Assessing Lending Institutions' Community Development Activities under the Community Reinvestment Act

Jason Stoehr

Most of the literature regarding banks' performance under the Community Reinvestment Act (CRA) has focused on mortgage lending, leaving other important effects of CRA on community development (CD) under-examined and overlooked. One of the reasons for this lack of research is that home lending data is more readily available. Another reason is that data on other CRA activities reported in CRA exams are vague and inconsistent. The lack of data makes it difficult to monitor and enforce CRA–regulated bank activity.

To understand this gap, this paper presents a brief literature review of the history and intent of CRA, and an analysis of CRA examinations of large banks operating in Delaware released between 2008 and 2010. What CD activities are lending institutions undertaking to comply with CRA? How are activities measured and reported? Is the level of detail provided sufficient to assess the extent to which these investments are contributing to CD efforts? The findings of this inquiry reveal inconsistencies in how regulatory agencies rate lending institutions. These insights provide the basis for recommending reporting changes that can make the CRA an even more effective policy tool for helping communities access credit, and for helping community organizations provide services in underserved areas.

Introduction

The Community Reinvestment Act (CRA) was passed to ensure that underserved communities have equal access to credit and opportunities for community development (CD). Consequently, banks that fall under its jurisdiction have become a valuable source of non-government funding for CD service organizations, as they have both the assets to provide grants and loans, and the motivation to do so due to CRA requirements. Most of the literature regarding banks' performance under CRA has focused on mortgage lending, partly because the lending score is weighted more heavily in the overall evaluation and partly because mortgage lending data through the Home Mortgage Disclosure Act (HMDA), which requires banks to collect basic demographic and financial data on all mortgage loans they originate, is easier for researchers to obtain. The lack of research on the impact of other CRA activities, such as CD lending and CD giving, "has resulted in overlooking some important impacts of CRA, including the building and strengthening of partnerships between banks and CD organizations and the development of a whole host of new institutions that, but for CRA, would not exist – at least not anywhere near the scale they exist today" (Immergluck, 2004, pp. 237).

The answers to the following research questions regarding banks' CRA CD activities in Delaware begin to make that assessment: What CD activities are lending institutions undertaking to comply with CRA? How are those activities measured and reported under CRA? Is the level of detail provided sufficient to assess how deeply these investments may or may not be contributing to CD efforts?

Methodology

For background on the history of CRA and its impact on banking and CD, a brief literature review was conducted. To answer the research questions above, the CRA examinations of large banks operating in Delaware released between 2008 and 2010 were assessed. The three-year time period was chosen because CRA examinations are required to take place every three to four years. Therefore, going back four years or more would have led to some banks being represented twice and some only once. The three-year span covers nearly every large bank with a presence in Delaware.

Large banks with assets over $1 billion are the focus of the study because different examination methods apply to small banks and wholesale banks, clouding an already difficult comparison. Large banks have more assets and are more likely to make sizeable investments and contributions to CD efforts. The 2008–10 time period yielded nine examinations of eight large banks. One bank was re-examined after one year because it received a score of "Needs to improve," which is the second lowest score a bank can receive. A score of "Needs to improve" could lead community groups or municipalities to challenge the banks' regulated activities such as acquisition of or merger with another institution, opening branches in new areas, or engaging in other regulated activities. Comparison of the nine evaluations resulted in data regarding total HMDA loan amounts, total CD amounts, summaries of community loan activities, total investments, summaries of investments and grants, and summaries of CD services.

Delaware's unique corporate environment has led to many of the nation's largest banks moving their headquarters there. Focusing on banks in Delaware provides an opportunity to study several large banks within the same service area. This allows an analysis of how CRA examinations report CD activities without having to account for regional differences in economy or socio-economic characteristics of the population. As noted below, the reviews in this study included assessments by each of the four regulatory agencies. Therefore, it can be assumed that the format of the exams reviewed here is followed in exams of banks nationwide.

History of CRA

In 1977, the CRA was enacted by Congress in response to evidence that banks were refusing loans to otherwise qualified individuals because they lived in certain areas of cities—a practice known as redlining. The act requires depository institutions above a minimum size to serve the credit needs of all the communities from which they draw deposits. The intent of the law is to ensure equal access to lending institution services and to encourage reinvestment in low- and moderate-income (LMI) communities as a way to reduce urban blight (Essene & Apgar, 2009). Reinvestment includes home mortgage loans, small business investment, investment in CD activities, and location of services. CRA does not require banks to make unsound and unprofitable loans. It does, however, require banks to implement processes for investing in poor communities, ensuring that qualified individuals and organizations within those communities can access credit and services (Essene & Apgar, 2009).

The law also requires the four federal bank regulators to evaluate an institution's lending, investment, and other services throughout the communities it serves, including LMI areas. The Office of the Comptroller of the Currency (OCC) is the primary regulator of commercial banks with national bank charters. The Federal Reserve Board (FRB) is the primary regulator of state-chartered commercial banks that are members of the Federal Reserve System. The Office of Thrift

Supervision (OTS) is the primary regulatory authority over most savings associations. The Federal Deposit Insurance Corporation (FDIC) has primary authority over state-charted, non-FRB member commercial banks and some federally chartered savings banks (Avery, Courchane & Zorn, 2009).

The four regulators periodically evaluate the CRA activities of banks and other lending institutions. After considering each institution's lending, investment, and services within their designated assessment areas, which are defined by the banks based on the communities in which their services are available, the regulators assign one of five possible ratings: Outstanding, High Satisfactory, Low Satisfactory, Needs to Improve, and Substantial Noncompliance (Schwartz, 2010).

In its first 10 years, CRA had little effect on banking activities as "regulators routinely gave lenders passing grades on their CRA assessments" (Immergluck, 2004, p. 163) and denied only eight of an estimated 40,000 applications for merger applications and branch openings (Immergluck, 2004). By the late 1980s and 1990s, enforcement of the CRA increased as bank mergers and acquisitions became more frequent and the federal government under the Clinton administration ramped up enforcement of the law. In 1995 new regulations made CRA examinations more objective and performance-oriented. Before 1995, CRA examinations focused mainly on banks' policies and procedures. Under the new regulations, the examination measures became more outcomes-based and highlighted four categories of CD: affordable housing, community services, economic development through either small business or farm lending, and the revitalization and stabilization of LMI communities (Essene & Apgar, 2009).

The revised regulations also tailored the examination process to account for the institution's size and business strategy. There are four examination modules. The first applies to small retail institutions and measures four lending ratios. The second type of examination is applied to large retail businesses and consists of rigorous tests to evaluate lending, investment, and service. The third module applies to wholesale or limited-purpose community institutions, which are permitted to select the criterion under which they are to be evaluated: CD lending, CD investments, and/or CD services. The fourth module is the "strategic plan" examination, which can be applied to any size institution where the institution determines its own lending, investment, or service performance standards (Ludwig, Kamihachi & Toh, 2009). Large banks—those with assets over $1 billion—are subject to the second module, the most rigorous CRA exams. Exams for small banks are more streamlined (Taylor & Silver, 2009).

The major enforcement provision of the CRA is that it gives standing to community groups and other organizations to challenge mergers, acquisitions, and other activities of banks that have failed to meet their CRA obligations. This is known as "regulation from below" because enforcement actions are initiated by groups representing areas the institution serves rather than by the agencies that oversee the institution's activities (Rust, 2009). To prevent challenges from community groups, many banks have negotiated CRA agreements with these organizations. Such agreements usually contain commitments to provide mortgages, sometimes at reduced interest rates, that target low-income and minority communities and households. Agreements also frequently involve commitments to provide small business loans and financing for construction of LMI housing developments (Immergluck, 2004; Schwartz, 2010; Squires, 2002). As of early 2009, several hundred agreements totaling more than $6 trillion had been signed since the CRA was passed. The majority of these originated from unilateral CRA pledges involving the nation's largest financial institutions (Taylor & Silver, 2009). Studies have shown that banks with CRA agreements tend to be more responsive than other institutions to the credit needs of low-income and minority households and neighborhoods (Bostic & Robinson, 2003; Schwartz, 1998 in Schwartz, 2010).

While community advocates, government officials, and most scholars agree that the CRA has made mortgages and other financial services more accessible to low-income and minority communities and families (Avery et al., 2009; Essene & Apgar, 2009; Squires, 2002; Taylor & Silver, 2009), changes in how the financial system operates have diluted the effectiveness of the CRA. With the consolidation of the banking industry in the mid-1990s, the lending activities in LMI areas of the top 25 large lending institutions has declined even as their total lending activities increased.

The law has no provisions to address the discriminatory tendencies in the pricing and marketing of mortgage loans, which are dominant concerns in fair lending policy (Avery et al., 2009).

In addition, the number of CRA–related loans has declined over the past three decades to the point that, in 2006 (the last full year before the recent recession), only 10% of all loans were CRA–related. Even among CRA–regulated institutions the fastest growth in lending occurred outside their assessment areas and was not subject to the most stringent CRA requirements. From 1994 through 2006, out-of-assessment lending among CRA–regulated institutions grew by 187%. (Essene & Apgar, 2009). The growth in loans outside their assessment areas gives CRA–regulated institutions an advantage in their CRA assessments because the lending portion of the test is worth 50% of the grade, while the investment and services portions are worth only 25% each. With fewer overall qualifying loans, it takes fewer loans to low-income individuals or businesses in low-income neighborhoods to achieve a high percentage and achieve a satisfactory score in the lending portion of the exam, ensuring at least a satisfactory score overall.

This highlights the need to be able to accurately assess the CD investments and services banks offer, and to determine whether they are indeed following the spirit of the CRA to ensure low-income communities have access to capital and good credit. As noted above, detailed data regarding an institution's mortgage lending activities are available in CRA exam reports and can be corroborated through HMDA data. However, "There has been essentially no systematic research on the impacts of CRA in the areas of CD investments and basic financial services. The anecdotal evidence suggests that CRA has been quite important for spurring bank investments, especially since CRA reform gave more explicit credit for such activity" (Immergluck, 2004, p. 246). Olson, Chakrabarti, and Essene (2009) concur, stating: "There is scant research on measuring outcomes from the CRA beyond the outputs of volume, cost access, and profitability of lending" (p. 6).

Community organizing facilitates CD and reinvestment (Squires, 2002). In order to advocate effectively for community reinvestment, community groups need to be able to monitor how banks are lending and investing in their communities. Many CD organizations require grants in addition to loan financing to carry out CD activities. But the evaluation of grants under CRA does not facilitate an assessment of their effectiveness, nor does the way they are scored encourage banks to increase their grant-making activities. Willis (2009) explained the following:

> Many grants for activities that are critical to the success of communities are given little weight or do not count at all. At best, they are included under the Investment Test, so their dollar volume pales in comparison to the dollar value of investments. Interestingly, although grants are more costly in that they do not offer the possibility of a direct monetary return, they earn less CRA credit than investments that can continue to qualify under the Investment Test in subsequent exams as long as they remain in the bank's portfolio. (p. 65)

It is clear that further study of banks' CRA–related CD activities and their effects on communities and institutions is needed.

CRA Community Development Activities in Delaware

As noted earlier, this study included nine CRA examinations of eight large banks in Delaware from 2008 to 2010, with assets ranging from $1.3 billion to $87 billion (Table 1). Each of the four regulating agencies is represented in this study. AIG Federal Savings Bank (AIG) is the smallest of the institutions with $1.3 billion in assets, while Chase Bank USA, N.A. (Chase) is the largest with assets of $87 billion. Only three of the eight banks carry out traditional banking services in Delaware in terms of maintaining full service branches with savings, checking, and lending activities (PNC Bank [PNC], Wilmington Trust Company, and Wilmington Fund Savings Society [WSFS]). The remaining five institutions (AIG, Chase, Citicorp Trust Bank, FSB [Citicorp], Discover Bank, and ING Bank, FSB [ING]) focus on consumer lending – mainly issuing credit cards – and

mortgage lending on a national level. ING does provide savings accounts and checking accounts, but all services are electronic with no branch services available (OTSb, 2008). Because of Delaware's favorable corporate environment, many large national banks are headquartered in Delaware. Each of the CRA examinations cited intense competition from other financial institutions because of the concentration of financial institutions in Wilmington.

Table 1 – CRA Exams Reviewed

Bank Name	Exam Agency	Date Exam Published	Asset Size (billions)
AIG Federal Savings Bank	OTS	2/25/2008	$1.3
AIG Federal Savings Bank	OTS	11/2/2009	$11.5
Chase Bank USA, N.A.	OCC	11/2/2008	$ 87
Citicorp Trust Bank, FSB	OTS	11/9/2009	$18.6
Discover Bank*	FDIC	11/26/2007	$31
ING Bank, FSB	OTS	8/6/2008	$79
PNC Bank, Delaware	FRB	2/4/2008	$3.2
Wilmington Trust Company	FRB	7/20/2009	$9.7
Wilmington Savings Fund Society, FSB	OTS	5/20/2008	$3.2

* Discover Bank exam completed in 2007 but released in 2010.
Data from: FDIC, 2007; FRB, 2008; FRB, 2009; OCC, 2009; OTSa, 2008; OTSb, 2008; OTSc, 2008; OTSa, 2009; OTSb, 2009.

The institution being examined is allowed to designate its assessment area, which is the area in which the bank conducts its lending and deposit activities. Though all but one of the banks in this study are headquartered in Wilmington, the specific assessment areas of each of the banks differed. Discover Bank's main location is Greenwood, Delaware, and so its assessment area comprised Kent and Sussex Counties, Delaware. The remaining banks tended to designate Wilmington-New Castle County, Delaware, and portions of some surrounding states such as Cecil County, Maryland; Chester and Delaware Counties, Pennsylvania; and the portions of New Jersey that fall within the Philadelphia-Camden-Wilmington Metropolitan Statistical Area. AIG changed its assessment area from the Wilmington-DE-NJ Metropolitan Division for its 2008 exam to New Castle County, Delaware, for its second exam.

Each examination includes a detailed description of the designated assessment area. The description includes data on the area's economy, such as the unemployment rate and the types of businesses and industries in the area, as well as demographic data including income, race, and household size. The data are taken from the U.S. Census and from HUD data defining median income in the designated area. The examiners use this data to rate the institution's lending practices, as they have to demonstrate that they are reaching a significant portion of the LMI population and that their activities affect LMI geographies. The varying assessment areas make geographic comparison of the banks' activities difficult. A more uniform method of applying an assessment area would allow for more accurate comparisons of different banks' activities. It would also allow for analysis of a bank's impact on a community over time.

Due to the changes in the banking industry discussed above and the loosening of CRA regulations during the Bush administration in the mid-2000s, the number of exams has fallen while the number of favorable ratings has risen (Quercia, Ratcliffe, & Stegman, 2009). The high number of favorable ratings is reflected in Delaware (Table 2).

Table 2 – CRA Exam Ratings

Bank Name	Overall Rating	Lending Rating	Investment Rating	Service Rating
AIG Federal Savings Bank	Needs to Improve	High Satisfactory	Outstanding	High Satisfactory
AIG Federal Savings Bank	Satisfactory	High Satisfactory	Outstanding	High Satisfactory
Chase Bank USA, N.A.	Outstanding	High Satisfactory	Outstanding	Outstanding
Citicorp Trust Bank, FSB	Outstanding	Outstanding	Outstanding	Outstanding
Discover Bank	Outstanding	Outstanding	Outstanding	Outstanding
ING Bank, FSB	Outstanding	High Satisfactory	Outstanding	Outstanding
PNC Bank, Delaware	Outstanding	Outstanding	Outstanding	Outstanding
Wilmington Trust Company	Outstanding	Outstanding	High Satisfactory	Outstanding
Wilmington Savings Fund Society, FSB	Outstanding	Outstanding	Outstanding	Outstanding

Data from: FDIC, 2007; FRB, 2008; FRB, 2009; OCC, 2009; OTSa, 2008; OTSb, 2008; OTSc, 2008; OTSa, 2009; OTSb, 2009.

AIG was the only bank with a less than Outstanding overall rating, receiving a Needs to Improve on its first test and a Satisfactory on its second test. These were in spite of receiving High Satisfactory and Outstanding ratings in its Lending, Investment, and Services ratings. AIG received its low overall score because it "failed to manage and control the mortgage lending activities outsourced to [an] affiliate" (OTSa, 2008, p. 18). Concern regarding oversight of the bank's fair lending practices was also expressed (OTSa, 2008). These concerns were reviewed in AIG's subsequent exam one year later, and its response was deemed sufficient enough to raise the overall score to Satisfactory (OTSa, 2009).

Scores in the specific tests were all high, with no bank receiving less than a High Satisfactory rating on any test. Wilmington Trust was the only bank with a rating of less than Outstanding on the Investment test and AIG was the only bank to receive less than Outstanding for the Service test.

Interestingly, there is slightly more disparity in the lending test scores. Five bank examinations reflected Outstanding scores in the lending test and four examinations showed High Satisfactory ratings for lending. Most of the banks made a majority of their HMDA loans, which are counted in the CRA exam, outside their assessment area. Some credit is given if loans outside the assessment area are made to LMI households, but regulators focus on loans within the assessment area. The percentage of loans in and outside the assessment area did not differ greatly among the banks, yet the scores varied, demonstrating that an element of subjectivity remains in the assessment process in spite of the efforts in 1995, noted above, to make it more objective. A detailed analysis of each section of the CRA exam follows.

Lending

The majority of the lending section of the exam reports is devoted to HMDA loan data. Regulators report on the number of HMDA loans, the geographic location in which they are made, and the income and racial characteristics of the loan recipients. The Federal Reserve Bank (FRB) also includes small business loan data in this analysis, while the other regulatory agencies devote a separate sub-section to small business loan data. The lending section concludes with a short narrative describing the CD lending

activities of the bank. The narrative usually includes the total amount of CD loans issued during the reporting period and a generalized description of what types of organizations received the loans. In addition to new loans issued, banks receive credit for loans made in prior report periods that remain in their portfolios.

The HMDA loan amounts vary widely and do not correspond directly with the institution's asset size or assessment area (Table 3). For instance, ING granted the fourth lowest amount in HMDA loans in its assessment area, but was the second largest bank in terms of total assets. On the other hand, Chase Bank had the most assets and provided the highest amount in HMDA loans. The lowest HMDA loan total, posted by AIG in its second exam, is a reflection of the shorter than usual exam period and its smaller assessment area for that exam. The total CD loan amounts were equally varied. The amounts of AIG and Citicorp's CD loans were substantially higher than their HMDA loans, while the other banks' CD loan amounts were lower than their HMDA loans. The level of detail as to what organizations these loans were made, their amounts, and their stated purposes varied by exam as can be seen in the description of how each bank's CD lending is rated below.

Table 3 - Lending

Bank Name	Asset Size (billions)	Total Assessment Area HMDA Loan Amount	Total CD Loan Amount
AIG Federal Savings Bank	$1.3	$215,783	$3 million
AIG Federal Savings Bank	$11.5	$30,606	$1.3 million
Chase Bank USA, N.A.	$ 87	$1.2 billion	$16.6 million
Citicorp Trust Bank, FSB	$18.6	$80,718	$22.3 million
Discover Bank	$31	$55.8 million	$21 million
ING Bank, FSB	$79	$739,097	$700,000
PNC Bank, Delaware	$3.2	$87.3 million	$14.4 million
Wilmington Trust Company	$9.7	$375 million	$16.3 million
Wilmington Savings Fund Society, FSB	$3.2	$341 million	$45.8 million

Note: Small business lending not included because this data were not always enumerated separately. Data from: FDIC, 2007; FRB, 2008; FRB, 2009; OCC, 2009; OTSa, 2008; OTSb, 2008; OTSc, 2008; OTSa, 2009; OTSb, 2009.

In its first exam, AIG Bank (AIG) was credited with a total of $3 million in CD loans. That $3 million was in the form of a line of credit to the Delaware Community Investment Corporation (DCIC), which is a CD financing organization funded by several Delaware banks to provide financing for affordable housing projects in Delaware. In the exam period, $1.6 million of that line of credit was provided to DCIC (OTSa, 2008).

In its second exam, AIG was credited with providing $1.3 million in new CD loans. This time, the loans were for eleven projects through a housing loan fund. At the time of the assessment, AIG had previously committed $5 million to this fund, and $1.3 million of the $5 million was advanced during the exam period. The date when AIG committed the total $5 million was not included in the report. Unlike the previous AIG report, this report does not specify the recipient organization

(OTSa, 2009).

Chase made $16.6 million in CD loans that qualified for CRA credit. The regulatory agency, OCC, reported that this amount was double the amount of CD loans that Chase had made during the previous assessment period. The $16.6 million in CD loans resulted in nearly 80 units of affordable housing. In addition, Chase issued a letter of credit to a nonprofit institution for $4.6 million. Finally, Chase made an additional $13.2 million in CD loans statewide, with a potential to benefit the assessment area, meaning the loans were made outside the assessment area, but spillover effects could positively impact the assessment area. OCC rated Chase's CD lending as "good," but "not strong enough to impact the lending score (of High Satisfactory)" (OCC, 2008, p. 3). This exam was the only one to report the purpose of any CD lending.

Citicorp provided $22.3 million in CD lending. Its exam itemized the amounts and the agencies that received loans, but did not report what activities or projects these loans funded. In addition to the $22.3 in CD loans in the assessment area, Citicorp was credited with $302 million in CD loans to the Broader Statewide or Regional Assessment Area (BSRA) which had a potential to benefit the specific assessment area (OTSb, 2009).

Discover Bank, with a total of $21 million in CD loans, according to FDIC, "is a leader among credit card banks in the assessment area for community development lending" (FDIC, 2007, p. 3). The loans were used for the creation of affordable housing, community services targeted to LMI populations, and agencies that work to revitalize communities. Examples from each of these categories are included, but not every loan is included in the summary. The report also notes that Discover purchases every first-time homebuyer mortgage issued by the Delaware State Housing Authority (DSHA) in Kent and Sussex County.

ING made one CD loan of $700,000 during the assessment period. This loan was used to refinance the mortgage of a nonprofit agency that provides financial literacy courses to students in elementary, middle and high schools. The organization, which was not specified, is located in an LMI area in Delaware (OTSb, 2008).

PNC Bank made nine loans totaling $14.4 million in its assessment period. Rather than summarize the organizations or types of organizations to which the loans were made as the other regulatory agencies did, FRB broke the loans down by county in which the loans were made. FRB noted that CD lending by PNC enhanced its overall lending score, which was Outstanding (FRB, 2008).

Wilmington Trust Company provided $16.3 million in CD loans. This amount consisted of nine loans: $12.6 million for affordable housing; $3.7 million for economic development; and $84,000 for CD services. The specific recipients of these loans were not reported, nor was a generic description of the types of agencies receiving these loans (FRB, 2009).

WSFS provided $45.8 million in CD loans for a variety of programs in affordable housing, community services and economic development. OTS, the regulatory agency, listed select loans with "unique characteristics" in its report, but outcomes resulting from those loans are not included (OTSc, 2008).

Recommendation

This summary of the type and use of CD loans demonstrates the vast differences between CRA exam reports, which is partly attributable to the fact that regulatory agencies themselves do not maintain a consistent format. For example, OTS, which regulates AIG, Citicorp, ING and WSFS, summarizes AIG's loans, lists each of Citicorp's loans, and provides examples of loans with "unique characteristics" on WSFS's loans. The lack of consistent data makes it difficult for third parties to verify and analyze the data in the report. Therefore, the four regulating industries should establish uniform reporting standards and formats to rate lending activities. The reports should clearly state how the agency devised its rating of the bank. Finally, at a minimum, the reports should list the amounts of each qualifying CD loan and the purpose of the loan. This level of detail would help CD organizations, which are charged with helping enforce CRA, in measuring the level of CD lending, and its impact on the community.

Investing
Similar inconsistencies are apparent in the Investment test section of the exams. See Table 4 for a list of the CD investment amounts and contributions amounts, when contributions were reported separately from investments, as well as the banks' asset size for comparison. As with lending amounts, investment amounts do not correspond to asset size.

Table 4 - Investing

Bank Name	Exam Agency	Asset Size (billions)	CD Investments Amount (millions)	Contributions Amount
AIG Federal Savings Bank	OTS	$1.3	$38.05	$831,000
AIG Federal Savings Bank	OTS	$11.5	$14.3	$23,000
Chase Bank USA, N.A.	OCC	$ 87	$15	n/a
Citicorp Trust Bank, FSB	OTS	$18.6	$272.1	n/a
Discover Bank	FDIC	$31	$114.5	$3.3 million
ING Bank, FSB	OTS	$79	$112	$3.1 million
PNC Bank, Delaware	FRB	$3.2	$20.2	$412,003
Wilmington Trust Company	FRB	$9.7	$24.7	$695,000
Wilmington Savings Fund Society, FSB	OTS	$3.2	$8.5	n/a

Data from: FDIC, 2007; FRB, 2008; FRB, 2009; OCC, 2009; OTSa, 2008; OTSb, 2008; OTSc, 2008; OTSa, 2009; OTSb, 2009.

In three exams, contributions were not distinguished from other investments. The difference between investments and contributions is that the bank generally receives a return on investments through interest accrual and/or fee generation, but no return is received from contributions aside from their tax deductibility. Like CD lending, regulatory agencies are inconsistent in their reporting of investment activities. For example, OTS reports contributions for AIG and ING, but not for Citicorp and WSFS.

Like the CD Lending section, the Investment section is in narrative format, and each report varies regarding the level of detail provided. In all cases, the total amount of CD investments is reported. However, all the reports provide some breakdown of the investments, but they do not use similar formats or provide the same level of detail. In some cases, such as for AIG, Discover and ING, both amounts and investment types are provided. For PNC, the report provides the amount of new investments and the balance from previous investments and then gives a percentage breakdown of affordable housing, small business financing and community revitalization. The report on Chase's activities provides examples of major investment and contribution activities.

Every bank invested in the provision of affordable housing, usually through the purchase of housing bonds and low income housing tax credits. When investments are listed with greater detail, some common agencies and investment types appear. Delaware State Housing Authority (DSHA) housing bonds and mortgage backed securities were a common investment for each of the banks that listed investments. Each of the banks also invested in DCIC. However, investment in DCIC also illustrates the inconsistencies in CRA reports. AIG's participation in DCIC was listed in CD lending in its first report and in Investments in the second report. All other banks' participation in DCIC was reported in the Investments section.

Another frequent investment by most of the banks was in a small business investment

corporation. The specific corporation was not listed. Small business investments always targeted minority and women-owned small businesses, or businesses located in LMI areas. Like CD lending, no goals or outcomes of investments were reported.

When they were reported separately from other investments, contributions, or grants, they comprise a miniscule portion – around 1% or less – of a bank's total investment. As noted above, contributions are more costly than loans and other investments, because the bank receives no monetary return on its investment. As with CD lending and investing, reporting on contributions to nonprofits runs the gamut from breakdown of each grant, to summaries of general grant activities. The one commonality is that none of the descriptions of contributions includes a report on the outcomes or the impact of those contributions on the community, in which they are made. Examples of how each of the reports that distinguish contributions from investments are described below.

The AIG report includes a list of the agencies that received a portion of the $831,000 that AIG granted to Delaware nonprofits, but does not state how much each organization received or the purpose of the grant. Of the $831,000, AIG Federal Bank contributed $316,000 in grants, while parent company, AIG, Inc., provided $515,000 in grants to CD organizations in Delaware (OTSa, 2008).

In its second report period, which entailed only one year, AIG provided $23,000 to grantees in Delaware, including the Delaware Community Foundation, Wilmington Renaissance Corporation, First State Community Action Agency and the Interfaith Housing Task Force. Again, specific amounts, activities and outcomes are not included (OTSa, 2009).

The specific amount of contributions made by Citicorp is not distinguished from its overall investments, but the report notes that the bank made "significant" grants to the community (OTSb, 2009, p. 29). The report includes a list of some of these significant grants, their amounts and the agencies that received them (OTSb, 2009).

Discover Bank made 167 grants to 83 organizations totaling $3.3 million. The report includes examples of some significant grants, but not all grants. The examples note what project the grant funded with only a general description of the agency, for example "an organization that provides affordable housing" (FDIC, 2007).

ING gave $3.1 million in grants to nonprofits in Delaware. Of that amount, six grants totaling $1.048 million were granted to nonprofits providing affordable housing; 33 grants totaling $2.3 million were provided to organizations providing community services to LMI individuals; and $53,000 was given to four organizations to stabilize or revitalize a LMI geography. A general description of these grants is given in the report without providing names of organizations, or project details and outcomes (OTSb, 2008).

PNC gave 64 grants totaling $412,003. Of these grants, 56% supported a variety of statewide and local-area organizations and programs that provide services to LMI families and individuals, offer affordable housing and help stabilize or revitalize communities. The remaining 44% supported PNC Grow Up Great, a nationwide PNC initiative that supports Head Start programs (FRB, 2008).

Wilmington Trust made grants and contributions to "various organizations that routinely provide affordable housing, economic development, and community development services that benefit low and moderate-income individuals and areas" (FRB, 2009, p. 16). The report includes a breakdown of amounts by geographic area (Wilmington, Dover and Sussex County), but does not include information about grant recipients (FRB, 2009).

In all the reports, contributions were generally identified as supporting agencies providing affordable housing and CD services, but specifics of how these contributions fit into the larger picture of the provision of affordable housing and CD are not available. The most detailed reports included the name of the organization that received the grant, the amount of the grant and the general project the grant funded. In most cases, only the type of organization or the types of services the organization provides are included. There is no evidence that the banks are tracking the impacts or effectiveness of their contributions.

In addition to investments and contributions made in their assessment areas, some banks were credited with additional investment activity that benefited LMI households or geographies outside their assessment area or had the potential to impact the assessment area. AIG received credit for purchasing $45.4 million in Maryland affordable housing bonds. Also enhancing its exam results were investments by its subsidiary, SunAmerica, in low-income housing tax credits in supplemental assessment areas across the country. AIG's parent company also committed $15 million from 2007 through 2009 for financial literacy programs nationwide; $1.5 million of that commitment benefited organizations with offices in the assessment area, and $350,000 supported organizations with offices in the region (OTS, 2008).

Chase, Citicorp, and WSFS were also credited with additional investments made in adjoining regions to the assessment area, which had the potential to benefit the assessment area. For example, Chase purchased additional DSHA housing bonds outside its assessment area and committed $7 million to a housing fund that invests in low-income housing tax credits. Discover bank was credited with investments by an affiliate in New Market Tax Credits. Its report indicated that overall its new investments and grants increased by 203% from its previous CRA exam, which boosted its overall investment score.

Recommendation

As with the lending section, the four regulatory agencies should adopt a uniform report format for investing. The reports should all include the same level of detail of the amount invested and the purpose of the investment. The regulatory agencies should also describe the extent to which the banks' investments contributed to its rating. To this end, the agencies could also establish investing benchmarks based on asset size and/or assessment area to make the investing rating more objective.

Services

CD also plays a role in the Service test. The main function of the Service test is to ensure that banks provide the same services to LMI communities that are available elsewhere. So, if a bank has full-service branches in high-income areas, it should also have full-service branches in LMI areas. Banks can enhance their Service test scores by providing CD services. These services are most often in the form of volunteerism, leadership and technical assistance for CD and community services organizations. Every CRA exam in this study noted that several bank officers and staff served on multiple boards of directors of nonprofit service providers in Delaware. Most of the lending institutions have an officer on the board of DCIC. Other common organizations receiving CD services were the Delaware Financial Literacy Institute and the Delaware Community Foundation.

As in the other tests, reporting on CD services was inconsistent. While, every report included language, almost verbatim, mentioning that bank officers and staff serve on community organization boards, Chase, Discover, and PNC's reports enumerated the number of boards, on which bank staff served. The other exams simply reported that "several" staff served on boards. Some of the reports listed the positions, such as Treasurer, that staff held on the boards they served. Chase was praised for taking leadership on the response to the foreclosure crisis, and several of its community partnerships are described in detail in the report. Five banks' staff members taught financial literacy courses to LMI individuals or in LMI geographies.

Because there are virtually no benchmarks on which to rely, the CD service portion is arguably the most subjective portion of the CRA exam. The other tests, at a minimum, provide the total amounts of loans and investments. There are no equivalent numbers associated with the CD service test. It is up to the regulating agency to determine whether the boards, on which staff serve, show sufficient commitment to CD service. Only AIG received less than Outstanding on its Service Test, indicating that the varied levels of community service reported in the exam reports were indeed good enough, though there is no standard that defines what "good enough" is.

Recommendation
Similar to the Lending and Investment tests, the regulatory agencies should establish more uniform reporting formats for the Service test. The report should note the level of banking services offered in LMI communities, including location and number of branches. It should also report the number of volunteer activities that benefit LMI communities that bank officers and staff participated in and the nature of those activities (e.g. volunteered at community clean-up, Habitat for Humanity build, taught Junior Achievement courses, etc.). Finally, the report should include a list of the board or other volunteer positions held by bank officers and staff. The list should include the name of the organization, the position held by the staff member (board member, trainer, etc.), and any officer positions on the board they may hold. If each exam report included such a list of CD services, volunteer activities, and board or other volunteer positions, comparisons could be made between banks to ensure that they are graded fairly, and that their services and volunteer activities contribute toward CD.

Conclusion

The CRA was enacted to ensure that low-income families and communities have access to credit in terms of home mortgages, small business investment and other CD activities. As the home mortgage market has changed, banks covered by the CRA have decreased their home mortgage activities. At the same time, the federal government has continued to decrease its investment in CD organizations and activities. Banks can receive CRA credit for making such investments, but have little incentive to increase their CD grants, lending, investments, and services under the current regulations because home lending is still weighted much higher in the exam process.

Consequently, most research on CRA has focused on home mortgage lending to the detriment of research on the other aspects of CRA, including CD investments and services. One significant reason for this lack of research is the insufficient data available, as evidenced by the nine (above) CRA examinations of large banks in Delaware.

Changes should be made to the way regulators review and report lending institutions' CRA performance in the area of CD. First, uniformity in reporting these activities can provide more accurate comparisons among banks in a community or region. As each CRA report is unique, comparisons of banks' performance is difficult, at best. A more uniform reporting format would allow community groups to accurately assess banks' CRA-related performance. Toward this end, benchmarks for the Lending and Investment tests should be established. Benchmarks for the CD lending and investment tests based on the banks' total assets, and other lending activities would provide objective measurements of a bank's performance and allow community organizations to monitor activities more effectively.

Second, regulators should be required to report CD lending and investing at the same level of detail that HMDA lending is reported. Reports should include the number and dollar amount of loans and investments, and the agencies to which they are made. Moreover, they should also include specific details as to the purpose of the loan or investment. Again, this would make the test more objective and allow CD groups, who are supposed to be the enforcers of the CRA, to more accurately assess the CD performance of banks.

Finally, the CRA exams should report on outcomes of investment and contribution activities. If a contribution was made to assist in the provision of affordable housing, the report should include how many people that contribution benefited, or how many units of affordable housing it financed. Contributions for community revitalization should be reported with specificity so monitoring groups can verify that contributions indeed help revitalize communities and benefit low- and moderate-income households. And grant-making should be evaluated for higher impacts than lending to CD organizations.

As the banking industry continues to change and CD efforts evolve, these changes can make the CRA an even more powerful and effective tool in helping communities access credit and in helping

community organizations provide services in underserved communities. With access to more detailed information, community organizations would be better equipped to enforce CRA by challenging banks' mergers and acquisitions if their lending, investment, and services were not being adequately provided. Increased transparency in the CRA examination process would also lead banks to ensure that their lending, investment, and services that they are providing for CRA credit are being provided in areas of legitimate need.

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