Examples of programs developed to deal with housing financing gaps include loan pools, mortgage bond programs, and linked public deposit programs. When the unmet commercial credit needs are better understood, similar programs can be developed to address those needs.

Commercial lending disclosure **can also provide information about reinvestment activity of a specific financial institution and its ability to make more difficult economic development loans**. Commercial lending disclosure data, in a proper form, can show where a particular bank is making its commercial loans and tell what types of loans a bank is doing. This information would help economic development practitioners identify prospective partners for local economic development initiatives.

Commercial lending disclosure can aid in understanding a particular bank's ability to make the more difficult economic development loans. Many small banks, particularly in rural areas, offer a very narrow range of loan products which may meet only a portion of local credit needs.⁴ Examples of this

include banks which have a minimum commercial loan size too large for most small borrowers, banks which do not have experience in making S.B.A. loans, or banks which only offer short-term commercial loans.

Broad Economic Planning

Commercial lending disclosure can also be an important data source for economic planning. Appropriate commercial lending disclosure will eventually generate a data base for **broad policy and economic analysis**. This type of information can be useful in determining which economic sectors of a local, state or regional economy are growing and which are contracting. It allows the identification of disinvested areas within cities, states and even regions. Commercial disclosure would provide a needed national data base on small business lending, helping to track credit availability to this important job-producing sector of the economy.

Commercial lending disclosure can also be used for effective **public policy planning**. Limited government resources and subsidies can be targeted to those sectors of the economy where they will have the most impact on job creation. Under-capitalized industries can be identified for job retention efforts. Private/government partnerships can be designed to maximize the impact of public subsidy. Public deposits can be linked to economic development and reinvestment programs. The tax laws can be modified to target reinvestment efforts.

Monitoring CRA Compliance

The Community Reinvestment Act of 1977 states that banks have a "continuing and affirmative obligation to help meet the credit needs of the local communities . . . including low- and moderate-income neighborhoods." The Community Reinvestment Act applies to both residential and commercial lending. However, existing disclosure legislation provides information only on housing lending.

There is no way of determining if, in fact, commercial banks are complying with CRA in their commercial lending. Commercial lending disclosure will allow CRA compliance to be monitored by both the bank regulators and local community organizations. It will give a much more accurate and complete picture of the extent of community development lending conducted by commercial banks. In addition, it enables much fairer comparisons with the community development lending of savings and loan associations. The bulk of the lending by savings and loan

associations is for residential purposes and they must disclose all of these loans. Commercial banks mainly do commercial lending, but need disclose none of these commercial loans.

IV. COMMERCIAL LENDING DISCLOSURE RECOMMENDATIONS

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There are certain questions about the commercial lending in a community which must be answered when developing commercial lending disclosure recommendations. A community needs to know if a specific bank is serving the credit needs of the community. It needs to know whether the commercial lending needs of the community as a whole are being adequately met. And it needs to know if there is a particular type of business which is not receiving adequate credit. In other words, it is necessary to answer the questions, "**Who**" (which banks) are lending; "**Where**" are they lending; "**How much**" are they lending; and, "**What type**" of loans are they making?

With commercial lending disclosure, answering the "**What type**" of loans is a very complex question. There are many technical and definitional problems in actually determining what should be disclosed. This was pointed out by the Federal Financial Institutions Examination Council in the spring of 1981 when they initially considered small business lending disclosure. "Commercial loans," they reported, "of which loans to small business are but a subdivision, have never represented a homogeneous population in the same sense as mortgage or home improvement loans. Although certain arbitrary groupings are possible based on, for example, loan size, term, purpose, or selected borrower characteristics, in reality the 'typical' business loan is based upon such a large mixture of variables that it is essentially a custom-made product."⁵

The Woodstock Institute has developed a series of recommendations on how commercial lending should be disclosed. They represent a proposal on the form future commercial lending disclosure legislation should take. In the attempt to develop practical, workable commercial lending disclosure recommendations, the Woodstock Institute has attempted to balance the interests of economic development practitioners both breadth and depth of information.⁶

Commercial lending should be disclosed at two levels. **First, information which contributes to an understanding of the lending experience and specialization of the individual bank should be reported on a cover sheet at the aggregate level.**

Second, information which contributes to an understanding of the location and type of lending done should be disclosed at the census tract level. This information will aid in understanding the lending patterns of an individual bank, and also where credit is flowing in the community and what credit needs are unmet. Examples of the recommended disclosure forms are included on pages 20 and 23.

A. The Disclosure Cover Sheet

The commercial disclosure cover sheet (Page 20) collects information on the business lending of the bank in the aggregate. This data helps to understand the lending experience and specialization of the individual bank, and its ability to address the credit needs of small business. It collects aggregate information about the amount of overall lending, the amount of Small Business Administration (SBA) lending, the category of business lent to, the size loan that the bank will make, and the terms under which the bank will make loans for real estate, machinery and equipment, and working capital. All of this information helps to better answer the question "**What type**" of lending is done by the specific bank. The disclosure cover sheet contains the following information.

1. Name of Institution

Reports will be required of all banks, savings and loan associations, and credit unions with more than \$10 million in assets.

Rationale: This disclosure parallels the requirements of the Home Mortgage Disclosure Act (HMDA), adding those financial institutions in non-metropolitan areas.

2. Minimum Size Business Loan

Rationale: Often the first and most important barrier to small business lending is the bank's minimum loan size.

3. Number and Amount of Small Business Administration (SBA) Loans

Rationale: Many of the more difficult economic development loans require some form of government subsidy or guarantee to be both secure and profitable. The Small Business Administration provides the primary government business loan guarantee program. This information helps to determine a bank's current market niche and its potential to engage in the more difficult economic development lending.

4. Total Commercial Lending

Disclosure of number and amount of loans.

Rationale: A great deal of the commercial lending of many banks, especially larger banks, is done out-of-state and in foreign countries. This information will enable comparisons between the loans made to a given community or city and the total commercial lending.

5. Total Loan Participations

Disclosure of the number and amount of loans participations bought and sold in the past year.

Rationale: Increasingly, large percentages of a bank's loans are not originated by the bank itself, but are participations in loans structured by another bank. Capital can be drained from a credit needy area when a local bank invests heavily in loans originated by another bank outside of the community. Conversely, small banks which cannot make large loans will sell participations to larger correspondent banks. This attracts capital to an area. This type of disclosure tracks the buying and selling of loan participations.

6. Lending by Loan Size and Type of Borrower

This grid collects data on the aggregate number and amount of loans made to; a) retail borrowers, b) industrial borrowers, c) service borrowers, and d) agricultural borrowers, in six different categories of loan sizes, weighted heavily toward the smaller loans.

Rationale: The rationale for disclosing the size of loan is to determine the extent to which the lender is meeting small business lending needs. Reporting this information by type of borrower indicates the types of businesses and industries receiving loans. This information can also help to determine which sectors of the economy are growing and which are being disinvested.

7. Lending by Terms for Type of Loan

This grid collects data on the aggregate number and amount of loans made for real estate, for machinery and equipment (fixed assets), and for working capital in three different categories of loan terms.

Rationale: Businesses have different types of credit needs, some short-term and some long-term. Disclosure of the type of loans a bank is making will help in determining both the bank's record and its experience in doing different types of commercial lending. It is also important in identifying the types of loans that do not get made. A bank providing only short-term lines of credit and 90-day rollover notes, for example, is not helping to address many mid- and long-term financing needs, even though it may report a large number of loans. Identifying types of loans not made is very useful in designing bank/community partnerships and in addressing unmet credit needs.

COMMERCIAL DISCLOSURE COVER SHEET

Name of Institution _____

What is the minimum size business that you will loan to? _____

What is the minimum size business loan that you will make? _____

What was your total SBA lending last year? # of loans _____ \$ _____

What was your total commercial lending last year? # of loans _____ \$ _____

Did you buy loan participations last year? # of loans _____ \$ _____

Did you sell loan participations last year? # of loans _____ \$ _____

AGGREGATE LENDING TOTALS**Loan by Size by Category:**

	Under \$25,000		\$25,000- \$50,000		\$ 50,000- \$100,000		\$100,000- \$250,000		\$250,000- \$500,000		Over \$500,000		Total	
	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$	#	\$
Retail/Wholesale														
Industrial														
Service														
Agricultural														

Loans by Term by Type:

Real Estate			Machinery and Equipment (Fixed Asset)			Working Capital		
Terms:	#	\$	Terms:	#	\$	Terms:	#	\$
3 years and under			Under 1 year			Under 90 days lines of credit		
3-7 years			1-3 years			90 days to 3 years		
Over 7 years			3 years and up			3 years and up		
Total			Total			Total		

B. The Census Tract Disclosure Reporting Form

The commercial disclosure reporting form (Page 23) is similar to the disclosure grid used to collect Home Mortgage Disclosure Act data. Reporting at a census tract level, as opposed to the aggregate data, addresses the questions of the type of lending being done in a given community. This grid answers the questions of "**Where**" the bank is doing its lending and "**How much**" lending the bank is doing in that census tract. It also answers in much more detail the question of "**What type**" of lending is being done by requiring the census tract breakdown of the category of business (retail, industrial, service, and agricultural) receiving the lending and the type of loan made (real estate, machinery and equipment, and working capital). Below are listed the types of census tract level disclosure recommended, and the rationale for requesting that information.

1. Census Tract Level Disclosure of Commercial Lending

The number and dollar amount of all commercial loans should be reported at their end-use census tract level. This includes all commercial loans extended in rural areas as well as urban areas, and the reporting of loans in the census tract where they will be used.

Rationale: The disclosure of commercial lending at the census tract level allows for a comparison with residential lending at the same level (as disclosed through HMDA). This makes possible an evaluation of how a particular lending institution is serving the credit needs of a given community, though both its housing and business lending. In addition, it provides data which can be used for an in-depth analysis of how credit is flowing within and between communities and, over time, which neighborhoods, cities, and even regions are being disinvested.

Rural areas should be included in this requirement because rural communities are suffering from severe disinvestment and need information to effectively plan revitalization efforts. In addition, the Institute specifically recommends that loans be reported in the primary census tract in which they are to be used. As was learned from the Chicago analysis, reporting of loans at corporate headquarters or at the office of a developer is not sufficient to aid in the understanding of credit extended to a specific community, or of how credit is flowing between communities.

2. Type of Loan by Type of Borrower

Disclosure at the census tract level of the number and amount of commercial loans made for real estate, machinery and equipment (fixed assets), and operating capital for each

of the four categories of borrowers; retail, industrial, service, and agricultural, and totals for each type of borrower and overall.

Rationale: This breakdown of type of loan by type of borrower is roughly similar to the census tract level categories of lending disclosure required by HMDA (FHA/VA, Conventional Mortgage, Home Improvement and Multi-family loans). This information allows a careful analysis of both how a particular financial institution is serving the credit needs of a neighborhood and, in the aggregate, which credit needs of a community or sector of the economy are being met and which are not.

An example of a financing gap which might be identified is the lack of non-fixed asset loans for retail and service companies. These loans are harder for small businesses to obtain, but are necessary to their health and growth. Another example might be loans to industrial concerns for machinery and equipment. Very small amounts of this type of lending can indicate a pattern of disinvestment from the job-heavy industrial sector of the economy.

The Woodstock Institute recommends that this combination of aggregate information on the nature and terms of the bank's lending and the geographic breakdown on both the type of borrower and the type of loan should be included in any commercial lending disclosure legislation. This combination of information would provide economic development practitioners, small business advocates, and governmental economic development departments with the tools to successfully understand the unmet credit needs of business and to design appropriate programs to address these needs and create healthier, job producing economies.

This disclosure should also include the data collection, processing and access, and policy provisions made earlier based on the Chicago experience. Under data collection, these provisions would include: **Standard Formatting, Standard Reporting Dates, Standard Reporting Units, End-Use Reporting, and Standard Reporting Guidelines.** Processing and access provisions would include: **Verification Measures, Public Access, and Computerization.** Finally, commercial lending disclosure should include a policy that clearly states the intent of the legislation to encourage good reinvestment performance.

NOTES

NOTES

1. The Chicago Municipal Depository Ordinance data had errors similar (though more extensive) to those of HMDA data. Some loans were reported in nonexistent census tracts, a number of loans were reported in amounts impossibly high or low, and finally, four years worth of data from three banks were eliminated completely because of either fraudulent, duplicate, or unlikely data being submitted. In all, a total of \$2.7 billion, representing 20% of the commercial loan dollars, had to be discounted. For an analysis of HMDA data problems and reliability, see **Using HMDA: Evaluating the Quality of Disclosure from 1980 to 1982**, Shlay, Anne, Woodstock Institute, 1986.
2. **Partners in Need: A Four-Year Analysis of Residential Lending in Chicago and Its Suburbs**, Pogge, Jean; Hoyt, Josh; and Revere, Elspeth; Woodstock Institute, 1986.
3. A number of academic studies on commercial lending express frustration about the lack of adequate data. For example, Bruce Boggs, Calvin Bradford, and William Duncan conducted a survey of existing literature for the report, **Commercial Credit and Rural Economic Development**. They noted that, "Most researchers recognize that relying on existing data represents a significant compromise, particularly in the area of commercial and small business credit. There is no available data on commercial loans originated by a bank versus loans held in its portfolio, and, perhaps more importantly, the available data does not separate loans made locally from those made outside the service area. Finally, there is no way to know what types of commercial loans are being made (i.e., demand notes, installment loans, SBA loans)," page 15. **Commercial Credit and Rural Economic Development**, Boggs, Bruce S.; Bradford, Calvin; and Duncan, William. Presented to the May Symposium of the Rural Economic Policy Program, May 5-7, 1986.

In January, 1986, the Corporation for Enterprise Development published a study commissioned by the State of Michigan on the commercial banking industry and small business credit needs. The authors noted the limitations of available banking data. "There is absolutely no way to tell where loans are being made . . . there is no way to tell what percentage of loans are made within the state, nor the sub-state allocation of loans . . . There is no way to analyze bank lending by bank size of company or by industry," page 12. **Profile of Michigan's Commercial Banking Industry: Implications for Small Business Credit Availability**, Kwass, Peter, and Siegel, Beth, Mt. Auburn Associates, January, 1986.

4. **Commercial Credit and Rural Economic Development**, page 11, Boggs, Bradford, and Duncan.
5. **Report on the Committee on Banking, Housing, and Urban Affairs of the United States Senate and to the Committee on Banking, Finance and Urban Affairs of the House of Representatives, Regarding the Feasibility and Usefulness of Requiring Depository Institutions Which Make Small Business Loans to Compile and Publicly Disclose Information Regarding Such Loans**, Federal Financial Institutions Examination Council, Washington, D.C., May 7, 1987, page 18.

When the Federal Financial Institutions Examination Council studied the question of small business lending disclosure in 1981, it defined its mandate from Congress very narrowly. In its report it states, "... the Council's review of the need for a small business loan disclosure requirement has been confined to the context of enforcement of the Community Reinvestment Act of 1977 (CRA) and the question of whether depository institutions are fulfilling their affirmative obligation to help meet the credit needs of their respective communities, including low- and moderate-income communities," page 1. Having thus narrowly defined its review, the Council refused to consider comments from economic development practitioners and small business advocates who favored the disclosure in order to establish a national small business credit data base, and ruled that small business loan disclosure is unnecessary to enforce CRA and not worth the cost.

6. An example of competing desires for depth versus breadth of information would be the differing opinions over how to report "Type of Borrower." Some academics and government economic development specialists are interested in tracking disinvestment industry by industry to aid in job retention efforts. They favor the reporting of the "Type of Borrower" by the 2- or 4-digit S.I.C (Standard Industrial Classification) codes used by the U.S. Department of Labor for each census tract. This would require massive and detailed disclosure and necessitate separate reporting of each loan.

Most practitioners, however, thought that census tract level disclosure of the totals of lending to commercial, industrial, service, and agricultural borrowers would be quite adequate. This was especially true if it could be combined with information on the terms of lending and size of loans made.

ADDENDUM

THE USE OF LENDING DISCLOSURE DATA FOR PUBLIC DEPOSIT AND PROGRAM DECISIONS

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THE USE OF LENDING DISCLOSURE DATA FOR PUBLIC DEPOSIT AND PROGRAM DECISIONS

Introduction

Across the country, many state and local governments are showing renewed interest in reinvestment and bank lending disclosure legislation, and in "linked deposit" programs which place public deposits in financial institutions that support housing and economic development.

As a result, city and state treasurers, comptrollers, banking commissioners, and finance directors increasingly have the opportunity and responsibility to use lending disclosure data as a tool for formulating public policy. These public financial officers are collecting data on the location of bank loans and the source of bank deposits, using that data to select the financial institutions with which they will do business, evaluating the credit needs of their communities, and designing innovative programs in which public deposits will play a role in leveraging private investment in critical projects and needy communities.

Housing lending data has been collected by the federal banking regulators for the past 13 years as a result of the Home Mortgage Disclosure Act (HMDA) passed in 1975. This data has been analyzed on a local level by both government and public interest organizations. A number of states and cities have established and managed "linked deposit" programs since the 1960's,¹ and some have utilized data from the banks to make deposit decisions. More recently, some states have required disclosure and information collection as part of interstate banking laws (see Appendix 4).

This addendum sets out ideas for the public official charged with the responsibility of collecting and using the data on some of the important aspects of implementing such a program: 1) clarifying reinvestment goals, 2) data collection, 3) providing public access to the data, 4) assessment of credit needs and data analysis, and 5) developing innovative "linked deposit" programs.

I. Develop and Communicate Reinvestment and Other Program Goals

Most community reinvestment, linked deposit, and interstate banking laws which require disclosure by financial

institutions are designed to further goals of affordable housing, job creation and economic development, and the provision of affordable banking services to lower income people. Whether established at the state or local level, administratively or legislatively, they generally seek to: 1) protect the city or state from the capital outflow that results when money from local depositors is invested by the bank in another state or region; 2) encourage better service by financial institutions to local customers; and 3) ensure the continued availability of low-cost savings accounts, checking accounts and loans for housing and business.

While these goals are sometimes set out in the legislation, it is the public official's responsibility to establish procedures and programs that foster the public interest without imposing unfair restrictions on the financial institutions.

The public official may have the responsibility of translating broad legislative goals into specific program goals. The program goals should be clearly articulated by the public agency, and shared with both the financial institutions and the public. These goals might include: encouraging banks entering the state to offer special low-cost accounts to low-income people, designating certain types of "development" loans which are most needed by the people of the state or city to finance housing or small businesses, rewarding banks with a strong reinvestment performance with below market rate deposits, and identifying priority economic development programs.

The development of a clear set of program goals might be assisted through the formation of a **Community Reinvestment Policy Advisory Committee**, which would include representatives of the banking industry, community organizations, and the government body involved. The committee members would be charged with bringing their individual perspectives to bear on such questions as the goals of the program, the appropriate analyses of the lending disclosure data, and the development of incentive programs to foster the program goals.

II. Collect Disclosure Data

Many of the linked deposit and interstate banking laws require some form of lending disclosure which goes beyond the Federal Home Mortgage Disclosure Act (HMDA) requirements. While most financial institutions are now familiar with the lending disclosure requirements of HMDA and have systems in place to collect and report this information, the new or different disclosure required by other programs can be confusing and cumbersome to the bank, especially initially.

Therefore, it is important that clear written guidelines be developed on what information is to be collected, when it is due, what period it must encompass, and in what form it must be reported. These disclosure requirements should reflect the goals and policies of the legislation or program. Drafts should be discussed with the advisory committee and other potential users.

While this report focuses on commercial lending disclosure data (the "missing link" in credit flows information), it is useful to collect data on housing loans, consumer loans, and the source of deposits. In some places it is useful to collect information on interest rates, loan foreclosures, and special "affordable banking" or "reinvestment" programs.

Whenever possible, the public agency should seek the data collection method that is easiest for the financial institution. For example, HMDA reports, already prepared for the federal regulators, may be requested as an alternative to a new requirement of housing lending reporting. Some institutions may choose to submit their data in machine readable form. In some instances it might be appropriate for the public agency to develop a computerized format for loan disclosure which could be distributed to those financial institutions covered by reporting requirements.

In order to ensure that disclosure requirements are communicated clearly, it is desirable for the public agency to host an annual meeting of financial institutions covered by the disclosure requirement. At this meeting, the public agency would explain to the financial institutions the program goals and guidelines, and data collection problems can be discussed.

Obtaining data of reasonably high quality should be a priority for the public agency. Intensive work by researchers with HMDA and commercial lending disclosure data has identified some common data quality problems.² Data errors are a result of mislabeled census tracts, reporting of lending in nonexistent tracts, inaccurate reporting of loan amounts, omission of data, reporting of loans for inconsistent periods of time, and attributing loans to incorrect locations. This last problem is especially true with the reporting of commercial lending, because of confusion over whether the loan should be reported in the census tract where a company's headquarters is located, or where the loan will be actually be used.

Past experience with the collection of HMDA data has shown that data quality is much greater when financial institutions understand what information is to be reported, have systems in place for reporting it, and understand how the data is going to be examined and used. It is therefore very important that a staff member be assigned to review data submitted and to follow up immediately when the information submitted is unclear, incomplete, or obviously inaccurate.

III. Public Access to the Data

Compliance with reinvestment laws has traditionally been monitored by the communities, consumers, and nonprofit developers who use credit and banking services. They are the ones who suffer most when credit services are not available, and they are the ones who press for the passage of reinvestment laws. For this reason, public access to the data is an important part of any disclosure program.

Over the past decade, there has been an increase in sophistication among local economic development and consumer organizations on the need for and use of credit and banking services. Many special reinvestment programs have been established through partnerships between these groups and financial institutions. Disclosure data has been very important in documenting the unmet credit needs and the comparative performance of the financial institution.³

In order to facilitate greater public use of disclosure data, public access should be a priority to the agency collecting the data. First, the collecting agency should review the data and flag or attempt to correct obviously inaccurate information; second, the data should be made available in computer readable form to researchers; and third, the data should be placed in a conveniently located public institution, such as a public library. (These recommendations are similar to the provisions included in the reform of the Home Mortgage Disclosure Act in 1980.)

Public access should also include readily available information on how the interstate banking law, and the linked deposit or other programs work, and which financial institutions have been involved. An annual report on the process, participants, and outcomes of the programs is also useful public information.

IV. Data Analysis, Bank Evaluation, and Credit Needs Assessment

The purpose of reinvestment and disclosure legislation and programs is to foster investment in jobs and housing, to expand available banking services to low- and moderate-income people, and to influence the deposit decisions of the state or local government. This means that the public agency with responsibility for implementing the program will need to go beyond collecting the disclosure data and making it available to the public. The agency will have to analyze the data and then often make recommendations on who should receive charters or public deposits, or on what economic development programs should be pursued.

Analysis of the lending disclosure data must complement the goals which have been set for the program. Disclosure analyses might be designed to: a) compare the reinvestment performance of particular financial institutions applying for public deposits; b) identify the credit needs of local neighborhoods or specific types of businesses; or c) support economic development planning efforts.

A. Comparing Bank Reinvestment Performance

If the goal of the program is to compare the reinvestment performance of specific financial institutions in order to decide who will receive public deposits, then there are a number of ways data can be examined. No one measure alone can determine whether a financial institution is "good" or "bad." Instead, the public agency must decide what lending or financial services are priorities, and then measure the extent to which different financial institutions are providing that type of service.

For example, the public agency may decide that the economic development lending it would like to encourage includes small business or minority business loans, family farm loans, home mortgage loans in certain areas, or student loans. Banks' lending disclosure data can then be examined to determine the total volume and percentage of their lending falling into these categories. Banks may also be compared by their provision of low-cost basic banking services to the needy, or by their participation in special programs.

Other comparisons which may be done include:

1. **Percentage of bank assets held as loans.** This tells you whether a substantial portion of the bank's deposits are being recirculated to meet local credit needs, or, instead, if they are being invested in more passive, and less community-oriented ways, such as treasury bills or government securities.⁴
2. **Bank loan-to-deposit ratios.** If data for both loans and deposits is available by census tract or small area breakdown, then this ratio will tell whether communities from which the bank draws deposit customers are being served with loan products, or whether deposits are being collected from one community and reloaned in another. It is important to note that deposit disclosure data covers all deposits accumulated up to that point, while loan disclosure covers only one year. Therefore one would expect that a financial institution would hold more dollars in deposits from an area than the dollars in loans made in any given year. However, another way of comparing the same information

is to compare the percentage of a bank's total deposits from the area to the percentage of loan dollars going to the same area in a particular year. These measures, while not perfect, do give a good standard for reinvestment comparisons.

3. **Loans made within the municipality or state versus those made outside the municipality or state.** This measure is an approximate indicator of the amount of business which a financial institution conducts in its "home" community or state. It is of interest to public collectors charged with the responsibility of selecting depository institutions which maximize the use of public deposits. Clearly, institutions which lend within the community would be more attractive than those that do a large portion of their lending outside the community. However, small institutions are likely to conduct more business close to home, while large institutions may view their market as the region, the nation, or the entire world.
4. **Loans originated in targeted low-income or minority neighborhoods.** This measure is important in showing service to credit-needy communities in those municipalities or states where the practice of "redlining," lending discrimination based on race or geography, has been a problem. There have been several efforts to develop systems to evaluate this.

In Massachusetts, banks and savings and loan associations become "qualified" for state deposits using a complicated analytical formula which takes into account a number of categories of economic development lending. This results in a reinvestment "rating" (see Appendix 4).

The Federal Reserve Bank of Cleveland has developed a system for analyzing Home Mortgage Disclosure Act data which addresses the kinds of questions that are typically raised in Community Reinvestment Act challenges. The computerized system (currently being revised) compares each individual bank in the Metropolitan Statistical Area to overall area lending norms compiled from all reporting banks. This system analyzes lending in census tracts with 50% or greater minority populations as well as tracts with median household incomes of 80%, 100%, and 120% of the area median income. The system therefore provides a measurement of an individual banks's performance in lending to minority, low and moderate income areas, relative to other banks rather than to any objective standard.⁵

B. Analyzing Unmet Local Community Credit Needs

The public agency charged with implementing a linked deposit or reinvestment program may choose both to rate the reinvestment performance of individual financial institutions, and to identify the unmet credit needs of local communities or specific types of businesses. Understanding the local credit "gaps" can aid both in the planning of reinvestment programs and in the development of bank/community partnerships to address local needs.

In assessing unmet credit needs, the public agency should draw on both the bank lending data it has collected and on the experience of key members of the community. **Community organizations, development firms (especially nonprofit developers), business organizations and other agencies of state and local government may be particularly knowledgeable about the specific credit and banking service needs that are most difficult to meet.** Their experiences may be far more useful than analysis of lending data in identifying problem areas. In addition, they may point to the most important data analysis questions.

The bank lending data can be very useful in documenting credit needs at this local, neighborhood or community level. For example, analyses can be done, neighborhood by neighborhood, of the aggregate loan dollars being received for housing and business. This will provide information on the overall level of reinvestment activity in a given community.

At the neighborhood level, analyses which might be done include:

1. **Comparisons of the type of business or housing loans made to the types of businesses or housing within a given community.** For example, one could compare the number of loans made for single-family mortgages to the percent of single-family homes in a community. Or the percent of commercial lending which went to manufacturing can be compared to the percentage of manufacturing jobs in a community. If the amount of lending in a particular category is dramatically lower than the apparent "need" for this type of lending, this can indicate that a particular credit need is not being met.
2. **Analysis of the purpose of business loans, by the type of business within a community.** If the disclosure data collected includes disclosure of the purpose of a business loan (operating capital, machinery and equipment, or real estate), as recommended by this publication, then this analysis can be conducted at the

community level. For example, if none of the dollars lent to the industrial sector of a community were for machinery and equipment, this might indicate that little capital is being spent on plant modernization. This information would be useful to both government economic development departments and community industrial and economic development organizations interested in job retention and job creation.

3. **Analysis of community financing trends over time.** If similar sets of analyses are done over a period of several years, then the financing trends of a given community will become clearer. This type of analysis will show which types of lending are increasing, which are decreasing, and which are remaining the same.

These community level credit need analyses are limited by incomplete sets of data. The Home Mortgage Disclosure Act, for example, does not require residential lending disclosure for financial institutions outside of major metropolitan areas or with less than \$10 million in assets. Proposed and actual commercial lending or deposit disclosure has been limited to those institutions applying for public deposits or entering a new state. Nevertheless, analyses of available data will be useful to local economic development efforts. In addition, disclosure data aids in identifying those financial institutions which are likely partners in specific local reinvestment programs (see Appendix 3).

C. Housing and Commercial Credit Flows Analysis

In addition to identifying the unmet credit needs of a particular community, the public agency charged with analyzing disclosure data may want to conduct broad analyses of credit flows within a municipality, metropolitan area, or state. Credit flow analyses can be useful in understanding which communities are receiving reinvestment dollars and which are not; in isolating the relationship of such factors as race and income to lending; and in aiding decisions on what types of reinvestment or subsidy programs may be needed to increase investment in jobs and housing.

Some relatively sophisticated studies of housing lending have been conducted which identify numbers, dollar amounts and types of housing loans flowing into census tracts, and analyze the relationship between loan flows and characteristics such as the income and race of the residents, and the age and type of housing. Studies of this type have been done for the metropolitan areas of Chicago, Washington, D.C., Denver, and Baltimore.⁶ These studies have used HMDA data, which provides a complete list of housing loans made by savings and loan associations and

banks in major metropolitan areas. Similar analyses could be conducted by public agencies.

To date, less work has been done on commercial lending flows, because no correspondingly broad-based commercial lending disclosure requirement exists.⁷ However, as more data becomes available through commercial disclosure and linked deposit legislation, it will soon be possible to conduct similar and more sophisticated studies. Commercial lending can also be tracked by the type of business receiving the loan, the purpose the loan was made for, and the size of the loans made.

D. Differences Between Housing and Commercial Credit Analyses

Because many more studies have been conducted analyzing housing credit flows than business lending, it is important to point out some of the specific ways in which commercial lending analysis differs from housing lending analysis. First, houses are located in specific communities with identifiable income, racial, and housing characteristics. Therefore, statistical analyses can draw conclusions about who benefits from housing loans and can identify patterns of discrimination that may exist. However, people often do not work in the same census tract, neighborhood, or small community in which they live. Therefore, analyses of commercial lending in relationship to the race or income of the people living in the community where the loan is made may not be as conclusive or as direct in determining benefit or need as the relationship is with housing loans.

In fact, commercial lending--wherever it takes place--may create jobs for people throughout a city or county. Therefore, to understand who benefits from business lending and what credit needs are unmet, and to identify patterns in business lending, it may be just as important to analyze the type of business and industry receiving the lending and the types of jobs they provide, as it is to analyze the race of the community where the business is located. For example, increases in lending to the manufacturing sector of a metropolitan area--whose work force includes large numbers of minority workers--may result in an increase in good jobs for minorities, regardless of the racial make-up of the community where the loan is made. On the other hand, lending to the retail sector may have a much more direct impact on the economic health of a specific neighborhood.

A second difference in analyzing commercial credit flows is that business loans are often made to a corporate headquarters, and it is difficult to identify where the money is being used. Large, national corporations may use a banking relationship in one part of the country to finance growth somewhere else.

A third difference is that when analyzing housing lending, it is customary to standardize the dollars loaned in a community by the number of housing units of that type. When analyzing business lending, however, there are several different indicators of business activity which can be used to standardize the number of dollars loaned in a community: 1) One measure of business activity is the number of jobs of a particular type in a given area. This information is available at the zip code level from the Bureau of Labor Statistics. 2) Another measure is the number of businesses of a certain type, also available from the Bureau of Labor Statistics at the zip code level. 3) Finally, a state or municipality may want to use internally generated data from sales tax receipts to judge business activity in particular community. More work needs to be done analyzing commercial lending patterns to determine which indicator of business activity provides the best measure for standardizing business lending.

While special attention needs to be paid to the methods used in commercial lending analysis, broad analyses of housing and business lending are useful to the public agency because they can contribute to economic development planning and aid in the targeting of public resources, including public deposits. They can also be very useful to the public agency and to the Community Reinvestment Policy Advisory Committee in developing the goals of a linked deposit program.

Credit flows analyses at all levels by the public agency may need to draw from additional data sources to arrive at useful conclusions about lending patterns. Some of these data sources include: the HMDA data tapes available from the Federal Reserve Bank; census data; Consolidated Report of Condition, a listing of assets and liabilities by type, and a Consolidated Report of Income, a listing of sources of income and expenses, filed with the appropriate bank regulatory agency on a quarterly basis (commonly referred to as "bank call reports"); Bureau of Labor Statistics reports on employment by industry at the zip code level; Small Business Administration loan and business activity data; and other internally generated data, such as sales tax receipts by community area or additional bank disclosure information (see Appendix 5).

V. The Question of Loan Demand

The most frequent response by financial institutions to studies and programs which highlight or seek to correct credit flow inequities is, "But I see no demand from that area for loans..." In truth, lending disclosure data can measure where credit is going and, to an extent, where it is needed. However, disclosure studies cannot measure (or create) loan demand. The

need of a community or type of business for additional investment does not automatically translate into loan customers. Problems with loan demand can be dealt with in two ways, through marketing and through incentive and subsidy programs.

Loan demand is, in part, created. It is through marketing that need becomes translated into demand. Indeed, effective marketing often creates a new "need." While financial institutions regularly market their products and services, they often target their marketing programs to large businesses and more affluent communities. Any program to increase investment in a credit-needy community must include the marketing of available loan programs by financial institutions, by public sector participants, and by community organizations and institutions. The latent demand of credit-worthy borrowers will be tapped when the borrower is aware that simple, affordable, appropriate loan products are available.

Even with effective marketing programs, however, increased demand for credit from investment starved communities does not necessarily translate into "bankable" deals. Often such barriers as increased risk, lack of adequate or appropriate collateral, or the higher relative costs of processing small loans, mean that many marginal--but economically important--loans will not get made without public incentives, subsidies, or guarantees.

Federal programs which operate on the principle of providing support to make marginal loans more attractive include the loan guarantees provided by FHA and VA on single family home mortgages and by SBA on small business loans, and UDAG grants on commercial development projects. Numerous local strategies which operate on this principle have been developed by state and municipal governments as well. Many use government bonding authority to raise capital, and others use such programs as the Community Development Block Grant funds to provide subsidy.

In addition, many local governments are now looking at the strategic use of public deposits and banking business as a way to increase the incentive to financial institutions to invest in economic development efforts. The public agency charged with fostering reinvestment can utilize its public deposits to design programs to meet specific credit needs. It is important that these programs include marketing components and sufficient subsidy and credit enhancement to reach those most in need of credit.

VI. Using Public Deposits to Promote Reinvestment

Because public bodies are large customers, they, like any desirable customer, can negotiate the conditions under which they will make deposits and conduct banking business. Government accounts can be very profitable and desirable business for a

financial institution. Often there is a great deal of competition by financial institutions to get the public business. This gives public bodies the opportunity to invest their public deposits strategically. They can encourage and reward the types of economic development lending or provision of banking services of highest priority.

In deciding where to place public deposits and conduct government banking business, there are several factors for comptrollers or treasurers to consider: first, the safety and soundness of the institution with which they are doing business; second, the interest rate they are getting on their deposits and fees charged for other services; and third, the ability of the financial institution to rapidly and efficiently meet their special banking needs, such as processing large numbers of small checks received for permits and licenses, processing large payrolls, and the ability to conduct public bond business. A fourth consideration, the extent to which the financial institution is helping to meet the unmet credit needs of the community or state, is less often addressed, but may be done so through the establishment of "linked deposit" programs.

"Linked deposit" programs can function in several ways, and are best developed in consultation with the constituencies represented on the Advisory Committee. One of the simpler forms that linked deposit programs can take is as a "set-aside" or "incentive" program, available to those financial institutions which apply to participate. A certain portion of public deposits is reserved or set aside, to be deposited with banks which have developed reinvestment programs for the targeted "economic development" lending. Banks or community development organizations could initiate these programs, and then apply for the incentive deposits. The public deposits in this pool could be placed at either market rate or slightly below market rate, if this subsidy is necessary to make the more difficult economic development lending possible.

The State of Illinois "Special Opportunities Program" is this type of linked deposit program. An example of its successful use is the East Humboldt Park Mortgage Program, in which a local bank, in partnership with a community organization, applied for a below-market deposit to the bank. This deposit enabled first time home buyers in a poor hispanic community of Chicago to achieve home ownership at a below market interest rate.⁸

Several states, including Iowa, Louisiana, Michigan, Missouri, and Wyoming, have similar programs with below market interest rates targeted specifically to the farm sector of the economy. The programs in Missouri and a similar program in Ohio target below market rate deposits at the credit-needy small business sector.⁹

Another form that linked development programs can take is as "reward deposit" programs. This type of program also sets aside

a pool of deposits, but these deposits are used to reward banks with strong reinvestment records. Once the public agency administering the program and the Advisory Committee have defined the types of lending or services which are a priority, it will be clear that some of the financial institutions applying for public deposits and public banking business already have particularly strong records of lending in some of these areas. These institutions can be awarded market rate deposits from this pool to "reward" this service. In addition, public recognition of banks already practicing strong reinvestment lending can be made through issuing awards.

The more complicated form that linked deposit programs can take is one of using numerical formulas to "qualify" banks for public deposits. This is the approach followed by the State of Massachusetts Linked Deposit Program.¹⁰ The public collector defines the reinvestment criteria that will be used to evaluate bank performance and these criteria are quantified. In order to be eligible for public deposits, a bank must achieve a certain minimum reinvestment standard.

The purpose of reinvestment legislation, public deposit programs, and lending disclosure laws is to promote reinvestment in jobs and housing. The task must be approached seriously, creatively, and collaboratively by the public bodies, communities, and financial institutions involved. The real needs and limitations of each of the partners must be understood and respected. Barriers to the goals of the program must be reduced one by one through constructive problem solving. The result will be a more strategic use of public deposits in fostering economic development and the reinvestment of both public and private monies in the local economy.

ADDENDUM NOTES

ADDENDUM NOTES

1. States with some form of linked deposit legislation include Illinois, Iowa, Louisiana, Massachusetts, Michigan, Missouri, Montana, Ohio, and Wyoming. Cities with municipal depository ordinances include Chicago, IL; Cleveland, OH; and Hartford, CT. **Legislative Sourcebook on Financial Deregulation**, National Center for Policy Alternatives, 1988.
2. See **Using HMDA: Evaluating the Quality of Disclosure Data from 1980 to 1982**, Shlay, Anne B., Woodstock Institute, 1985, and **Tracking Chicago's Business Bucks: Commercial Lending Disclosure and the Municipal Depository Ordinance**, Flax-Hatch, David, Woodstock Institute, 1987.
3. See **Home Mortgage Disclosure Act and Reinvestment Strategies: A Guidebook**, U.S. Department of Housing and Urban Development, January 1979; **Neighborhood Reinvestment Partnership: Community Groups Lead the Way for First Chicago**, Swift, Larry, and Pogge, Jean, Woodstock Institute, 1984; and "Managing Reinvestment: Design, Negotiation and Monitoring of the CRA Partnership," Revere, Elspeth, **Economic Development and Law Center Report**, Summer 1987.
4. See **Banks: Key to Southern Illinois Economic Development, A Report on Community Reinvestment Practices of 34 Southern Illinois Banks**, Southern Counties Action Movement, May 12, 1986.
5. For additional information, contact Ron Lapp, Federal Reserve Bank of Cleveland, East 6th Street and Superior Avenue, Cleveland, OH 44114, tel: (216) 579-2000.
6. See **Partners in Need: A Four-Year Analysis of Residential Lending in Chicago and Its Suburbs**, Pogge, Jean; Hoyt, Josh; and Revere, Elspeth, Woodstock Institute, 1986; **Where the Money Flows: Lending Patterns in the Washington, D.C.-Maryland-Virginia SMSA in 1982**, Shlay, Anne B., Woodstock Institute, 1985; **Vista of Opportunity: An Analysis of 1983 and 1984 Residential Lending in the Denver/Boulder SMSA**, Pogge, Jean, Woodstock Institute, 1987; and **Maintaining the Divided City: Residential Lending Patterns in the Baltimore SMSA**, Shlay, Anne, Institute for Policy Studies, The Johns Hopkins University, 1987.

7. The companion piece to this report, **Tracking Chicago's Business Bucks: Commercial Lending and the Chicago Municipal Depository**, Flax-Hatch, David, Woodstock Institute, 1987, provides an example of a commercial credit flows analysis. The report tracks the aggregate credit flows of business loans for the suburbs, the neighborhoods and the downtown area of Chicago, for both money-center and neighborhood banks. Also see **Commercial Credit and Rural Economic Development in West Virginia**, Boggs, Bruce S.; Sorenson, David J.; and Isserman, Andrew M., Mountain Association for Community Economic Development, January 1988.
8. **Leveraging Housing Investments with Linked Deposits: The East Humboldt Park Mortgage Loan Program**, Revere, Elspeth, Woodstock Institute, 1984.
9. **Legislative Sourcebook on Financial Deregulation**, National Center for Policy Alternatives, 1988.
10. For analysis of the Massachusetts Linked Deposit Program, see **Private Banks and Public Money: An Analysis of the Design and Implementation of the Massachusetts Linked Deposit Program**, Campen, James T., John W. McCormack Institute of Public Affairs, University of Massachusetts at Boston, Winter 1985; and **Public Policy and the Missing Link: A Progress Report on the Design and Implementation of the Massachusetts Linked Deposit Program**, Campen, James T., John W. McCormack Institute of Public Affairs, University of Massachusetts at Boston, December 1985.

APPENDIX 1. SAMPLE HMDA REPORT FORM

MORTGAGE LOAN DISCLOSURE STATEMENT
Part A—Originations

Report for loans made in 1986

This report is required by law (12 U.S.C. §§2801–2811 and 12 C.F.R. Part 203).

Depository Institution

Enforcement Agency for this Institution

Control Number (agency use only)

MSA/PMSA (location of property)

FR HMDA-1
OMB No. 7100-0090
Approval expires September 1985

[illegible]

APPENDIX 2.

CHICAGO MUNICIPAL DEPOSITORY ORDINANCE REPORT FORM

**CITY OF CHICAGO
DEPOSITARY BID FORM
CITY OF CHICAGO AND BOARD OF EDUCATION
FOR THE YEAR ENDING DECEMBER 31, 19 __
(To The Nearest Thousand Dollars)**

**DWELLING UNITS FOR NOT MORE THAN FOUR FAMILIES
AND CONDOMINIUM AND COOPERATIVE UNITS**

		%	Number	Amount
* → a-i	Loans Made on Residential Property in Chicago	—	—	—
a-ii	Loans Made on Residential Property Outside Chicago (1) . .	—	—	—
a-iii	Weighted Average Effective Interest Rate on Residential Loans in Chicago	—	—	—
a-iv	Weighted Average Effective Interest Rate on Residential Loans Outside Chicago (1)	—	—	—
a-v (2)	Average Weighted Down Payment as a Percent of All Loans Made Outside the City of Chicago but Located in The 6 County SMSA (10)	—	—	—

**DWELLING UNITS FOR MORE THAN FOUR FAMILIES
IN THE AGGREGATE**

		%	Number	Amount
* → a-i	Loans Made on Residential Property in Chicago	—	—	—
a-ii	Loans Made on Residential Property Outside Chicago (1) . .	—	—	—
a-iii	Weighted Average Effective Interest Rate on Residential Loans in Chicago	—	—	—
a-iv	Weighted Average Effective Interest Rate on Residential Loans Outside Chicago (1)	—	—	—
a-v (2)	Average Weighted Down Payment as a Percent of All Loans Made Outside the City of Chicago but Located in The 6 County SMSA (10)	—	—	—

**CONSUMER AND COMMERCIAL LENDING INFORMATION
FOR THE PERIOD ENDING _____, 19 __**

* → (b-i)	Consumer Loans Made in the City of Chicago	—	—
(b-iii)	Consumer Loans Made Outside Chicago (1)	—	—
(c-i)	Commercial Loans Made in the City of Chicago	—	—
(ciii)	Commerical Loans Made Outside the City of Chicago (1) . . .	—	—

(1) Outside Chicago refers to the Six County, STANDARD METROPOLITAN STATISTICAL AREA (SMSA) which includes COOK (Not including Chicago), DUPAGE, KANE, WILL, McHENRY and LAKE Counties.

*Reference to appropriate section of Chapter 7-34 of the Municipal Code of Chicago.

✱

(d)

§

DWELLING UNITS FOR NOT MORE THAN FOUR FAMILIES AND CONDOMINIUM AND COOPERATIVE UNITS

*Reference to appropriate section of Chapter 7-34 of the Municipal Code of Chicago.

CITY OF CHICAGO
DEPOSITORY BID FORM
CITY OF CHICAGO AND BOARD OF EDUCATION
REPORT BY CENSUS TRACT
FOR THE YEAR ENDING DECEMBER 31, 19 —
(To the Nearest Thousand Dollars)

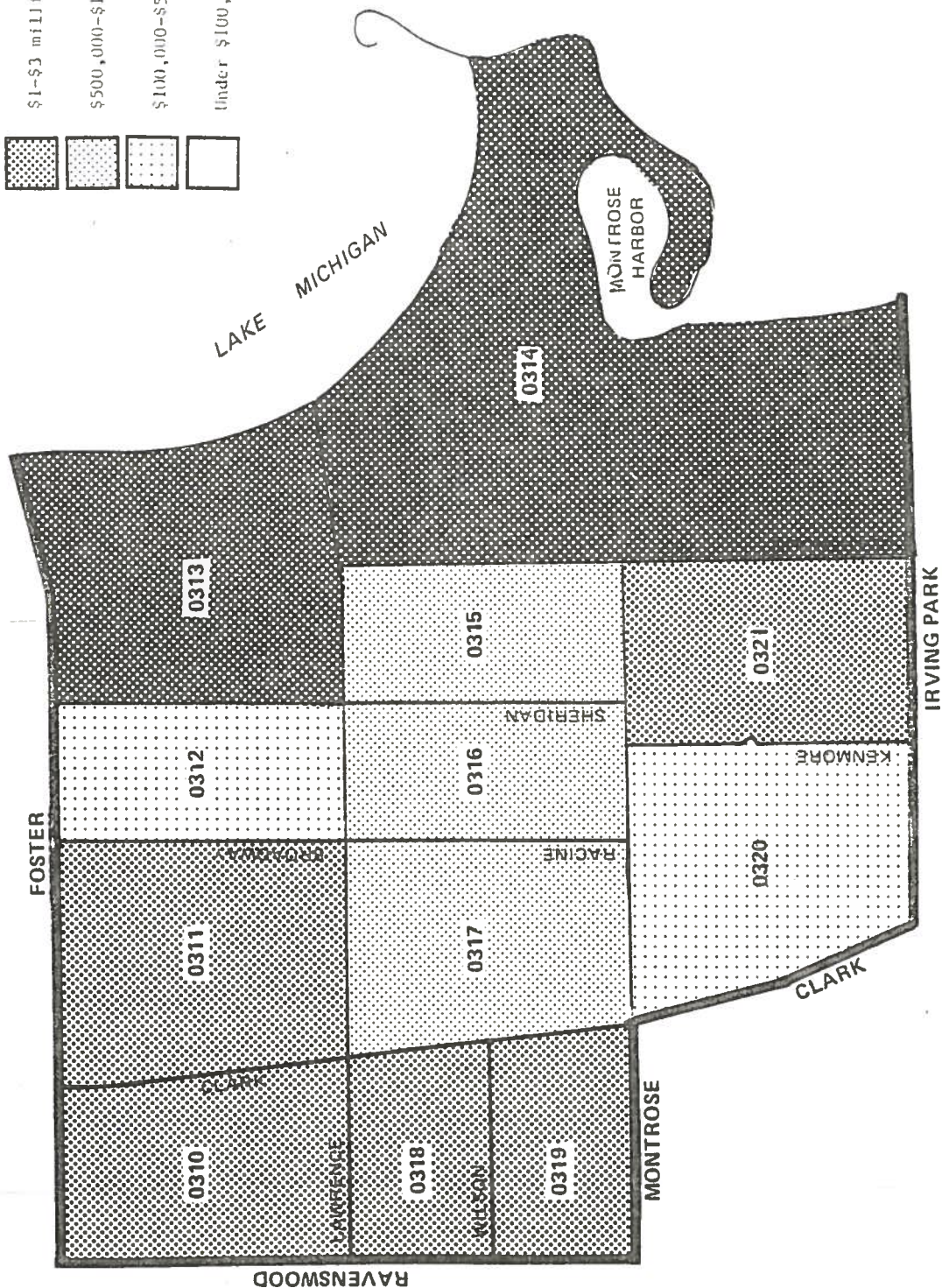
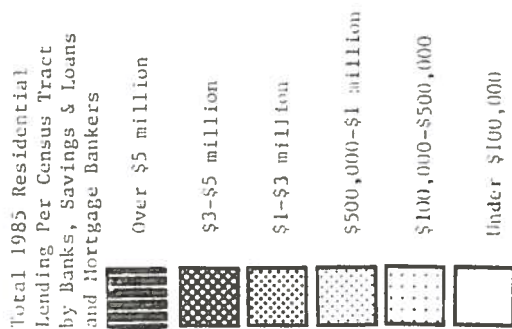
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*Reference to appropriate section of Chapter 7-34 of the Municipal Code of Chicago.

APPENDIX 3. SAMPLE COMMUNITY LENDING PROFILE: *
UPTOWN COMMUNITY, CHICAGO, IL

* Source: 1985 Community Lending Fact Book, Woodstock
Institute, 1987.

COMMUNITY AREA 3 UPTOWN



COMMUNITY AREA BOUNDARY CENSUS TRACT BOUNDARY CENSUS TRACT NUMBER

COMMUNITY AREA 3

UPTOWN

TOTAL HOUSING LENDING

	<u>Total Number of Loans</u>	<u>Total Dollar Amount</u>
Banks, Savings and Loans	261	\$15,756,000
Mortgage Bankers	<u>36</u>	<u>\$ 2,180,000</u>
Total	297	\$17,936,000

LENDING/HOUSING UNIT \$532

MEDIAN INCOME \$14,455

HOUSING

	<u>Number of Units</u>	<u>Percent of of Total Units</u>
Single Family (1-4 units)	3,751	11%
Multifamily (5 or more)	<u>29,968</u>	<u>89%</u>
Total	33,719	100%
Renter Occupied	24,480	
Owner Occupied	3,731	

POPULATION

	<u>Number of People</u>	<u>Percent of Total Population</u>
Black	9,416	14.6%
White	30,561	47.4%
Spanish	14,984	23.3%
Other	<u>9,453</u>	<u>14.7%</u>
Total	64,414	100.0%

CHICAGO COMMUNITY AREA LENDING PROFILES
FOR BANKS AND SAVINGS & LOAN ASSOCIATIONS (1985)

AREA #3 UPTOWN

AREA 3 UPTOWN

LENDER NAME	FHA/VA # LOANS	FHA/VA \$(000'S)	CONV # LOANS	CONV \$(000'S)	MULTI FAMILY # LOANS	MULTI FAMILY \$(000'S)	HOME IMPROVE # LOANS	HOME IMPROVE \$(000'S)	TOTAL # LOANS	TOTAL \$(000'S)
ALL AMERICAN BK OF CHICAGO	0	0	1	40	0	0	0	0	1	40
AMALGAMATED T&SB	0	0	1	28	0	0	0	0	1	28
AMERICAN NB&TC	0	0	4	773	0	0	0	0	4	773
AVONDALE FSB	0	0	18	1078	5	580	0	0	23	1658
BANK OF CHICAGO	0	0	2	53	0	0	1	3	3	56
BANK OF RAVENSHOOD	0	0	15	739	0	0	0	0	15	739
BELMONT NB OF CHICAGO	0	0	0	0	1	22	0	0	1	22
BEN FRANKLIN S&LA	0	0	2	187	0	0	0	0	2	187
BOULEVARD BK NA	0	0	2	176	0	0	0	0	2	176
BROADWAY BK	0	0	1	70	0	0	0	0	1	70
CENTRAL FS&LA	0	0	1	100	0	0	0	0	1	100
CITICORP SVG OF IL FS&LA	0	0	23	1072	0	0	1	18	24	1090
CLYDE FS&LA	0	0	1	55	0	0	0	0	1	55
COLONIAL B&TC	0	0	2	51	0	0	1	3	3	54
COMMERCIAL NB	0	0	0	0	0	0	1	2	1	2
COMMERCIAL NB OF CHICAGO	0	0	3	95	2	306	0	0	5	401
COMMUNITY B&TC OF EDGEWATER	2	93	4	194	0	0	0	0	6	287
CRAGIN FS&LA	0	0	5	311	1	129	0	0	6	440
DEVON BK	0	0	0	0	0	0	1	24	1	24
ENTERPRISE SVG BK FA	0	0	1	34	0	0	0	0	1	34
FAIRFIELD S&LA	0	0	2	274	0	0	0	0	2	274
FIRST ILLINOIS BK EVANTN NA	0	0	14	493	0	0	1	7	15	500
FIRST NB LINCOLNSHIRE	0	0	1	168	0	0	0	0	1	168
FIRST NB OF CHICAGO	0	0	8	605	0	0	0	0	8	605
FIRST NB OF LAKE ZURICH	0	0	1	281	0	0	0	0	1	281
FIRST NB OF NILES IL	0	0	1	150	0	0	0	0	1	150
GREAT AMERICAN FS&LA	0	0	4	179	0	0	0	0	4	179
HARRIS T&SB	0	0	1	18	0	0	0	0	1	18
HORIZON FSB	0	0	13	1013	0	0	0	0	13	1013
IRVING FS&LA	0	0	1	54	0	0	0	0	1	54
LAKE VIEW T&SB	0	0	3	101	0	0	4	37	7	138
LAKESIDE BK	0	0	1	54	0	0	0	0	1	54
LAND OF LINCOLN S&LA	0	0	5	251	0	0	0	0	5	251
LIBERTY FS&LA	0	0	2	119	0	0	0	0	2	119
LINCOLN NS	0	0	3	184	0	0	2	56	5	240
LINCOLN PARK FS&LA	0	0	1	148	0	0	0	0	1	148
LINCOLN S&LA	0	0	2	182	0	0	0	0	2	182
MAIN BK	0	0	1	150	0	0	0	0	1	150
MICHIGAN AVENUE NB OF CH	0	0	2	123	0	0	0	0	2	123
NATIONAL BANK OF GREECE SA	0	0	0	0	0	0	1	4	1	4
NORTH COMMUNITY BK	2	79	0	0	0	0	0	0	2	79
NORTH FS&LA OF CHICAGO	0	0	0	0	1	80	1	9	2	89
NORTHERN TC	0	0	1	114	0	0	0	0	1	114
NORTHWEST NB OF CHICAGO	0	0	0	0	0	0	3	26	3	26
OAK T&SB	0	0	3	242	0	0	0	0	3	242
PARKWAY B&TC	0	0	1	40	0	0	0	0	1	40
PATHWAY FIN FA	0	0	10	719	0	0	0	0	10	719
PEOPLES FS&LA OF CHICAGO	0	0	1	44	0	0	0	0	1	44

(CONTINUED)

CHICAGO COMMUNITY AREA LENDING PROFILES
FOR BANKS AND SAVINGS & LOAN ASSOCIATIONS (1985)
AREA #3 UPTOWN

AREA 3 UPTOWN

LENDER NAME	FHA/VA # LOANS	FHA/VA \$(000'S)	CONV # LOANS	CONV \$(000'S)	MULTI FAMILY # LOANS	MULTI FAMILY \$(000'S)	HOME IMPROVE # LOANS	HOME IMPROVE \$(000'S)	TOTAL # LOANS	TOTAL \$(000'S)
PIONEER B&TC	0	0	0	0	0	0	1	2	1	2
RIVER FOREST ST B&TC	0	0	3	343	0	0	0	0	3	343
SAVINGS OF AMERICA DIV OF HM	0	0	1	28	0	0	0	0	1	28
SECURITY FS&LA OF CHICAGO	0	0	1	33	1	72	0	0	2	105
SKOKIE FS&LA	0	0	1	144	0	0	0	0	1	144
ST ANTHONY FS&LA	0	0	1	48	0	0	0	0	1	48
ST PAUL FED BK FOR SVG	0	0	2	115	0	0	0	0	2	115
TALMAN FS&LA OF CHICAGO	0	0	24	1071	0	0	1	10	25	1081
UNITED SVG OF AMERICA	0	0	21	1398	0	0	0	0	21	1398
UPTOWN NB OF CHICAGO	0	0	2	133	0	0	0	0	2	133
WESTERN S&LA	0	0	3	119	0	0	0	0	3	119
TOTAL	4	172	227	14194	11	1189	19	201	261	15756

CHICAGO COMMUNITY AREA LENDING PROFILES
FOR MORTGAGE BANKERS (1985)

AREA 3 UPTOWN

LENDER NAME	VA # LOANS	VA \$(000'S)	FHA # LOANS	FHA \$(000'S)	CONV. # LOANS	CONV. \$(000'S)	HOME IMPROVE # LOANS	HOME IMPROVE \$(000'S)	TOTAL # LOANS	TOTAL \$(000'S)
ALLIANCE MORTGAGE COMPANY	2	170	1	36	0	0	0	0	3	206
ALLSTATE ENTERPRISES MORTG CORP.	0	0	0	0	2	62	0	0	2	62
COUNTRYWIDE FUNDING CORPORATION	0	0	0	0	1	45	0	0	1	45
DRAPER AND KRAMER INCORPORATED	2	198	2	150	0	0	0	0	4	348
EAGLE MORTGAGE CORP.	0	0	0	0	1	87	0	0	1	87
FLEET MORTGAGE CORP.	1	51	1	50	3	131	0	0	5	232
FREEDLANDER INC THE MORTGAGE PEOPLE	0	0	0	0	1	18	0	0	1	18
INSTITUTIONAL MORTGAGE INVESTORS IL	0	0	0	0	1	116	0	0	1	116
MANUFACTURERS HANOVER MORT. CORP.	0	0	0	0	1	76	0	0	1	76
MID-AMERICA MORTGAGE CORP.	3	253	1	37	4	294	0	0	8	584
NORTHERN CONTINENT CAPITAL FUNDS	0	0	0	0	6	251	0	0	6	251
NORTHERN FINANCIAL SERVICES	0	0	0	0	2	47	0	0	2	47
SUBURBAN METRO MORTGAGE CORP.	0	0	0	0	1	108	0	0	1	108
TOTAL	8	672	5	273	23	1235	0	0	36	2180

APPENDIX 4.
COMMERCIAL LENDING DISCLOSURE LEGISLATION

APPENDIX 4

COMMERCIAL LENDING DISCLOSURE LEGISLATION*

This Appendix lists and briefly describes the context of efforts to pass commercial lending disclosure legislation at both the state and municipal levels in recent years. Contact persons who are familiar with the various efforts are listed for those interested in more detailed information. (Only efforts which include commercial lending disclosure are listed here.)

HARTFORD, CONNECTICUT DEPOSITORY ORDINANCE

Context: This ordinance regulates the process for determining the eligibility of financial institutions to receive deposits of municipal funds. It requires financial institutions to disclose information on both their residential and commercial lending, and calls for the city manager to analyze the data and to certify those institutions which are qualified to receive deposits. The ordinance allows both for financial institutions to appeal adverse rulings and citizens to file grievances against city depositories.

Disclosure: The commercial lending provisions require reporting of the following information by census tract, both within the city of Hartford and the remainder of the SMSA: the number and dollar amount of commercial loans, the average effective interest rate of loans, the average downpayment of loans for commercial property, and the average amortization period for loan repayment.

Status: Public Law.

Contact: Kim McClain, Citizens Research Education Network.
Tel: (203) 249-1416

CLEVELAND, OHIO DEPOSITORY ORDINANCE

Context: Cleveland has had a depository ordinance which requires disclosure similar to the Home Mortgage Disclosure Act for over a decade. The ordinance has largely been unused and in early 1988 the ordinance was strengthened and expanded to ensure its use for reinvestment purposes. The changes include the addition of commercial loan disclosure, i.e., number of applications, loans made and dollars lent in

* Information in this Appendix was obtained by the Woodstock Institute through a phone survey and a review of pertinent legislation and literature.

the Statistical Planning Areas (neighborhood planning areas composed of several census tracts) within the city and county; the filing of an affidavit of intent documenting each bank applicant's planned neighborhood development initiatives; and the establishment in 1988 of a seven member reinvestment review committee made up of city administrators, council members, bankers and community representatives to administer compliance with the ordinance, to participate with the city finance director in the depository bid and review processes and to issue an annual report.

Disclosure: Beginning in March 1990, commercial loan disclosure is required as part of the "Bank On Cleveland Ordinance" which expands the 1976 law.

Status: The original ordinance has been in effect since 1976. The expanded version was passed by the City Council in March, 1988.

Contact: Phil Star, Cleveland Center for Neighborhood Development, Cleveland State University, Euclid Ave. at East 24th St., Cleveland, Ohio 44115. Tel: (216) 687-2166.
Jay Westbrook, City Councilman, Cleveland City Hall, 601 Lakeside, Cleveland, Ohio 44114. Tel: (216) 664-4230.

VERMONT INTERSTATE BANKING ACT

Context: This law governs the conditions under which bank holding companies from other states can acquire banks in Vermont. This law requires the state commissioner of banking to determine if an acquisition will result in benefits to the state economy and to continue to monitor acquired banks annually after the acquisition is granted. In order to monitor whether these banks are meeting the credit needs of their entire communities, the commissioner is directed to evaluate their lending performance in several categories.

Disclosure: The law requires the Commissioner of Banking to monitor performance in the following areas: participation in local community development and redevelopment efforts, originations of loans for small business, minority- and women-owned businesses, small farm loans, various types of residential loans, and participation in government insured, guaranteed, or subsidized loans. The precise form of this disclosure is to be set by regulation.

Status: Public Law. Disclosure provisions will be set by regulation.

Contact: Cort Richardson, Vermont Public Interest Research Group. Tel: (802) 223-5221.

MARYLAND COMMUNITY REINVESTMENT ACT

Context: This law would establish reinvestment responsibilities and standards for out-of-state bank holding companies which acquire Maryland banks. Each bank seeking entry into the state is required to submit a plan for a community development program which includes programs for meeting the credit needs of non-profit community developers, women and minority businesses, and low- and moderate-income housing.

Disclosure: All out-of-state holding companies or corporations operating financial institutions in Maryland would be required to file an annual report which includes the following: the number and dollar amount of total loans, and commercial loans and farm loans made in foreign countries, in other U.S. states and territories and within the state of Maryland. Home mortgage, home improvement, commercial and farm loans made within the state are to be reported by census tract. In addition, banks are required to disclose their involvement in any state or local development or redevelopment programs.

Status: This law was introduced in 1987 and is in committee at the time of this writing.

Contact: Delegate Kenneth Montague. Tel: (301) 841-3277.

IOWA COMMUNITY REINVESTMENT ACT

Context: This bill would require all banks, thrifts and credit unions in the state to submit information and be rated on their reinvestment performance. Only institutions with satisfactory CRA ratings would be eligible to receive state deposits or participate in any other state programs.

Disclosure: Disclosure requirements include the number and dollar amount of all housing, commercial, small business, agricultural and consumer loans within the state and within low- and moderate- income neighborhoods in the institution's service area. It would also establish a community reinvestment task force to set a reinvestment rating system and recommended policy uses.

Status: This bill was introduced in 1987 but failed to pass. It may be introduced again in 1988.

Contact: State Senator Charles Bruner. Tel: (515) 292-7225 or (515) 281-3371.

IOWA INTERSTATE BANKING ACT

Context: This set of amendments to the Iowa Regional Banking Act has disclosure provisions similar to the above cited CRA but is geared specifically to out-of-state holding companies which acquire or seek to acquire Iowa banks.

Status: At the time of this writing, these amendments had narrowly passed the Senate and were being considered by the State House of Representatives.

Contact: State Senator Charles Bruner. Tel: (515) 292-7225 or (515) 281-3371.

ILLINOIS FINANCIAL INSTITUTIONS RESPONSIBILITY ACT

Context: This law would establish reinvestment standards and service requirements of all financial service providers including generally unregulated non-depository institutions such as finance companies and mortgage bankers. All institutions engaged in lending or deposit-taking would be required to devote a percentage of their loans, deposit and ATM facilities to designated low- and moderate-income areas within the state.

Disclosure: Commercial disclosure provisions include the reporting by census tract (or county in rural areas) of the number and dollar amount of loans by major industrial type (retail, service, agricultural and industrial) and by the use of funds (real estate, machinery or operating capital). Institutions are also required to report their aggregate lending by loan size ranges and by industry type.

Status: This act was proposed in the 1987 legislative session but did not pass committee.

Contact: Jean Pogge, Woodstock Institute, 53 West Jackson Blvd., Suite 304, Chicago, IL 60604, Tel: (312) 427-8070.

WEST VIRGINIA COMMUNITY REINVESTMENT ACT

Context: The current law is similar to the Federal CRA. Activists are attempting to expand the law. The expanded version would establish reinvestment standards of 50% reinvestment of state deposits into state loans and would target 35% of total investments for job creating enterprises.

Disclosure: Disclosure provisions include the reporting of loans for small businesses, minority- and female-owned businesses by county.

Status: The basic CRA is state law. The expanded version of this legislation was introduced in 1987 but did not pass committee. Activists plan to reintroduce this legislation in 1988.

Contact: Chris Weiss, Women And Employment, Inc. Tel: (304) 345-1298.

MINNESOTA INTERSTATE BANKING

Context: This law requires out-of-state bank holding companies which acquire Minnesota banks to add "net new funds" to the state and to provide a sufficient level of "developmental" loans as determined by the Commissioner of Commerce. Annual ratings of bank performance are to be issued by the commissioner and data used for these ratings are to be made public. The specific definition of developmental loans and the ratings system are to be set by the State Commerce Commission.

Disclosure: The law provides that the number and dollar value of loans are to be reported by census tract and that the commissioner is to require disclosure of non-real estate and farm lending "delineated in sufficient detail to evaluate the lender's loan performance." At the time of writing, only one out-of-state acquisition has taken place and specific disclosure regulations are being developed.

Status: Public Law. Regulations are still being developed.

Contact: Calvin Bradford, Hubert H. Humphrey Institute of Public Affairs. Tel: (612) 376-9798.

MASSACHUSETTS LINKED DEPOSIT PROGRAM

Context: This program, established in 1978, links the privilege of receiving deposits of state funds to reinvestment performance. Financial institutions seeking state deposits are ranked according to a complex formula which takes into account the interest rate offered by the institution; in-state deposits; in-state loans; and loans to small businesses, students, tax-exempt organizations, community development organizations and mental health providers; and residential loans made in census tracts with average family income below 85% of the state average. Ratings differ according to which of three separate categories an institution falls under: commercial banks with assets over \$200 million, all other commercial banks, and thrift institutions.

Disclosure: Banks are required to report the total dollars for in-state loans and deposits, and total dollars lent in each of the following loan categories; loans to small businesses, student loans, loans to tax-exempt organizations, loans to community development corporations, loans to mental health providers, and mortgage or home improvement loans made in census tracts with average family incomes below 85% of the state average.

Status: This program has been functioning since 1978 but has met with some criticism of its rating system and its performance in actually promoting designated economic development objectives.

Contact: Lindy Sheppard, Massachusetts State Treasurer's Office, One Ashburn Place, Boston, MA 02108, Tel: (617) 367-3900.

A critique of the program has been written by John Campen, John W. McCormack Institute of Public Affairs, University of Massachusetts at Boston, (617) 929-7275.

APPENDIX 5.
ADDITIONAL DATA SOURCES

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Commercial and residential lending disclosure data may be supplemented by additional data to make sound policy decisions. Once a public collector has clearly defined the public deposit policy goals and questions to be answered, there are additional sources of information which can help in better understanding reinvestment needs and shaping deposit and banking decisions. These additional data sources include:

- A. **Home Mortgage Disclosure Act Data Computer Tapes.** All banks, savings and loan associations, and credit unions with more than \$10 million in assets in metropolitan areas must disclose all of their residential loans in several categories by census tract. This information is collected on computer tape by the Federal Reserve Bank and is available at a central depository. This data can be used to do analyses of residential lending such as the one done in Appendix 3.
- B. **Bank Call Reports.** Banks must file consolidated reports of condition and income with the appropriate regulatory agency. These reports, commonly referred to as "call reports," provide detailed information about a bank's assets and loans. Comparisons of loans made of a specific type or to a specific area to overall bank lending are possible with these reports. The most recent call report could easily be requested from the bank as part of the public deposit application package.
- C. **Census Information.** Most public bodies use census information frequently, and it is easily available. Data on housing and the racial composition of a community is useful in analyzing both the adequacy of housing lending and possible patterns of racially discriminatory lending.
- D. **Additional Disclosure of Lending and Savings Information.** Any municipality or state which requires commercial lending disclosure as a part of a public deposit law can also require that additional information be disclosed by the financial institutions bidding for deposits. The law can require disclosure of consumer loans, and demand and savings deposits by census tract. This additional disclosure can give a fuller picture of a bank's total lending in a community, and the disclosure of deposits can allow the development of "reinvestment ratios" (dollars reinvested vs. dollars in savings from a specific community).

- E. **Bureau of Labor Statistics Employment Data.** The Bureau of Labor Statistics maintains information on employment by the type of industry at the zip code, municipal, county, SMSA and state levels. This data can be used to compare the types of business in a community to the types of business loans made.
- F. **Other Possible Information Sources.** Most municipalities and states have internal information available on sales or corporate income tax revenues by community. This information can serve as an indicator of business activity and commercial lending needs. Information on small business loans made with Small Business Administration (SBA) loan guarantees is available by community from the SBA, and information on residential loans guaranteed by the FHA and VA is available from the U.S. Department of Housing and Urban Development (HUD) and the Veteran's Administration.

RESOURCE LIST

RESOURCE LIST

**Useful Publications on Commercial Lending Disclosure,
Commercial and Residential Credit Availability Analyses,
Lending Disclosure and Linked Deposit Programs and Legislation**

**Banks: Key to Southern Illinois Economic Development, A Report
on Commercial Reinvestment Practices of 34 Southern Illinois
Banks, Southern Counties Action Movement. Herrin, IL: May 12,
1986.**

**Commercial Bank Lending Patterns and Economic Development in West
Virginia, Boggs, Bruce S.; Sorenson, David J.; and Isserman,
Andrew M., Mountain Association for Community Economic
Development. Berea, KY: January 1988.**

**Commercial Credit and Rural Economic Development, Boggs, Bruce
S.; Bradford, Calvin; and Duncan, William. Presented to the May
Symposium of the Rural Economic Policy Program, A Collaborative
Program of The Aspen Institute for Humanistic Studies, The Ford
Foundation, and The Wye Institute: May 5-7, 1986.**

**Fair Lending Data and Recordkeeping Requirements: A Summary,
Bradford, Calvin, 1980.**

**A Guidebook: Home Mortgage Disclosure Act and Reinvestment
Strategies, U.S. Department of Housing and Urban Development.
Washington, DC: January 1979.**

**Legislative Sourcebook on Financial Deregulation, National Center
for Policy Alternatives. Washington, DC: 1988.**

**Leveraging Housing Investments with Linked Deposits: The East
Humboldt Park Mortgage Loan Program, Revere, Elspeth, Woodstock
Institute. Chicago, IL: 1984.**

**Maintaining the Divided City: Residential Lending Patterns in
the Baltimore SMSA, Shlay, Anne, Institute for Policy Studies,
The Johns Hopkins University. Baltimore, MD: 1987.**

**"Managing Reinvestment: Design, Negotiation and Monitoring of
the CRA Partnership," Revere, Elspeth, Economic Development and
Law Center Report, Summer 1987.**

**1985 Community Lending Fact Book, Woodstock Institute. Chicago,
IL: 1987.**

**Partners in Need: A Four-Year Analysis of Residential Lending in
Chicago and Its Suburbs, Pogge, Jean; Hoyt, Josh; and Revere,
Elspeth, Woodstock Institute. Chicago, IL: 1986.**

Private Banks and Policy Money: An Analysis of the Design and Implementation of the Massachusetts Linked Deposit Program, Campen, James T., John W. McCormack Institute of Public Affairs, University of Massachusetts at Boston. Boston, MA: Winter 1985.

Profile of Michigan's Commercial Banking Industry: Implications for Small Business Credit Availability, Kwass, Peter, and Siegel, Beth, Mt. Auburn Associates. Washington, DC: January 1986.

Public Policy and the Missing Link: A Progress Report on the Design and Implementation of the Massachusetts Linked Deposit Program, Campen, James T., John W. McCormack Institute of Public Affairs, University of Massachusetts at Boston. Boston, MA: December 1985.

Report to the Committee on Banking, Housing, and Urban Affairs of the U.S. Senate and to the Committee on Banking, Finance, and Urban Affairs of the House of Representatives, Regarding the Feasibility and Usefulness of Requiring Depository Institutions Which Make Small Business Loans to Compile and Publicly Disclose Information Regarding Such Loans, Federal Financial Institutions Examination Council. Washington, DC: May 7, 1981.

Tracking Chicago's Business Bucks: Commercial Lending and the Chicago Municipal Depository Ordinance, Flax-Hatch, David, Woodstock Institute. Chicago, IL: 1987.

Transcript of Public Hearings on the Bank on Cleveland Ordinance, Legislation Committee, Cleveland City Council. Prepared by the Center for Neighborhood Development, the College of Urban Affairs, Cleveland State University. Cleveland, OH: November 17, 1987, and January 19, 1988.

Using HMDA: Evaluating the Quality of Disclosure Data from 1980 to 1982, Shlay, Anne B., Woodstock Institute. Chicago, IL: 1985.

Vista of Opportunity: An Analysis of 1983 and 1984 Residential Lending in the Denver/Boulder SMSA, Pogge, Jean, Woodstock Institute. Chicago, IL: 1987.

Where the Money Flows: Lending Patterns in the Washington, D.C.-Maryland-Virginia SMSA in 1982, Shlay, Anne B., Woodstock Institute. Chicago, IL: 1985.

Public Policy Organizations

Association of Community Organizations for Reform Now (ACORN), 300 Flatbush Avenue, Brooklyn, NY, 11217, (718) 789-5600.

Bankwatch, P.O. Box 19367, Washington, DC 20036, (202) 387-8030.

Center for Community Change, 1000 Wisconsin Avenue, Washington, DC, 20007, (202) 342-0519.

Citizens Research and Education Network (CREN), 32 Elm Street, Hartford, CT, 06106, (203) 249-1416.

Cleveland Center for Neighborhood Development, The College of Urban Affairs, Cleveland State University, Euclid Avenue at East 24th St., Cleveland, OH, 44115, (216) 687-2166.

Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, 301 19th Avenue S., Minneapolis, MN, 55455, (612) 625-9505.

Massachusetts Urban Reinvestment Advisory Group (MURAG), 3710 Washington Street, Boston, MA, 02130, (617) 522-2077.

Mountain Association for Community Economic Development, 210 Center Street, Berea, KY, 40403, (606) 986-2373.

National Center for Policy Alternatives (NCPA), 2000 Florida Avenue, NW, Washington, DC, 20009, (202) 387-6030.

National Training and Information Center (NTIC), 954 W. Washington, Chicago, IL, 60607, (312) 243-3035.

Southern Counties Action Movement (SCAM), 200-1/2 S. Park Avenue, Herrin, IL, 62948, (618) 942-7626.

Vermont Public Interest Research Group, 43 State Street, Montpelier, VT, 05602, (802) 223-5221.

Women and Employment, Inc., 1217 Lee Street, Charleston, WV, 25301, (304) 345-1298.

Woodstock Institute, 53 W. Jackson Blvd., Suite 304, Chicago, IL, 60604, (312) 427-8070.