THE IMPACT OF HMDA ON CREDIT AVAILABILITY IN CHICAGO NEIGHBORHOODS

By

JEAN POGGE

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WOODSTOCK INSTITUTE 53 W. JACKSON, CHICAGO, IL 60604 (312) 427-8070

The passage of the federal Home Mortgage Disclosure Act (HMDA) in 1975 marked a significant neighborhood victory in the fight against redlining by regulated financial institutions. This legislation requires banks and savings and loan associations to annually disclose the number, dollar amount and type of residential loans made and bought. Disclosure of residential lending by census tract provides an invaluable tool with which to monitor lending activity in neighborhoods, develop community-based reinvestment plans and discuss reinvestment performance with lenders. It has resulted in the establishment of a data base that has been consistently helpful to regulators, financial institutions and communities as a quantitative measure of both individual lender's reinvestment performance and of neighborhood credit flows.

The Home Mortgage Disclosure Act was enacted in 1975 with a five-year life. In 1980, Congress voted to extend it for another five years. Since the necessity for Congress to renew HMDA again in 1985 presents another opportunity to examine the value of the legislation, it is a good time to review recent experience with HMDA data and look at its impact on credit availability in low- and moderate-income neighborhoods.

Within the Chicago area, HMDA has proved to be a versatile source of information to a variety of actors. HMDA data has been used to evaluate the reinvestment performance of individual financial institutions, to forge loan agreements between communities and lenders, to select socially responsive institutions in which to place deposits, to plan and manage reinvestment at the community level, and to inform bank management decisions. The data has been used by community organizations, religious institutions, regulators, and financial institutions. Below is a sample of some of the specific experiences in which Woodstock Institute has provided HMDA data analysis and/or technical assistance.

Reinvestment Agreements with Lenders

Since 1980, over $175 million has become available for loans in Chicago area low- and moderate-income neighborhoods through reinvestment agreements with Chicago financial institutions. In each case, the agreement was designed by community organizations working in tandem with the lender. All agreements specify a lending initiative implemented in partnership with neighborhood-based organizations.

To establish the basis for an equal partnership, neighborhood-based organizations not only had to demonstrate their development skills and neighborhood expertise, but also had to be familiar with lender performance and capacity. The first step in the process of establishing that familiarity was a comprehensive examination of the lending patterns evident in HMDA data. The lending volume in particular low- and moderate-income and minority neighborhoods was compared with lending volume in high-income predominantly white neighborhoods and suburbs. Central city lending was compared to suburban lending.

The individual lender's neighborhood loan volume was compared to the total for all lenders. Without HMDA, this analysis would not have been possible and new loan dollars for traditionally underserved credit markets may not have become a reality. Five significant examples of reinvestment agreements follow.

Pioneer Bank

The Westtown Concerned Citizens Coalition (WCCC) is a multi-issue Hispanic community organization based in the Humboldt Park area. To determine the credit flows in the neighborhood, in 1979 WCCC began to analyze HMDA statements from 20 Chicago banks and savings and loan associations. This analysis was used to select Pioneer Bank, a local lender, as a potential reinvestment partner with WCCC. Subsequently, WCCC developed a reinvestment partnership with Pioneer Bank and the Illinois State Treasurer called the East Humboldt Park Mortgage Program. This prpgram provided $1 million in low-interest mortgage loans to enable modest- and low-income neighborhood residents to purchase single-family homes in the community.

Rogers Park Housing Forum

In February, 1983, the Rogers Park Housing Forum, a coalition of block clubs, tenant organizations and multi-issue community organizations in Rogers Park, sponsored a Neighorhood Reinvestment Workshop for community residents. Workshop strategy sessions led to development of a reinvestment plan that included research on the match between the lending performance of local financial institutions and community credit needs. HMDA data was used to determine the lending record of local lenders at the census tract level, the neighborhood level and the city level. Survey information was used to quantify community credit needs. When an opportunity to challenge the reinvestment performance of two local lenders arose, community residents were well prepared to intelligently discuss community reinvestment opportunities. Subsequently, an agreement to create special lending programs to meet the credit needs of the community was reached with both lenders.

First National Bank

In the summer of 1983, First Chicago Corporation, the bank holding company for the First National Bank of Chicago (at the time, Chicago's second largest bank), announced its intention to acquire American National Bank (Chicago's fifth largest bank). Viewing the First Chicago acquisition as one of the most significant Chicago banking events in recent years, Woodstock Institute, a not-for-profit research and technical assistance organization focusing on reinvestment in urban areas, conducted an analysis of HMDA data for the years 1979-82 for First National Bank and American National Bank. Following an invitation to discuss this HMDA analysis, thirty-five neighborhood and city-wide organizations, calling themselves the Chicago Reinvestment Alliance, decided to use the Community Reinvestment Act to open a dialog with First Chicago about Chicago neighborhood credit needs. The Alliance presented opportunities for improvement in First Chicago's reinvestment performance to senior bank management. As a result of this dialog, First Chicago Corporation initiated a five-year, $120 million, Neighborhood Lending Program targeted to low- and moderate-income communitites in the Chicago area.

Harris Bank

In 1984, Bank of Montreal announced its intention to acquire Harris Bankcorp, at that time the third largest bank holding company in Illinois. Community-based organizations had concerns about the effect of this acquistion on credit availability in Chicago neighborhoods. HMDA analysis was used by the Chicago Reinvestment Alliance to assess the past reinvestment performance of Harris Bank. Research on HMDA data provided evidence of the importance of Harris Bank as a locally responsive lender. In response to discussions of Chicago neighborhood credit needs with the Chicago Reinvestment Alliance, Harris Bank announced a demonstration of its continuing commitment to Chicago and its neighborhoods through the initiation of a $35 million lending program targeted to low- and moderate-income neighborhoods in Chicago.

The Northern Trust

The Northern Trust Company's March, 1984 application to the Federal Reserve Board for permission to establish additional holding companies in Florida presented an opportunity for Chicago community groups to examine the bank's performance under the Community Reinvestment Act. HMDA data analysis was used to assess the Northern Trust lending record in Chicago neighborhoods and to determine opportunities for new lending initiatives. In response to discussions with the Chicago Reinvestment Alliance, The Northern Trust implemented an $18 million multi-year lending program targeted to low- and moderate- income neighborhoods in the Chicago area.

Information for Determining Deposit Relationships

Since the deregulation of interest rates on deposits, financial institutions aggressively compete for new deposits. Advertisements promise bonus interest rates, personal bankers, free checking accounts and many other inducements to attract money.

Recently, several organizations have looked for another type of incentive from lenders -- a positive community reinvestment record. Examination of a lender's HMDA record shows the extent to which it is providing home mortgages, home improvement loans and multi-family financing within neighborhoods. From this information, loan volume in low- and moderate-income and minority neighborhoods can be compared with loan volume in higher-income neighborhoods. Potential depositors can then judge if their deposits will be used to help the neighborhoods they work and live in or will be siphoned off to "upscale" markets.

Lutheran School of Theology

In the spring of 1981 a group of 45 students from the Lutheran School of Theology formed a "Task Force on Banking Alternatives" as part of a campaign to terminate the School's relationship with a bank that was lending within the Republic of South Africa. To better inform its work, the Task Force investigated five Chicago banks that were potential replacements for the existing bank. HMDA data was used to determine the lending records of those banks within Chicago. Particular attention was paid to lending performance in minority and low income neighborhoods. The results of the study were used to select a financial institution with a good community lending record for the future deposit relationship with the Lutheran School of Theology. In addition, the study was published to make the information available to others interested in using reinvestment performance as a criterion for deposit relationships.

Housing Resource Center of Uptown

When the Housing Resource Center secured a contract to manage scattered site housing for the Chicago Housing Authority, an analysis was done of of the community lending performance of local banks and savings and loans. HMDA data was examined to determine the local lending records of Uptown financial institutions. This information was used as one of the criterion for determining the most appropriate bank for the HRC Scattered Site banking relationship.

Lawyer's Committee for Better Housing

The Lawyers Committee for Better Housing looked at the reinvestment performance of Rogers Park banks and savings and loans at the time they established a local banking relationship. Local lending records as shown by HMDA data were critical to this assessment.

Reinvestment Management

Credit is the lifeblood of a healthy neighborhood economy. Without access to credit, houses don't sell, apartment buildings deteriorate, businesses contract, and neighborhoods wither.

The reinvestment of neighborhood deposits in loans to supply credit to a neighborhood is the traditional role of financial institutions. However, at times, neighborhoods have to actively monitor and manage reinvestment activity to guard against the use of credit to foster speculation and displacement of low- and moderate-income residents.

HMDA data analysis can disclose patterns of speculation as evident in uneven increases in lending volume. Often, blocks with high loan volume border areas of extremely low loan activity. Further examination can show the high loan activity is within gentrifying blocks.

HMDA data is critical for monitoring neighborhood credit flows. It provides the information necessary for community organizations to discuss marketing strategy, loan products and pricing with local lenders. Seven examples of effective reinvestment management follow.

Organization of the North East

For the last eleven years, Organization of the North East (ONE) has monitored the lending records of Uptown financial institutions. Using HMDA data to determine the extent of residential lending in the Uptown community, ONE has published the lending records of both local and downtown lenders. Periodically, ONE has discussed community credit needs with local lenders to encourage reinvestment. Because the community organization spearheaded these initiatives, they were able to advocate for reinvestment to stabilize the community and warn against the kind of speculation that had displaced the low- and moderate- income residents of other lakefront neighborhoods.

Neighborhood Housing Services in Chicago

Neighborhood Housing Services (NHS) has seven neighborhood offices in Chicago that work with lenders and borrowers to encourage residential lending in the traditionally underserved credit markets of moderate-income neighborhoods. To monitor the overall effectiveness of this work, NHS periodically examines HMDA data for those seven neighborhoods to determine if loan volume is increasing and if additional financial institutions are lending in those neighborhoods.

Organization of New City

Organization of New City (ONC) is a multi-issue community organization based in a southside black neighborhood. As part of its effort to upgrade housing quality in the neighborhood, ONC leadership developed a reinvestment plan to target specific strategies for encouraging lending in the neighborhood. To provide the information necessary to inform the planning process, HMDA data was examined to determine the local lending records of local and city-wide financial institutions. This research was publicized to create public awareness of local lending patterns and to foster discussions of community credit needs with lenders.

Uptown Center Hull House

When a local financial institution acquired several very large apartment buildings in a small area of Uptown for condo conversions, Uptown Center Hull House became concerned about the effect of this acquisition on the existing low income residents of the buildings. HMDA data was used to assess the past reinvestment performance of the institution and to oppose the acquisition as fueling speculation. Subsequently the organization opposed the low-quality management of the buildings as a continuation of the institution's pattern of disinvestment in the community.

Logan Square Neighborhood Association

Following a period of speculation in the Logan Square neighborhood, lending activity slowed to a trickle and neighborhood residents found it difficult to finance the sale of their homes. The Logan Square Neighborhood Association (LSNA) analysized HMDA data to provide the information needed to plan and focus community efforts on this problem. Through the HMDA analysis LSNA identified the top ten most active mortgage lenders in the neighborhood. The organization then publicized the positive efforts of these lenders in its newsletter and sponsored a seminar for neighborhood renters entitled "How to Buy Your First Home" to help local residents sell their homes to local residents.

1992 Committee

In 1984, the Jewish Council on Urban Affairs examined HMDA data for several downtown banks to determine the extent, if any, of land speculation at the proposed 1992 Word's Fair site. This information was presented to the 1992 Committee, a neighborhood-based, city-wide coalition examining the potential impact of the proposed Fair on Chicago neighborhoods.

South Surburban Housing Center

The South Suburban Housing Center works to end racial discrimination in real estate sales in the south suburbs of Chicago. HMDA analysis was used to educate the community, lenders and real estate brokers about patterns of discrimination in lending. From this effort an affirmative lending program was launched.

Bank Marketing Research

Corporate decision making often relies on data provided by sophisticated management information systems that map performance of production units, profitability of pricing levels, effectiveness of marketing strategies and changes in the market.

One of the simpler sources of information on the corporate performance of lenders is HMDA data. Because this information is publicly available from all banks and savings and loan associations, it can provide a rich source of information for marketing research. Lenders seeking under-served credit markets can examine loan volume by census tract and contrast it with visual inspections of housing stock in low-volume neighborhoods. This analysis can quickly identify stable moderate-income neighborhoods ripe for new home mortgage marketing efforts.

HMDA is routinely produced by individual lenders so it can provide an annual measure of the success of marketing initiatives in low- and moderate-income neighborhoods. When compared with corporate information on deposits, this information can be even more useful in informing management of the level of loan service provided to both long-term and new customers. It can also serve as a management check on loan officer attitudes towards lending in minority neighborhoods.

Although HMDA is not as widely used by management as it could be, there are several outstanding examples of its use.

Talman Home Federal Savings and Loan Association

On an ongoing basis, Talman staff look closely at changes in Talman's loan volume in Chicago neighborhoods, in the central city and in the suburbs. Comparisons are sometimes made with other lenders. This analysis is used by Talman management to inform marketing efforts, create new lending initiatives, and target appropriate reinvestment issues for personnel training.

Illinois Neighborhood Development Corporation/South Shore Bank

In 1984, the Illinois Neighborhood Development Corporation (INDC) decided to expand its activities into another neighborhood through the opening of a second South Shore Bank facility. A neighborhood selection process was designed that included seven screening criteria one of which measured the level of residential lending in neighborhoods. HMDA data was used to apply this criteria to identify under-served credit markets. After the final neighborhood selection was completed, HMDA data was again used by bank management to complete a market analysis of the income potential for a bank facility.

South Chicago Savings Bank

After discussions with federal regulators about their lending, South Chicago Savings Bank decided to design a strategy for improving their reinvestment preformance. HMDA analysis was used to test historical market demand for various types of loan products and to inform bank management of credit opportunities currently being met by competing financial institutions.

CONCLUSION

Until very recently, HMDA data has not been available in machine readable format. This has meant analysis of thousands of numbers from hundreds of financial institutions has been done without the benefit of computer speed and accuracy. Despite this substantial handicap, HMDA data has been a critical source of information for communities, lenders and regulators.

As demonstrated in this sample of specific experiences with the data, HMDA data has made a tangible impact on credit availability in Chicago, particularly in low- and moderate-income and minority neighborhoods.

Renewal of the legislation is an appropriate and low-cost way to ensure that all neighborhoods have access to the information they need to monitor housing credit flows. Expansion of the legislation to require disclosure of commercial and consumer loans from both regulated depository and nondepository lenders would enhance the usefulness of this invaluable data base.

NOTE on Improvement in HMDA Data

Woodstock Institute has collected and maintained copies of the HMDA data from Chicago financial institutions since passage of HMDA in 1975. Over the last ten years, the Institute has been a resource for community organizations, regulators and financial institutions both as a central source for the data as well as a technical assistant in analysing and using the data.

The Institute's experience with using HMDA data supplied by Chicago lenders as well as with the machine readable HMDA data prepared by the Federal Reserve Bank has shown that the quality, accessibility, and usefulness of the data has improved dramatically in recent years. A brief description of the Institute's observations on these changes follows.

The quality of the information supplied by lenders has improved dramatically. Following enactment of HMDA, financial institutions and regulators alike had difficulty interpreting what was required by the law. However, by 1978 there was fairly uniform reporting of similiar information in similiar formats by Chicago financial institutions. The 1980 legislation renewing HMDA mandated a uniform reporting format which standardized the data. There has also been consistant improvement in the quality of the information reported by lenders. Not only has the number of obvious errors in reporting (such as reporting 10 mortgages with a total of $5,000 in a census tract) diminished considerably but the omissions common in early reports have all but disappeared.

Although HMDA originally required disclosure for public inspection, it did not require financial institutions to make photocopies available or to facilitate public inspection of the data. Often a request for HMDA data would create an institution wide search for the right individual to produce the information. Many times the inspection was allowed only after a lengthy delay. Lenders often charged exhorbitant prices for photocopies of the information.

The 1980 legislation renewing HMDA mandated the creation of central depositories for the data. These depositories provide a single location for collection of HMDA data for all lenders within the SMSA. This makes data collection less intimidating and facilitates the analysis of credit availability within neighborhoods through comparison of lending records from various financial institutions.

Perhaps the most significant improvement in accessibility of HMDA data has been the conversion to machine readable format. In 1980, the Federal Reserve began to collect HMDA data from other regulators and convert it to a machine readable format. The first product of this effort was the production of total loan volume by all regulated financial institutions in census tracts in all SMSA's. These totals can be used as a simple measure of loan volume in each census tract. They also make possible a comparison of individual lender's performance to overal volume within a census tract, comparisons of loan volume among neighborhoods, and an examination of lending differences in central city and suburb locations.

The conversion of HMDA data to machine readable format for the first time permits comprehensive analysis of credit flows within and among SMSAs throughout the country. HMDA data in machine readable form allows management of large amounts of information on lending performance and patterns on computer, both mainframes and micros. As the techniques of managing this large data set are developed, community access to the information will dramatically improve. In addition, assessment of lender performance will become more timely, accurate and accessible.