



# Michigan Community Reinvestment Coalition

August 12, 2004

Office of the Comptroller of the Currency  
250 E St. SW  
Public Information Room, Mailstop 1-5  
Washington DC 20219  
RE: Docket Number 04-17

## Board of Directors

Anthony Lentych-CEDA of Michigan  
Maryellen Lewis-Michigan State University-  
John Melcher-Michigan State University-  
Betty Appleby-State of Michigan  
Etoile Libbett-Real Estate One

Consultant  
Veronica L. Williams

Jennifer J. Johnson  
Secretary  
Board of Governors of the Federal Reserve System  
20th St. and Constitution Avenue, NW  
Washington DC 20551  
*Docket No. R-1205*

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17th St. NW  
Washington, DC 20429

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G St. NW  
Washington, DC 20552  
Attention: No. 2004-28

To Whom it May Concern:

The National Community Reinvestment Coalition (NCRC), the nation's economic justice trade association of 600 community organizations and the Michigan Community Reinvestment Coalition (MCRC), asks you to amend your proposed definitions of assessment area in order to ensure that no inner city areas will be redlined by lending institutions.

Your proposal to require lending institutions to delineate assessment areas on the basis of "metropolitan divisions" creates plenty of opportunities for banks to redline and for CRA examiners to enable the redlining.

According to your proposal, the Office of Management and Budget (OMB) has required federal agencies to use the new geographical unit of metropolitan division. OMB has divided large metropolitan statistical areas (MSAs) with more than 2.5 million people into smaller metropolitan divisions. The metropolitan divisions are groupings of counties within the larger MSAs.

NCRC and MCRC disagrees with your proposal's assessment that metropolitan divisions would have "de minimus" or minor impacts in most of the eleven large MSAs in which the OMB creates metropolitan divisions. Your proposal even acknowledges that the impact would be significant in the Detroit MSA in which the city (located in Wayne County) is placed in a metropolitan division that is separated from a second metropolitan division comprised entirely of suburban counties. In addition, NCRC and MCRC believes that the impact is similar for a number of the MSAs including the Boston MSA in which most of the suburban counties are separated from the city of Boston.

In a number of the MSAs, banks and thrifts can now declare the suburban metropolitan divisions as official assessment areas and declare that the urban counties are not assessment areas. CRA examiners can too easily accept these suburban assessment areas, and neglect to assess banks' performance in reaching low- and moderate-income borrowers and communities in urban areas.

The incentive for banks and CRA examiners to engage in a new form of redlining, using OMB definitions of geographical boundaries, is strengthened by a data reporting issue in HMDA and the CRA small business lending data. In HMDA and CRA data, the median income will now reference the median income for the metropolitan divisions, not the MSA (attached are our comments on the change in HMDA data that you made in the fall of 2003). This will have the effect of converting some suburban middle-income tracts into moderate-income tracts, and will have the effect of turning some urban moderate-income tracts into middle-income tracts. The net effect is that the number of moderate-income tracts will increase in the suburbs, but decrease in the cities. Thus, it will now be easier for banks to reach moderate-income census tracts in the suburbs, but harder to reach moderate-income tracts in the cities. In response to the new OMB definitions, lenders will have strong incentives to exclude the inner cities from their assessment areas.

NCRC and MCRC conducted data analysis revealing that banks will be able to justify excluding predominantly urban and lower income metropolitan divisions from their assessment areas. In the Detroit MSA, the urban metropolitan division of Wayne County accounts for only 32 percent of home (refinance, home purchase, and home improvement) loans made by CRA-covered institutions during 2002 (see Table 1). In terms of absolute numbers, CRA-covered institutions made a considerable number of loans (76,876 loans) in Wayne County. Yet, despite the importance of these lenders in Wayne County, it will be too easy for the lenders to exclude the metropolitan division of Wayne County. NCRC has observed many CRA exams in which the portion of loans in assessment areas is below the 68 percent of loans made by the banks in the suburban metropolitan division of the Detroit MSA.

The six top CRA-covered lenders in the Detroit MSA made about 40 percent of their loans in Wayne County. The percentage of loans in Wayne County ranged from 26 percent to 65 percent; the average would have been significantly below 40 percent if the lender with 65 percent was excluded from the analysis. These six lenders were the top lenders in terms of making the most loans in the Detroit MSA than other CRA-covered lenders. If any of them exclude the Wayne County metropolitan division as an assessment area, the reduction in access to credit for low- and moderate-income borrowers in Wayne County will be significant. NCRC and MCRC believes that they will have considerable

incentives to exclude Wayne County. For example, in a 2002 CRA exam done by the FDIC, the examiner states that Republic Bank, one of the top six banks, only has the northeastern part of Wayne County in its present assessment area. It will be too easy for the bank to simply eliminate this sliver of Wayne County for the next exam.

Likewise, Franklin Bank will be motivated to eliminate Wayne County from its multi-county assessment area. According to a 2003 OCC exam, Franklin Bank only has five branches, none of which are located in a low- and moderate-income census tract. The bank will be tempted to exclude Wayne County from its assessment areas since its branch geographical distribution may look more reasonable if its assessment area excludes the City of Detroit, which has a disproportionate amount of low- and moderate-income census tracts. While the bank made more than half its loans in Wayne County in 2002, it can simply increase its lending in the suburban metropolitan division to justify excluding Wayne County as an assessment area in future exams.

Thus, re-defining assessment areas may encourage banks to decrease their lending in urban areas most in need of loans and of reinvestment.

The new proposed definition of assessment areas will also threaten a number of other older and poorer urban counties. In the Boston MSA, CRA-covered lenders made only 40 percent of their loans in the metropolitan division containing the City of Boston (Table 2). In the Chicago MSA, CRA-covered lenders made only 5 percent of their loans in the metropolitan division containing Gary, Indiana. Similarly, in the Philadelphia MSA, CRA-covered lenders made only 20.9 percent of their loans during 2002 in the metropolitan division containing Camden County.

Again, it will be too easy for CRA-covered lenders to exclude the older and poorer metropolitan divisions from their assessment areas. This is an outcome that is exact opposite of CRA's mandate to end redlining by requiring lenders to serve all communities in which they are chartered.

Instead of instructing banks to declare any metropolitan division(s) as assessment area(s), the federal regulatory agencies must continue the present procedure of requiring banks to use MSAs as assessment areas. This is the surest way of ensuring that all communities, including older and poorer urban counties, are served by lending institutions.

At the very least, banks must be instructed to include predominantly urban metropolitan divisions as their assessment areas. CRA examiners must expect and ensure that banks include urban metropolitan divisions as their assessment areas.

Currently, your proposal instructs CRA examiners to consider economic and income differences among metropolitan divisions in the performance context of CRA exams. Too much discretion is left to examiners; some will choose not to consider lending performance in urban metropolitan

divisions in CRA evaluations while others may consider inner city lending. NCRC believes that the new geographical concept of metropolitan divisions will increase the number of abuses connected with defining assessment areas. In the final analysis, CRA's purpose of preventing redlining of low- and moderate-income communities will be thwarted.

The preamble to your proposal also suggests that the new definitions of HMDA data enacted by the Federal Reserve Board in 2002 may lead to double counting of MMDA and small business loans. This could occur in the case of refinance loans when such loans

are refinances of small business loans and are secured by borrowers' dwellings. The federal agencies do not anticipate the double counting to occur often, and state that they will instruct CRA examiners to consider any double counting on CRA exams. NCRC urges the federal agencies to go a step further. The CRA regulations must state that small business loans secured by real estate must not be double counted on CRA exams. A regulatory prohibition against double counting will be more effective in stopping the practice than only guidance to CRA examiners. Thank you for the opportunity to comment on this important matter. Please feel free to contact me on 517-485-3588 x144 if you have any questions.

Thank you,



Veronica Williams  
Consultant

Effects on Market Share

Top Lenders Total # Loans in Detroit- Total # Loans in Warren- % of Loans in Warren- Total # Loans in Detroit- % of Loans in Detroit-  
Warren-Livonia MSA Farmington Hills-Troy MD Farmington Hills-Troy MD Livonia-Dearborn MD Livonia-Dearborn MD  
Flagstar Bank 29 592 21 739 73 5% 7 853 26 5%  
Charter One Bank 12,416 7 960 64 1% 4 456 35 9%  
Republic Bank 7 854 5 196 66 2% 2 658 33 8%  
Comerica Bank 4 194 2 357 56 2% 1 837 43 8%  
Standard Federal Bank N A 2 337 1 373 58 8% 964 41 2%  
FranklinBank, N A 1 614 562 34 8% 1 052 65 2%  
Average of Banks Listed Above 9 668 6 531 58 9% 3 137 41 1%  
Total # Loans in Detroit- Total # Loans in Warren- % of Loans in Warren- Total # Loans in Detroit- % of Loans in Detroit-  
Warren-Livonia MSA Farmington Hills-Troy MD Farmington Hills-Troy MD Livonia-Dearborn MD Livonia-Dearborn MD  
All Lenders 240,239 163.363 68 0% 76 876 32 0%

**TABLE 1: Potential Impact of Using New Metropolitan Division Definitions in Detroit MSA in 2002**

Effects on All CRA-Covered Lenders

Total # Loans in MSA # in Essex County MD % in Essex County MD # in Cambridge-Newton- # in Cambridge Newton- # in Boston-Quincy MD % in Boston-Quincy MD # in  
Rockingham County- % in Rockingham County-  
Framington MD Framington MD Strafford County MD Strafford County MD  
All Lenders 260 311 45 079 17 3% 87 875 33 8% 104 801 40 3% 22 556 8 7%  
Total # Loans in MSA # in Lake County- % in Lake County- # in Gary MO % in Gary MD # in Chicago Naperville- % in Chicago Naperville-  
Kenosha County MD Kenosha County MO Joliet MO Joliet MD  
All Lenders 484 230 55 201 11 4% 24 768 5 1% 404 261 83 5%  
Total # Loans in MSA # in Wilmington MD % in Wilmington MO # in Camden MD % in Camden MD # in Philadelphia MD % in Philadelphia MD  
All Lenders 219 257 28 135 12 8% 45 931 20 9% 145 191 66 2%

**TABLE 2 Potential Impact of All CRA-Covered Lenders Using New Metropolitan Division Definitions**

Philadelphia-Camden-Wilmington, PA-NJ-DE MD MSA  
Boston-Cambridge-Quincy, MA-NH MSA  
Chicago-Naperville-Joliet, IL IN-WI MSA  
in Boston MSA, Chicago MSA, & Philadelphia MSA in 2002

***\*Previous NCRC Letter on HMDA Data and Metropolitan Divisions***

November 21, 2003

Tamara Wiseman

Executive Secretary

Federal Financial Institutions Examination Council

Washington DC, 20006

Dear Ms. Wiseman:

The National Community Reinvestment Coalition (NCRC) asks the FFIEC and the federal

banking agencies to reconsider the application of new definitions of metropolitan areas in the

Home Mortgage Disclosure Act (HMDA) data. A Federal Reserve Board publication has informed lenders to use new definitions for eleven large metropolitan areas. The new definitions

have the potential to distort the HMDA data by re-classifying middle-income census tracts as moderate-income or even low-income census tracts. The end result is that banks would receive favorable consideration under the Community Reinvestment Act (CRA) for making loans in neighborhoods that are middle-income areas instead of the low- and moderate-income areas targeted by the law.

The FFIEC and the federal banking agencies have made this change to metropolitan area definitions without a public comment period. NCRC and its 600 community group members

believe that this violates the spirit of the HMDA statute and could possibly violate the requirements under the Administrative Procedures Act for public comment on regulatory changes.

The purpose of the HMDA statute (12 USC Section 2801) “is to provide the citizens and public

officials of the United States with sufficient information to enable them to determine whether

depository institutions are filling their obligations to serve the housing needs of the communities

and neighborhoods in which they are located and to assist public officials in their determination

of the distribution of public sector investments in a manner designed to improve the private investment environment.”

The public policy goals of HMDA are frustrated when regulatory agencies change metropolitan

area definitions that distort the data on lending to low- and moderate-income areas.

Citizens and

public officials cannot meaningfully determine whether lenders are meeting housing needs if the

federal agencies change HMDA data without the public’s input or knowledge.

Instructions in the Federal Reserve booklet specifying HMDA data requirements for the year

2004 advise banks to use smaller geographical areas instead of the traditional metropolitan areas

in their HMDA data submissions for eleven large metropolitan areas. For these metropolitan areas, the Office of Management and Budget created subdivisions called “metropolitan divisions.” Lenders are now suppose to indicate in the HMDA data that applications and loans came from these metropolitan divisions instead of the previous metropolitan areas.

A significant number of the new metropolitan divisions include only suburban counties and exclude the major city. Per the CRA regulations, federal banking agencies will now classify loans as made to low- and moderate-income residents or census tracts using the median income levels of the metropolitan divisions instead of the larger metropolitan

areas. The median income level of many, if not most of the suburban counties, is higher than the median income level of the big cities. Consequently, a number of census tracts in the suburban counties that were classified as middle-income are now likely to be classified as low- or moderate-income.

Some glaring examples of distortions arising from using the new metropolitan division definitions are the following:

- The previous Detroit metropolitan area has been split up into metropolitan divisions including Wayne County in which the City of Detroit is located and another metropolitan division including only suburban counties.
- The Boston metropolitan area has been split into new metropolitan divisions that divorce the City of Boston from suburban counties.
- In the Washington DC metropolitan area, a separate metropolitan division is created by combining two wealthy counties: the affluent Montgomery County, MD and Frederick County, MD in which income levels are rising rapidly.

It is unreasonable that a technical change in metropolitan area definitions has the potential to skew HMDA data and undermine the ability of the public to determine if lenders serve credit needs in low- and moderate-income areas. Given the impact of these changes, the FFIEC must hold a public comment period and conduct a thorough analysis of how income borrower and census tract definitions would change. Even if the FFIEC instructions to lenders are final regarding the use of metropolitan divisions, the FFIEC itself can adjust the HMDA data so the previous metropolitan area definitions are used. The FFIEC can do this by simply adding a field in the HMDA data that includes the metropolitan area as well as the metropolitan division.

Since the FFIEC still has the opportunity to change the final outcome on this matter, NCRC calls on the FFIEC and the federal banking agencies to reverse this decision or, at a minimum, immediately hold a public comment period on the impacts of changing metropolitan area definitions on HMDA data and CRA enforcement.

If you have any questions, please contact myself or Josh Silver, Vice President of Research and Policy, on (202) 628-8866. Thank you for your attention to this important matter.

John Taylor  
President and CEO

cc:

James E. Gilleran, Chairman of the FFIEC and Director  
Office of Thrift Supervision

Dennis Dollar, Vice Chairman of the FFIEC and Chairman  
National Credit Union Administration

Susan Schmidt Bies  
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Board of Governors of the Federal Reserve System

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Comptroller of the Currency  
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Donald E. Powell  
Chairman

Federal Deposit Insurance Corporation

TABLE 1: Potential Impact of Using New Metropolitan Division Definitions in Detroit MSA in 2002

Effects on Market Share						
Top Lenders	Warren-Livonia MSA	Farmington Hills-Troy MD	Farmington Hills-Troy MD	Livonia-Dearborn MD	Livonia-Dearborn MD	% of Loans in Detroit-
Flagstar Bank	29,592	21,739	73.5%	7,853	26.5%	26.5%
Charter One Bank	12,416	7,960	64.1%	4,456	35.9%	35.9%
Republic Bank	7,854	5,196	66.2%	2,658	33.8%	33.8%
Comerica Bank	4,194	2,357	56.2%	1,837	43.8%	43.8%
Standard Federal Bank, N.A.	2,337	1,373	58.8%	964	41.2%	41.2%
Franklin Bank, N.A.	1,614	562	34.8%	1,052	65.2%	65.2%
Average of Banks Listed Above	9,668	6,531	58.9%	3,137	41.1%	41.1%
Effects on All CRA-Covered Lenders						
Total # Loans in Detroit-	Warren-Livonia MSA	Farmington Hills-Troy MD	Farmington Hills-Troy MD	Livonia-Dearborn MD	Livonia-Dearborn MD	% of Loans in Detroit-
All Lenders	240,239	163,363	68.0%	76,876	32.0%	32.0%

**TABLE 2: Potential Impact of All CRA-Covered Lenders Using New Metropolitan Division Definitions in Boston MSA, Chicago MSA, & Philadelphia MSA in 2002**

<b>Boston-Cambridge-Quincy, MA-NH MSA</b>									
	Total # Loans in MSA	# in Essex County MD	% in Essex County MD	# in Cambridge-Newton-Framington MD	% in Cambridge-Newton-Framington MD	# in Boston-Quincy MD	% in Boston-Quincy MD	# in Rockingham County-Strafford county MD	% in Rockingham County-Strafford county MD
<b>All Lenders</b>	<b>260,311</b>	<b>45,079</b>	<b>17.3%</b>	<b>87,875</b>	<b>33.8%</b>	<b>104,801</b>	<b>40.3%</b>	<b>22,556</b>	<b>8.7%</b>

<b>Chicago-Naperville-Joliet, IL-IN-WI MSA</b>							
	Total # Loans in MSA	# in Lake County-Kenosha County MD	% in Lake County-Kenosha County MD	# in Gary MD	% in Gary MD	# in Chicago-Naperville-Joliet MD	% in Chicago-Naperville-Joliet MD
<b>All Lenders</b>	<b>484,230</b>	<b>55,201</b>	<b>11.4%</b>	<b>24,768</b>	<b>5.1%</b>	<b>404,261</b>	<b>83.5%</b>

<b>Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA</b>							
	Total # Loans in MSA	# in Wilmington MD	% in Wilmington MD	# in Camden MD	% in Camden MD	# in Philadelphia MD	% in Philadelphia MD
<b>All Lenders</b>	<b>219,257</b>	<b>28,135</b>	<b>12.8%</b>	<b>45,931</b>	<b>20.9%</b>	<b>145,191</b>	<b>66.2%</b>