COALITION OF NEIGHBORHOODS

6566 MONTGOMERY ROAD ■ CINCINNATI, OHIO 45213 ■ 513•531•2676

Testimony of

Morris Williams, Associate Director

Coalition of Neighborhoods, Cincinnati, Ohio

Submitted to the

Federal Reserve Bank of Chicago

Concerning the Merger of

Banc One Corporation, Columbus, Ohio

and

First Chicago NBD, Chicago, Illinois

August 13, 1998

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Madam Chairperson Dolores Smith, Director, Division of Consumer and Community Affairs, Board of Governors, FRS, and other distinguished members of the Federal Reserve Bank. The Coalition of Neighborhoods (Coalition or CN) is a non-profit coalition of six racially and economically integrated communities. The Coalition, in keeping with our mission to maintain, expand, and promote healthy, integrated communities, have trained our leadership to integrate the compliance requirements of HMDA, CRA, ECOA, RESPA, EEO, and the Fair Housing Act. It is our belief that the Federal Reserve System which has contributed significantly to the establishment of these laws and regulations, must now contribute more significantly to their enforcement.

The Coalition stands behind all of the statements in our July 13, 1998 challenge of this merger. Banc One's July 22, 1998 response to our challenge, specifically Appendix B, C, and D may have some slightly different numbers than we submitted, but the conclusions are the same. Their weak mortgage loan production is not responsive to the need of a 38% home ownership rate in Cincinnati. The unresponsive business lending speaks for itself, but I have attached to this testimony a couple of antidotal situations (see Attachment #2) that we believe illuminate what some black and white businesses from minority census tracts experienced with Bank One Cincinnati. We believe that a public hearing at the Cincinnati Federal Reserve Bank, comparison of the 1996 and 1997 HMDA data, and a residential mortgage and business loan file review will support what we have alleged. Our challenge, and the bank's responses, adequately describes a "needs to improve" performance based on our prospective of the lack of innovation, no complexities solved, and the unresponsiveness of Banc One Corporation relative to the overall needs in the Cincinnati area (see Attachment #I: Overall Needs-Community Banking Program, CBP).

This hearing today, and the subsequent merger decision has more to do with the credibility of the regulatory agencies, than that of the two banks involved. Renowned HMDA, CRA and financial industry experts from all over the country, in independent assessments of Banc One's performance, have concluded that the bank's approval and denial patterns in black, Hispanic, and LMI census tracts suggest violation of fair lending and consumer protection laws, and therefore, non-compliance with CRA. And, First Chicago NBD's 1996 HMDA data shows that the bank only originated a total of 29 loans in MSA 1640, all 29 went to white borrowers.

We find it odd that as the government, regulatory and financial industries move to implement direct deposit programs under the EFT "99," that Banc One would close one of only three branches it has in Cincinnati's black communities, thereby reducing access. Given Banc One's history, we are compelled to believe that once the merger with First Chicago NBD is approved, this pattern of branch closures within communities of color will continue. The Roselawn branch closure also reduced competition, which may lead to over pricing of loans and services by the one remaining bank in that community. We also find it odd that the OCC nor the Federal Reserve found issue with the isolated North Fairmount branch location, and the fact that it has no ATM or drive through window. How does this decision meet the "convenience and needs of that community? Or even nearby communities?

Bank One's extremely poor record in the appointment of blacks to its board, to "officers" positions, and its poor record in procurement of services from black providers in comparison to whites, especially in the area of marketing and advertisement was ignored on the basis that they don't fall under CRA. This is a form of unsophisticated denial, and a sense of certainty that the Federal Reserve won't integrate the analyses of these concepts in context to their relationship to discriminatory lending. Our 25 years of experience in matters of race lead us to strongly believe that a mentality and culture that refuses to properly serve blacks in the areas above, will have no problem in rationalizing away the indications of underserving and discrimination. In addition, you cannot penetrate a market if you don't advertise through it, and to it. Since Banc One does very little in this area, the low number of black applications to Banc One from black borrowers is the result.

Finally, with respect to partnership, we know that many NDC/CDC type organizations have and will provide honest testimony as to how Banc One partnered with them to achieve certain projects, but projects should not substitute for a broader economic development strategy and plan to address comprehensive reinvestment needs.

Banc One has a business plan, with a budget. The Federal Reserve is deeply involved in development of its Year 2000 Plan, and the budget to get it done. Given this insight, we encourage the Federal Reserve to "push the envelope" on performance and partnerships by giving the proposed Banc One/First Chicago NBD merger a conditional approval, until "market level" negotiated agreements, similar to the agreement between First Chicago NBD and the Chicago CRA Coalition have been established, with budgets.

Thank you very much for giving me an opportunity to express our opinion on this proposed merger.

ATTACHMENT #1

COMMUNITY BANKING PROGRAM

COALITION OF NEIGHBORHOODS
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COMMUNITY BANKING PROGRAM

The objective of the Coalition's Community Banking Program is to increase fair and equal access to capital, credit, and banking services. In as much as the Coalition promotes integrated living, we encourage each lending institution to diversify by race and gender throughout its structure and in its programming.

A. Access to Capital

When individuals and businesses have fair and equal access to business opportunities, the capital they earn will afford them checking, savings, and investment accounts with local banks, and will reduce the need for unnecessary loans. There are a variety of methods from which individuals and businesses access capital from lenders other than loans, for example:

1. Board members - The Coalition recommends a minimum of three blacks and three women (6) seats on every board.

2. Executive and Senior Management - These groups should, at minimum, reflect the population where the lender is located.

3. Employees and Consultants - Affirmative Action goals and guidelines should be established and enforced.

4. Contractors, Vendors and Suppliers - A Minority Supplier Program should be in place and enforced.

All of the above categories represent capital opportunities.

B. Access to Credit

Many individuals, communities and/or census tracts in communities have been denied credit because of their race, their gender, and/or the race or gender composition of the area for which a loan was designated. The Coalition believes there is great benefit for the lender and the total community when written agreements are made in the following areas:

1. Loan Commitments - Each lender should commit to a five year plan with yearly objectives of dollar amounts and/or number of loans they plan to originate or purchase, i.e.,
   - Single family
   - Multi-family
   - Home improvement
   - Commercial
   - Small and medium size businesses ($500 and up)
     - start-up loans
     - operating loans
     - expansion loans
     - lines of credit
   - Neighborhood Business district development

2. Loan Criteria - Lenders have broad discretion as to whether they will make allowances and/or give waivers that can make the difference in whether a loan is made or denied. Following are some of the most critical areas:
   - credit history
   - interest rates
   - down payments
   - points
   - lender fees
   - PMI
   - property appraisal

3. <u>Credit Needs Assessment</u> - Although lenders administer de-centralized needs assessments, loans made from this method generally do not have an "up grade" impact on communities or their business districts. The Coalition proposes <u>concentrated needs assessments</u> and an <u>aggressive loan rejection review process.</u>

C. **<u>Banking Services</u>** - Low to moderate income communities and especially those that are black are usually the areas where bank and S&L branches are <u>not</u> located. Check Cashing businesses represent one indicator that banks are not providing a needed service, and that residents are paying a high price simply to cash their checks.

Only one of six Coalition Communities have bank branches (Society and Fifth/Third) and no S&L branches. As our member communities of 60,000 residents are moderate to middle income, homeowner communities, with eight of the main traffic arteries (Reading Rd., Dana Ave., Montgomery Rd., Gilbert Ave., Paddock Rd., Seymour Ave., Madison Rd., and Red Bank Rd.) running through them, there should be at least two bank branches and two ATMs in each community.

In addition, all payroll and/or government checks should be accepted by all lenders for a nominal fee, certainly below the 4% to 10% fee required by some Check Cashing outlets.

D. **<u>General Philanthropic Giving</u>**

A review of the grants given by most lenders uncovered scant contributions of $100 to $2000 given the Black and/or female based organizations and/or events. Larger grants were almost always awarded to organizations serving the predominately white community. The Coalition proposes a modification of this pattern.

ATTACHMENT #2

ANECDOTAL SITUATIONS

Spencer R. Konicov
4000 Winding Way Cincinnati OH 45229-1919 (513) 221-2567

Monday August 10, 1998

Morris William's

In September of 1997 I approached Bank One on Reading Rd. to arrange for an irrevocable letter of credit to be submitted to Miami University for the satisfaction of state requirements to do contact work. At the time I submitted the request I stated that I was interested in setting up a business relationship at the bank because the bank was in my neighborhood. I offered as a guarantee of my financial stability to deposit securities with the bank. At the time I applied the securities where in the name of a trust and the business of the trust was winding down. I explained to the branch manager that the securities were to be transferred into my name shortly and that I was leaving him the certificates as proof of their existence.

Bank one took over two months of asking for and receiving additional documentation to give me the decision that the letter of credit could only be issued to me out of an Arizona Office. I said I was only interested in doing business in my neighborhood or my city and withdrew my request.

I took the same request later to North Side Bank and they issued me a letter in seven days.

Sincerely ,

Spencer R. Konicov

G.C. Pace Construction

3964 Lowry Ave Cincinnati, Ohio 45229-1310 (513) 861-4811

TUESDAY, AUGUST 11, 1998

MR. MICHAEL VEA, PRES.
BANK ONE

MR. VEA:

PLEASE ALLOW ME TO EXPRESS MY CONCERNS BASED ON PERSONAL EXPERIENCE WITH BANK ONE, READING ROAD-ROSELAWN BRANCH. DURING SEPTEMBER, 1997 A BUSINESS ASSOCIATE (SPENCER KONICOV) AGREED TO PROVIDE CLASS A STOCK SECURITY FOR COLLATERAL TO OBTAIN A LINE OF CREDIT AND AN IRREVOCABLE LETTER OF CREDIT.

THIS CREDIT WAS NEEDED TO DEVELOPE AND EXECUTE A CONTRACTUAL AGREEMENT WITH MIAMI UNIVERSITY. OUR CONTACT PERSON WITH BANK ONE WAS MR. CHRISTOPHER McGRAW. AFTER COMMUNICATING WITH MR. McGRAW AND PROVIDING AN ARRAY OF INFORMATION AND DOCUMENTATION FOR SEVERAL MONTH WE WERE TOLD THAT THE CREDIT WAS DENIED BECAUSE OF CHARACTER. I ASKED MR. McGRAW WHAT DID HE MEAN. HE COULDN'T TELL ME ANY MORE.

IN DECEMBER , 1997 WE TOOK THE SAME INFORMATION TO NORTHSIDE BANK. IN THE INITIAL MEETING WE WERE ASSURED THEY COULD GIVE US THE CREDIT. WITHIN ONE WEEK EVERYTHING WAS SET-UP.

THE TIME THAT LAPSED WHILE BANK ONE JERKED US AROUND HAS COST US IN EXCESS OF THIRY-THOUSAND DOLLAR OF LOSS AND/OR DELAY REVENUES.

SINCERELY,

CLIFFORD PHILLIPS

CC: MORRIS WILLIAMS
JOHN B. McCOY
SPENCER KONICOV

ATTACHMENT #3

MINORITY LENDING LAG ARTICLE
AMERICAN BANKER NEWSLETTER
AUGUST 7, 1998

Dems Hit Regulators re 97 HMDA & CRA
Date: 8/7/98 3:02:35 PM Eastern Daylight Time
From:
To:

Friday, August 7, 1998 (American Banker)

Democrats Hit Regulators For Minority Lending Lag

WASHINGTON - Seizing on the latest loan-discrimination data, Democratic lawmakers on Thursday demanded that regulators increase enforcement of community reinvestment and fair-lending laws. "At a time when the economy is roaring and interest rates are at a 20-year low you would expect lending to soar to minorities," said Rep. Joseph P. Kennedy 2d, D-Mass. "But it just isn't so."

Data released Thursday under the Home Mortgage Disclosure Act showed that growth in lending to minorities and low-income borrowers has slowed considerably from the double-digit percentages recorded earlier this decade. Rejection rates for blacks and Hispanics hit all-time highs. "This is the latest picture of discrimination," said Rep. Maxine Waters, D-Calif. "The fact that 98% of banks score satisfactory or better [on Community Reinvestment Act exams] does not square with this data." To press their point, 10 Democratic lawmakers sent a letter to the four banking and thrift regulators complaining of lax CRA enforcement.

"CRA plays a critical role in holding federally insured financial institutions accountable in meeting the credit needs of their communities, including low- and moderate-income communities," they wrote. "But CRA can only be effective in this critical role if CRA exams unfailingly signal [sic] out institutions that are not doing a good job of meeting such credit needs."

Bankers and regulators, however, said Community Reinvestment Act enforcement is quite rigorous. "I have just gotten through an exam by the Office of the Comptroller of the Currency, and let me tell you, the regulators are in full enforcement mode," said Agnes Bundy Scanlan, senior vice president for community reinvestment at Fleet Financial Group. "We spent thousands of hours on this with the regulators." Ronald F. Bieker, deputy director for compliance and consumer affairs at the Federal Deposit Insurance Corp., said the public needs to look at all the data, not just rejection rates and year-to-year fluctuations. The slowdown in lending "is a concern to us," he said. "But you have to look at other factors as well. Over the last five years, loans to blacks and Hispanics have grown at twice the rate for whites."

Ellen S. Seidman, director of the Office of Thrift Supervision, agreed that the data contains positive news. "Lending rates to minorities continue to increase, and at rates higher than for whites," she said. "The same is true for low-income. Lending to them increased at a rate higher than for higher-income" borrowers.

Rep. Maurice Hinchey placed part of the blame on Republican lawmakers, who have been trying to roll back CRA requirements. "We have a political problem," the New York Democrat said.

"Republicans are aggressively attacking this program." A Republican House Banking Committee official said efforts to exempt small banks from CRA will not reduce lending. "What we need is a workable CRA that targets people who need loans," the official said.

As reported Thursday in American Banker, the Home Mortgage Disclosure data for 1997 indicated a pronounced slowing in loan growth to blacks, Hispanics, Native Americans, and low-income consumers. Lending to blacks and Hispanics rose 4%, while loans to Native Americans fell 1%. In 1996, loans to Hispanics and Native Americans increased 13.4% and 11.4%, respectively, while loans to blacks rose by a similarly weak 3.1%. Whites experienced a 2% increase last year, off from an 8.1% rise in 1996. But their total of three million loans was about six times more than all other racial and ethnic groups combined. For conventional mortgages, the changes were even more anemic. Lending fell 2.6% for Hispanics and 1% for Native Americans, while rising 2.6% for blacks. For government-backed loans, growth was 11.2% for Hispanics and 5.5% for blacks, while Native Americans were off 1.7%.

The data showed that minorities continue to be rejected for loans about twice as often as whites. The greatest disparities were for those earning more than 120% of the median local income. Blacks in this income range were rejected 21.7% of the time, almost two and a half times more often than similar white applicants. Blacks earning 50% of the median local income, by contrast, were only 1.2 times more likely to be rejected than similar white applicants.

ATTACHMENT #4

MORTGAGE LENDING, RACE, AND LENDER EMPLOYMENT:
Does Anybody Who Works Here Look Like Me?

Gregory D. Squires / Sunwoong Kim / Peter Minarik

NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

MORTGAGE LENDING, RACE, AND LENDER EMPLOYMENT:

Does Anybody Who Works Here Look Like Me?

Gregory D. Squires
Department of Sociology
University of Wisconsin-Milwaukee

Sunwoong Kim
Department of Economics
University of Wisconsin - Milwaukee

and

Peter Minarik
Midwestern Regional Office
U.S. Commission on Civil Rights

A National Community Reinvestment Coalition Study

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Abstract

Debates over discrimination in mortgage lending have been contentious for decades. While evidence of discrimination has grown, lenders and regulatory agencies have also become more aggressive in responding to lending bias in recent year. One issue that is often raised, but on which there is little research, is the impact of the racial composition of the work force of financial institutions on loans to minority applicants. Using a data set on banks and thrifts in the Milwaukee metropolitan area, this study finds that the likelihood of a black applicant being approved increases as the proportion of black employees increases controlling on several applicant and institutional characteristics that influence loan review process. The effect of black professionals with thrift institutions is particularly significant. Specific research and public policy implications are suggested. Research on additional institutions in other communities and, where data are available, on more precise occupations and for other minority groups are next steps. But regulatory agencies could immediately begin to incorporate affirmative action and related issues in their enforcement activities and lenders could benefit from more aggressive voluntary affirmative action efforts.

MORTGAGE LENDING, RACE, AND LENDER EMPLOYMENT:

Does Anybody Who Works Here Look Like Me?

The charge of racial discrimination and redlining by mortgage lenders has generated contentious debate for decades. In recent years, the debate has intensified and become more complex. Today more lenders acknowledge the existence of a problem than they did just a few years ago while community groups that have most vigorously charged discrimination are working with financial institutions to implement reinvestment programs. While many continue to debate whether or not there is a problem, the discussion appears to be focusing more on why racial lending patterns are manifested and what can be done to reduce the significance of race in mortgage lending. One issue that is frequently raised, but on which there is little systematic information, is the impact of employment patterns of mortgage lending institutions on their lending practices. This study addresses the question of whether of not there is a relationship between minority employment and approval of minority loan applications.

Historically, explicit utilization of race has been endorsed and openly practiced in property appraisal, mortgage lending and insurance underwriting, and real estate sales practices, in both the public and private sectors (Jackson 1985; Massey and Denton 1993). If the overt utilization of race has faded in recent years, it has not disappeared and many traditional industry practices that may not be motivated by racial animus still exert an adverse racial effect. In the area of mortgage lending similarly qualified minorities are more likely to be rejected than whites with identical qualifications (in terms of their financial standing and the characteristics of the properties under consideration) and lenders more readily extend credit to borrowers in predominantly white areas than those in non-white neighborhoods even after borrower and property characteristics are taken into consideration ("Discrimination in Housing and Mortgage Markets" 1992; Munnell et. al. 1992; Bradbury et. al. 1989). And while the law has shifted in recent decades from a posture of endorsing discrimination to one of prohibiting the practice (most notably through the Federal Fair Housing Act, Equal Credit Opportunity Act, Home Mortgage Disclosure Act, and Community Reinvestment Act) enforcement has been grudging, at best (Dane 1989).

During the nineties lenders and realtors have begun to more openly acknowledge a problem, with the prodding of many community based organizations and civil rights groups. Tim Elverman, Vice-President of Government Relations for Bank One in Milwaukee credited neighborhood groups and the law when he stated in 1990, "Community based organizations helped us understand how to market ourselves better and understand the market and programs that might have to be developed to meet the needs in the inner city....Without the law, the bank would never have done these things." (Squires 1992:1, 22).

Debates persist over whether or not there is a problem of racial discrimination, but there is also far more discussion today over what steps can be taken by lenders, regulators, and community groups to solve recognized credit availability problems. At a 1992 conference on housing discrimination research sponsored by the Federal National Mortgage Association (Fannie Mae--a federally chartered investor in home mortgages), the group's chief executive officer stated, "The papers presented today make clear that discrimination continues to limit access to housing and mortgage credit for many citizens. The challenge now facing the housing community is to fashion solutions that remedy these disturbing findings." (Fannie Mae 1992). Early in 1994, Fannie Mae announced a 1 trillion dollar loan commitment to low and moderate income borrowers amounting to approximately half of the organization's new business for the rest of the decade. This program will also include grants to community organization, opening of 25 new offices in central cities, reduced closing costs, and increases employment opportunities for racial minorities (Vise and Crenshaw 1994).

In January of 1994, President Clinton created the President's Fair Housing Council, consisting of the Secretaries of eleven federal agencies and the leadership of four federal financial regulatory agencies, to strengthen and more effectively coordinate their efforts to affirmatively further fair housing, including fair lending activity (Executive Order 12892, 1994). Two months later the principle federal financial regulatory agencies and fair housing enforcement agencies signed a "Policy Statement on Discrimination in Lending" in which they pledged a more effective, collaborative approach to combat bias in home mortgage finance ("Policy Statement on Discrimination in Lending" 1994).

Many factors are identified as causes of racial disparities in mortgage lending markets. Income and related financial differences explain part of the racial gap. But it is also recognized that some underwriting practices on the part of lenders, private mortgage insurers, and the secondary mortgage market (institutions that purchase mortgage loans from loan originators, a practice that is much more common today than when the Fair Housing Act was passed in 1968) often adversely affect racial minorities. Subjective and arbitrary implementation of those rules, including selective utilization of race-neutral standards, frequently results in discriminatory loan patterns. Where lenders choose to open or close branch offices can also have adverse effects ("Discrimination in the Housing and Mortgage Markets 1992"; Squires 1992).

One issue that is frequently acknowledged as part of the problem, but for which no systematic evidence is available, is employment practices of lending institutions. The relatively low number of racial minorities employed, particularly in professional and managerial position, is often pointed to as one of the reasons for the low levels of lending to minorities. There is anecdotal evidence that racial minorities often feel intimidated when they walk into a financial institution and do not see anyone working there "who looks like me." In addition to the research evidence that minority loan applications are treated differently, there is anecdotal evidence that applications brought in by non-white loan officers are scrutinized more carefully by underwriters. Consequently, in recent years, reinvestment agreements signed by lenders with community organizations frequently included affirmative action commitments to increase the representation of minority employees (National Training and Information Center 1991; National Community Reinvestment Coalition 1994).

This study represents the first effort to systematically explore the relationship between minority employment and lending to minority borrowers. The key questions are the following. Do lenders who employ more racial minorities approve a larger proportion of applications they receive from minority borrowers and are those lenders more likely to approve an application from an individual minority borrower than do institutions that employ relatively few racial minorities? If so, do these relationships hold after taking into consideration relevant risk factors (e.g. income of applicant, condition of property) and structural characteristics of financial institutions (e.g. bank or thrift, size of institution).

Because housing and mortgage markets are primarily local markets (Shlay et. al. 1992), this study will focus on one metropolitan area. Lenders are regulated primarily by federal agencies and they do operate in an increasingly global economic environment. Also, secondary mortgage market institutions that operate nationally are assuming greater importance each year. But the formulation of underwriting policies, decisions to accept or reject an application, and marketing and outreach efforts, are conducted primarily at the local level in response to local conditions. The case to be examined below is Milwaukee, Wisconsin. For several reasons the Milwaukee metropolitan area is an appropriate location. Organizing around redlining issues dates back at least to the mid 1970s in Milwaukee. During the 1980s Milwaukee had the largest racial gap in mortgage lending rejection rates of all major metropolitan areas in the nation. Blacks were four times as likely to be rejected for mortgage loans as whites in Milwaukee compared to a nationwide ratio of two to one. And the disparity persists in the early 1990s. Many partnerships for reinvestment have been formed among lenders and community organizations in Milwaukee, encouraged by a variety of local and state government actions. In most cases, the agreements call for affirmative action in employment as well as lending by the financial institutions (Dedman 1989; Glabere 1992). In many ways, Milwaukee reflects the national debate over racially discriminatory practices in the United States.

Methodology

Three data sets will be utilized. First, 1990 EEO-1 reports for Milwaukee area commercial banks and thrifts will provide detailed data on the total number of employees and the racial composition of employees in each of eight major occupational classifications. Private sector employers with 100 or more employees, employers with 50 or more employees who are government contractors or a depository of government funds, and institutions that issue U.S. Savings Bonds are required to submit an EEO-1 form each year to the U.S. Equal Employment Opportunity Commission.[1] EEO-1 data were obtained for 21 banks and 13 thrifts providing home mortgages in the Milwaukee metropolitan area. The lenders in this data set accounted for 68.4% of all publicly reported mortgage loans in the Milwaukee metropolitan area in 1990.

EEO data do not distinguish officials, professionals, managers, sales positions, and technicians by specific job title. This precluded, therefore, analysis of loan approvals by specific occupational title, like "loan officer" or "underwriter." As a proxy, officials, managers, professionals, and technicians were grouped together as "professionals/administrators" and used to estimate the racial composition of employees engaged in the loan approval process. Statistics generated from the EEO data included percent of black employees at each individual institution and the percent of black professional/administrators as defined above.

The second data set is the Home Mortgage Disclosure Act (HMDA) report which commercial banks, savings and loan association, mutual savings bank, credit unions, and mortgage banks are required to submit annually to their federal financial regulatory agency (i.e. Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, or Office of Thrift Supervision) and make available to the general public. This report provides several pieces of information for each mortgage application filed with the institution including the type (e.g. home purchase, home

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[1] The EEO-1 data were obtained under a cooperative agreement between the U.S. Commission on Civil Rights and the Equal Employment Opportunity Commission. All reports and information from individual reports is confidential, as required by Section 709(e) of Title VII. To insure confidentiality, only employment ratios are reported (aggregate totals are withheld) and the order of institutions on all lists are random.

improvement, multi-family, FHA/VA) and the dollar amount of the loan; the income , race,[2] and gender of the applicant; the census tract of the property; and the disposition of the application (e.g. accepted or rejected).[3]

The 1990 HMDA data set for the Milwaukee metropolitan area comprised 35,422 loan applications. Applications for owner-occupied home purchases numbered 22,691, 64.1% of the total. Altogether 14,473 of these applications were either approved or denied with 13,919 of them being from either blacks or whites. This study was limited to those applications by blacks and whites for owner-occupied home purchases that were either approved or denied. The 34 lenders generated 9,338 mortgage loan applications from blacks and whites for owner-occupied home purchases for which there was an approval or denial. This is 67.1% of all such loan applications in the Milwaukee metropolitan area in 1990.

Finally, as the HMDA data includes the census tract in which the property is located, we are able to merge information from the 1990 Census of Population and Housing into the dataset. The Census data provide useful information on the neighborhood characteristics in which the property is located. Given the importance of neighborhood quality in home values, it would be an important determinant for mortgage loan approval.

In order to examine the effect of minority employment on minority mortgage loans, we conduct two sets of analysis. First, simple correlations and other descriptive statistics are presented that reveal an association between minority employment and the dependent variables. Second, logit analysis using the disposition of the individual loan application as a dependent variable is used to examine the relation between the

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[2] The eight race and ethnicity categories in the HMDA data are (1) American Indian or Alaskan Native, (2) Asian or Pacific Islander, (3) Black, (4) Hispanic, (5) White, (6) Other, (7) Information not provided, and (8) Not applicable.

[3] Loan applications can be (1) approved, (2) approved but not accepted by the applicant, (3) denied, (4) withdrawn by the applicant, (5) closed for incompleteness, or (6) purchased by the financial institution.

likelihood of an individual applicant receiving mortgage loan approval and black employment controlling for applicant's socio-economic characteristics, loan amount, neighborhood quality, and lender characteristics.

Findings

Preliminary Analysis: Black employment and black mortgage loan approval varied among institutions. Banks and thrifts in the sample varied in their proportions of black employment, mortgage loan applications from blacks, and loan approval rates for black borrowers. As a group, banks had higher black employment than thrifts; but black application rates for mortgage loans and black approval rates for mortgages were higher at the thrifts.

Black employment ratios ranged from 0% to 18.1% with a mean of 6.8%. For black professional/administrator ratios, the range was 0% to 6.0% with an average of 1.6%. Black employment rates at the 21 banks in the sample varied from 0% to 18.1%, with the industry-wide average being 6.2%. Aggregating employment among all banks in the sample, the banking industry had a workforce that was 10.3% black. Black employment at the 13 thrifts ranged from 0% to 15.0%, with an average black employment rate of 5.9%. The combined industry-wide average of all blacks in the thrift workforce was 6.2%. Four banks and one thrift had no black employees. Five banks and one thrift had only one black employee each.

The proportion of all mortgage loan applications from blacks among all lenders varied from 0% to 20.8% with an average of 6.3%. Among home mortgage applications from only blacks and whites that were approved or denied, 6.3% of the applicants at banks were black, whereas 8.8% of the applicants at thrifts were black. Black borrowers at thrifts received mortgage loans at a 73.4% rate, but blacks applying at banks were approved only 65.5% of the time. The loan approval rate for whites was virtually identical for both types of lenders; banks approved mortgage applications from whites at a 92.3% rate, while thrifts approved mortgage applications from whites at 92.9% rate.

Table 1

Racial Composition of Mortgage Loan Applications to Banks and Thrifts in 1990 from Sample Data

Banks

	Loan Application	Percent	Approved	Percent
blacks	226	6.4	148	65.5
whites	3292	93.6	3045	92.5
total	3518	100	3193	90.9

Thrifts

	Loan Application	Percent	Approved	Percent
blacks	512	8.8	376	73.4
whites	5303	91.2	4926	92.9
total	5815	100	5302	91.2

Black application rates and total black employment ratios were positively correlated [$\rho = 0.55$]. A positive correlation also existed between black application rates and a lender's approval rate for blacks [$\rho = 0.49$]. More significantly, minority employment appears to be associated with lending to minority borrowers. There is a positive correlation between levels of black employment and a lender's loan approval rate for blacks [$\rho = 0.39$]. Further, the lenders in the sample with above average levels of black employment average a 68.6 percent approval rate for mortgage loan applications received from blacks compared to 40.4 percent for those with below average black employment. The question that arises, therefore, is whether or not this relationship holds after controlling on key applicant, neighborhood, and institutional characteristics.

Table 2

Black Employment Rates, Black Administrator Rates, Black Application Rates, and Loan Approval Rates for Blacks by Bank*

bank	black emp rates	black prof/admin rates	black application rates	black approval rates
1	8.33	0	4.38	50.00
2	8.80	2.70	5.10	90.00
3	0	0	0	-
4	3.60	0	2.38	100.00
5	7.70	4.00	11.79	73.80
6	0.6	0	0.6	0
7	14.86	1.89	3.45	50.00
8	14.22	3.4	12.97	79.66
9	0	0	0	-
10	11.60	5.99	9.8	39.29
11	8.72	2.00	4.44	50.00
12	10.38	0	0	-
13	8.97	4.44	6.74	66.67
14	1.28	0	4.17	100.00
15	1.42	0	0	-
16	0	0	0	-
17	2.17	0	0	-
18	0	0	0	-
19	1.72	0	3.33	0
20	7.14	0	9.83	100.00
21	18.05	0	7.14	100.00

* The listing of banks in Table 2 has been randomly generated from the original list of banks. This is to protect the confidentiality of an individual bank's statistics.

Table 3

Black Employment Rates, Black Administrator Rates, Black Application Rates, and Loan Approval Rates for Blacks by Thrift*

thrift	black emp rates	black prof/admin rates	black application rates	black approval rates
1	0.53	0	5.83	71.42
2	5.74	1.92	1.35	100.00
3	4.19	1.17	7.16	70.30
4	0.00	0	2.30	100.00
5	15.00	0	12.16	59.26
6	9.09	2.50	2.38	100.00
7	3.18	0	4.30	76.19
8	1.80	3.57	1.46	66.67
9	6.91	2.98	14.77	88.98
10	9.86	2.61	7.51	72.41
11	5.31	0	7.86	65.51
12	5.55	0	11.35	51.92
13	10.38	3.52	20.82	77.91

* The listing of thrifts in Table 3 has been randomly generated from the original list of thrifts. This is to protect the confidentiality of an individual thrift's statistics.

Logit Analysis: Binary choice model of logit analysis is utilized in order to examine the effect of lender employment on the disposition of individual mortgage loan applications. The dependent variable of the logit model is whether or not the mortgage application is approved by the lender (APPROVE = 1 when the loan application is approved and 0 when it is rejected). The independent variables include characteristics of the financial institution including the minority employment variables, characteristics of the applicant, and characteristics of the property.

The key minority employment variables of lenders were (1) the ratio of black employees in the total workforce at the institution (BLKRATIO), and (2) the ratio of blacks in professional or administrative positions (BLADRAT). Other lending institution characteristics included size measured in terms of number of employees (EMP), the number of home mortgage applications (HOMELOAN), and type of institution (INST). Institution type referred to whether the lender is a commercial bank or thrift such as savings and loans associations or mutual savings bank (INST = 0 for commercial banks and 1 for thrifts). For applicant characteristics, applicant race (RACE = 1 for black and 0 for white), annual income of the applicant (INCOME) and mortgage loan amount (LOANAMT) were considered. As a control for the neighborhood characteristics, median home value of the census tract in which the property is located (CTVALUE) was also included in the model as an independent variable.

The results of the logit estimation are reported in Table 4. Various interaction terms with the race variable (RACE) were included in the estimated model to test the hypothesis that black applicants are treated differently from white applicants. Also due to several structural distinctions between commercial banks and thrifts, several interaction terms with the institution type (INST) are included.

The results generally confirms the hypothesis that institutional characteristics as well as the characteristics of the applicant and the property are important determinants of the loan approval. All the variables that represent applicant characteristics turned out to be significant. Applicant income is statistically significant at 0.1 percent level, and has the expected sign. In other words, the higher the income, the more likely the loan will be approved. The amount of the loan is significant at the 5 percent level, and also has the expected sign meaning that applications for smaller amounts are more likely to be approved. The race the of the applicant turned out to be significant at the 0.1 percent level indicating that minority applicants have a lower likelihood of getting the loan approved. The interaction term between RACE and INCOME is significant with a positive coefficient indicating that higher income for blacks increases the approval rate more than it does for whites. The neighborhood characteristic also turned out to be significant at the 0.1 percent level indicating that applications for loans on properties in higher valued neighborhoods are more likely to be approved. The type of institution (INST) turned out to be significant at the 0.1 percent level. This result suggests that mortgage loans are more likely to be approved by a thrift than by a bank, everything else being equal.

Table 4

Estimated Logit Model of Home Mortgage Application Approval

Dependent variable: APPROVE (1 if the loan approved, 0 if not approved)
Mean of the dependent variable: 0.909

Variable	Coefficient	t-ratio	Mean
Constant	2.00	9.451***	
EMP	0.657E-03	4.616***	477.58
HOMELOAN	- 0.245E-02	- 2.949***	554.25
BLADRAT	0.249E-01	0.481	2.1107
BLKRATIO	- 0.406E-01	- 1.799	7.255
INST	- 0.784	- 3.575***	0.62306
INCOME	0.110E-01	4.908***	51.158
LOANAMT	- 0.196E-02	- 1.957*	75.107
RACE	- 2.02	- 6.273***	0.0791
CTVALUE	0.105 E-04	5.941***	82488
RACE*BLADRAT	- 0.100	- 1.119	
RACE*BLKRATIO	0.501E-02	1.345	
RACE*INCOME	0.127E-01	2.098*	
INST*EMP	- 0.185E-02	- 5.153***	
INST*HOMELOAN	0.354E-02	4.109***	
INST*BLADRAT	0.201	3.137***	
INST*BLKRATIO	- 0.282E-01	- 1.080	
RACE*INST*BLADRAT	0.242	2.041*	
RACE*INST*BLKRATIO	- 0.206E-02	- 0.053	

Number of Observation: 9333
Log-Likelihood - 2523.5

Constrained Log-Likelihood (no RACE effect) - 2,590.5
Constrained Log-Likelihood (no INST effect) - 2,560.6

*** significant at .001
** significant at .01
* significant at .05

It is important to note that many interaction terms with INST were significant. The interaction term between INST and EMP and the term between INST and HOMELOAN are significant at the 0.1 percent level indicating that banks and thrifts behave very differently in the mortgage lending market. More specifically, holding everything else constant the loan approval rate of a larger bank is higher than a smaller bank, whereas it is higher for a smaller thrift. Similarly, a bank with a smaller number of mortgage loan applications has a higher approval rate, whereas a thrift with a larger number of applications has a higher approval rate.

The interaction terms between INST and the racial composition of lenders also reveal substantial differences between the types of lenders. The interaction term between INST and BLADRAT turned out to be significant at the 0.1 percent level indicating that the effect of BLADRAT on the approval rate is stronger with thrifts than with banks. Moreover, the interaction term with RACE, INST, and BLADRAT was significant at the 5 percent significance level indicating that the effect is stronger for blacks that whites. In other words the likelihood that a loan application will be approved is higher in those institutions where black professional employment is relatively larger, and this relationship holds after controlling on several socio-economic characteristics of borrowers and neighborhoods in which properties are located. The relationship is stronger with thrifts than with banks. Most importantly, it is stronger for blacks than for whites. Given the larger role of thrifts than commercial banks in mortgage lending, the findings pertaining to thrifts may be the most significant.

Contrary to the strong results relating to BLADRAT (proportion of black administrative and professional employees), the variable BLKRATIO (the proportion of all black employees) including all its interaction terms with INST and/or RACE turned out to be insignificant. Given the fact that BLKRATIO includes all employees such as clerical, janitorial and other low level positions, it is not surprising to find out that BLKRATIO does not affect the likelihood of loan approval.

Using the base model, we conducted two nested hypothesis using likelihood ratio tests. The first null hypothesis is that blacks and whites have the same likelihood of mortgage loan approval. The hypothesis is rejected at the significance level of 1 percent, as the test statistic, 2*(2,590.5 - 2,523.5) = 134, is greater than the critical value of χ^2 (6 degrees of freedom) = 16.81. The second null hypothesis is that banks and thrifts have the same likelihood of approving an application. This hypothesis is also rejected as the test statistic, 2*(2,560.6 - 2,523.5) = 74.2 is greater than the critical value of χ^2 (7 degrees of freedom) = 18.48.

On average, blacks and white have quite different characteristics in terms of income, amount of the loan, and the neighborhood in which the property is located. Table 5 shows the racial difference of the two groups. Similarly, banks and thrifts also have different characteristics. Moreover, these two types of institutions are subject to different sets of government regulations. Table 6 shows the average characteristics of lending institution weighted by the number of loans made to them.

Table 5

Average Chracteristics of Applicants by Race

	INCOME ($)	LOANAMT ($)	CTVALUE ($)
White	52,674	77,841	85,575
Black	33,496	43,271	46,533

Table 6

Average Chracteristics of Lending Institution by Type

	EMP	HOMELOAN	BLADRAT (%)	BLKRATIO (%)
Bank	664.77	332.54	2.62	9.08
Thrift	364.33	688.38	1.80	6.15

The estimated model is used to calculate the likelihood of approval of a mortgage loan submitted to two types of lenders. In order to highlight the difference, we chose two different sets of applicant characteristics: those of an average white applicant (i.e., an applicant with the mean value for whites on each variable) and an average black applicant. These calculations are shown in Table 7. The base case refers to our data set. The model predicts that the average white will have 93.3% approval rate when submitting an application to an average bank (i.e., a bank with mean values for each variable), and 94.5% when applying to an average thrift. The average black, has a substantially lower approval rate. The average black approval rate is 66.6% for the average bank and 77.6% for the average thrift. However, part of these discrepancies can be accounted for by the socio economic differences of the two racial groups. The bottom four figures control for these differences. If a black applicant has the same income, applies for the same amount of the loan, for a home in the same neighborhood as the average white applicant, the approval rate would be 80.4% for the average bank and 91.7 per cent for the average thrift. These rates are substantially lower than 93.5% and 95.4% for the average white. Similarly, if a white applicant has the same characteristics as the average black, the approval rate will be 89.2% for the average bank and 92.5% for the average thrift. These figures are substantially greater than the comparable numbers of 64.9% and 83.4% for blacks.

Table 7

Estimated Probabilities of the Approval Rate (in per cent)

	Base case	1% point increase in BLADRAT	1% point increase in BLKRATIO
Avg. white at avg. bank	93.4	93.5	93.1
Avg. white at avg. thrift	94.5	95.4	94.1
Avg. black at avg. bank	66.6	64.9	66.8
Avg. black at avg. thrift	77.6	83.4	77.3
Black equal to avg. white at avg. bank	81.6	80.4	81.7
Black equal to avg. white at avg. thrift	88.5	91.7	88.3
White equal to avg. black at avg. bank	89.0	89.2	88.6
White equal to avg. black at avg. thrift	90.8	92.5	90.2

The next columns in Table 7 represent the estimated approval rates if the percentage of the black administrative/professional employment (BLADRAT) and black employment (BLKRATIO) were to increase by one percentage point. The first observation of this thought experiment is that the increase in BLKRATIO will not yield any significant changes, whereas the increase in BLADRAT will. The second result is that the change is much larger for thrifts. For example, if the BLADRAT increases from the current average of 1.8% to 2.8% in the thrift industry, the approval rate of the average black will increase from 77.6% to 83.4%.

In this sample 70.0% of mortgage loan applications from blacks and 62.3% of applications from blacks and whites were made at thrift institutions. Thrifts, of course, focus more exclusively on mortgage lending than do commercial banks which are involved in a variety of commercial and consumer as well as residential lending and investment activities. Therefore, a higher proportion of thrift employees and particularly professional employees, are involved in the mortgage lending process than is the case with commercial banks. The evidence from this study strongly suggests that the proportion of black professional/administrators in thrift institutions significantly affects the probability of loan approval for black applicants.

In summary, the basic finding of this study is that racial composition of the workforce matters. As the proportion of black employees of a mortgage lender increases the likelihood that an application from a black borrower will be approved also increases. Particularly significant is the ratio of black professionals with thrift institutions. This relationship persists even after controlling on several applicant and lender characteristics that influence the loan review process. These preliminary findings indicate the need for further research but they also reveal directions for public policy.

Research and Policy Implications

The association between minority employment and minority lending found in this study strongly suggests the need for further research. Despite the limitations of the data sets utilized in this study, these findings also suggest directions for policy that need not await further research.

A critical research question is the impact of minority employment in more detailed occupational classifications. Loan officers and underwriters are in particularly important positions to determine lending patterns. But top management and boards of directors may also have significant influence. Analysis of minority representation in these positions would be particularly useful. This research, of course, would require voluntary cooperation of lenders themselves or the assistance of financial regulatory agencies. Such information is not available in any public data source.

Another clear research need is replication of this study for additional cities. Cities where the racial composition or levels of segregation differ may exhibit different relationships between employment and lending patterns. City size, region of the country, number of financial institutions, and other factors may change the association between employment and lending. Perhaps more important, where similar patterns are found the responses by lenders, public officials, community groups, and others will be more substantial in those communities than is likely to be the case if only one city is examined. It is simply too easy to dismiss as irrelevant for a given city, the research findings from a case study of another community.

The impact of the employment of other protected groups remains unadvised. Employment levels for Hispanics, Asians, and other minorities, for women, and minority women may influence lending to these groups. These issues need to be subject to empirical investigation.

A related research need is employment practices of other financial institutions that directly impact on mortgage lending. Real estate agents, property insurers, private mortgage insurers, and secondary mortgage market institutions which purchase most of the loans originated by lenders are some of those actors for whom little is known about employment practices.

Another direction for future research is the effect of variables not included in this study. For example, the number of branch offices and whether any are located in the central city, the types of loans (e.g. conventional or government insured , single family or multi-family, home purchase or home improvement), local economic conditions (e.g. unemployment rates, number of housing starts), relationships among lenders and other providers of housing services (e.g. real estate agents, insurers, mortgage investors), and other factors which affect lending practices may also affect the relationship between employment and lending.

But there are policy implication which need not await further research. First, these findings reinforce the wisdom of those community groups that have negotiated affirmative action commitments in CRA agreements with local lenders. Second, and more importantly, these findings suggest the need to revise the regulations federal financial regulatory agencies have developed to enforce the Community Reinvestment

Act (CRA). Under the CRA federally regulated lenders have a continuing and affirmative obligation to assess and be responsive to the credit needs of their entire service areas, including low- and moderate-income neighborhoods. Regulated financial institutions are evaluated in terms of their lending, investment, and related services. Based on this evaluation lenders receive one of four ratings: (1) outstanding; (2) satisfactory; (3) needs improvement; or (4) substantial noncompliance. Minority employment and affirmative action should be included as an additional assessment factor in these evaluations and ratings. And data on minority employment by occupational classifications should be included among the information lenders are required to make available to the public.

Many lenders are depositories of federal and other public funds. Most if not all lenders offer credit products and savings accounts that are federally insured. Several of these institutions are federal contractors and subject to Executive Order 11246 which requires affirmative action by most private businesses that contract with federal agencies to provide goods and services. Given the significance of credit availability for urban redevelopment and the linkage between employment and lending, the U.S. Equal Employment Opportunity Commission (EEOC) and the Office of Federal Contract Compliance Programs (OFCCP-a division of the U.S. Department of Labor) should give greater priority to lending institutions in their monitoring and enforcement activities.[4]

Finally many lenders stand to gain by voluntarily implementing more effective affirmative action plans to increase their employment of racial minorities. Good business that is missed today, either because of bias by a predominantly white workforce or the hesitancy of qualified borrowers to enter an institution where nobody looks like them, can become profitable loans tomorrow if more minority employees (particularly at the

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[4] The EEOC is charged with enforcing Title VII of the Civil Rights Act of 1964 prohibiting employment discrimination and the OFCCP enforces Executive Order 11246, the two major federal anti-discrimination rules in the area of employment.

professional level) are successfully recruited and retained. As the ABA Banking Journal editor concluded, "banks may take some comfort from the fact that sincere efforts to eliminate bias are the right thing to do. further, done properly they will prove to be good for business" (Streeter, 1993 : 19).

These actions would constitute a significant beginning in efforts to positively address the linkage between minority employment and minority lending. Further research, no doubt, would reveal additional steps that could be taken.

The Future of Redlining and Reinvestment

Urban problems generally and discriminatory credit problems in particular have received more attention in recent years than at any time since the Kerner Commission issued its warning that "To continue present policies is to make permanent the division of our country into two societies; one, largely Negro and poor, located in the central cities; the other, predominantly white and affluent, located in the suburbs and in outlying areas" (National Advisory Commission on Civil Disorders 1968: 22). Persistent levels of segregation, increasing central city poverty amidst growing suburban affluence, and heightened racial tension and conflict indicate that the warnings of the Kerner Commission are coming true (Massey and Denton 1993; Jaynes and Williams 1989; North Carolina Law Review 1993). Lending practices are a vital part of this process.

If redlining and discriminatory credit practices have become less explicit and overt in recent decades, they clearly have not disappeared. One dimension of this complex discriminatory process that has received little attention is the employment practices of lenders and their implications for lending in urban communities. Yet this is one of, unfortunately, many issues that needs to be addressed in order to reverse the process of disinvestment into one of reinvestment.

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