

## VI. Private Impediments: Access to Credit and Insurance

The ability to own a home is, for most people, dependent upon access to mortgage credit. For those who already own their homes, access to this type of credit is the major source of funding for such things as major home improvements, business start-ups, and the education of children. This part of the report investigates the extent to which people with different racial and ethnic characteristics have access to different types of mortgage credit. It begins with an analysis of Home Mortgage Disclosure Act data, proceeds with a review of the performance of Delaware banks under the provisions of the Community Reinvestment Act, and concludes with a discussion of homeowner's insurance.

### Analysis of Home Mortgage Disclosure Act Data

In 1975, Congress enacted the Home Mortgage Disclosure Act (HMDA) in response to concerns about the illegal denial of financial credit to residents of low-income neighborhoods and communities, commonly referred to as "redlining." This law, and its related regulations, require certain<sup>1</sup> financial institutions, including banks, savings associations, credit unions, and other mortgage lending institutions, to submit annual public disclosure reports of all home purchase, refinancing and home improvement lending activities by the institution. This information is made available to public officials and the general public to identify possible discriminatory lending patterns and practices, and to aid in determining if financial institutions are meeting the housing finance needs of all communities.

Congress authorized the Federal Financial Institutions Examinations Council (FFIEC)<sup>2</sup> to collect HMDA data. The FFIEC aggregates submitted loan data and releases public disclosure statements of lending activities for each metropolitan area (MA). Included in these reports is data on the race, income and gender of each applicant; the location, including the census tract of the applicant; and the type of mortgage loan applied for and the disposition of each application.

Loans reported under the HMDA regulation are classified into six categories. These categories are *government, conventional, refinancing, home improvement, multifamily* and

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<sup>1</sup> Reporting financial institutions include both depository and non-depository institutions. Depository institutions are defined as banks, savings associations and credit unions. Non-depository institutions are defined as mortgage companies and other institutions that do not accept deposits, but who raise funds for mortgage lending and borrowing. Depository institutions must report HMDA data for a given metropolitan area (MA) if the institution had at least \$32 million in assets on December 30, 2001 and has a home or branch office located in the MA. Non-depository institutions must report lending activities if the institution has assets exceeding \$10 million or originated 100 or more loans during the previous year, in addition to having a home or branch office located in the MA.

<sup>2</sup> The FFIEC is the interagency body responsible for standardizing the principles, standards, and reports for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS). The FFIEC collects and creates aggregate disclosure reports of the reported information for each metropolitan area (MA).

*non-occupant* loans. For the purpose of this study, four of these loan categories are used and are defined as follows:

**Government loans** are home purchase loans financially insured by Federal agencies. These include FHA loans that are insured by the Federal Housing Administration, VA loans guaranteed by the Veterans Administration, and FSA and RHS loans insured by the Farm Service Agency and Rural Housing Service.

**Conventional loans** are home purchase mortgages that are not covered by any government program of insurance or guarantee.

**Home improvement loans** are mortgages used for repairing, renovating or otherwise improving a dwelling that is already constructed.

**Refinance loans** are new loans that satisfy and replace one or more existing home purchase or home improvement loans.

The following is an analysis of the mortgage lending activities of a variety of financial institutions that were operating within the two HMDA reporting areas contained within the state: the Dover metropolitan area (Dover MA) and the Wilmington-Newark metropolitan area (Wilmington-Newark MA). Sussex County is not analyzed here because it lacks a metropolitan area, and hence the needed data is not available. HMDA data for the Dover MA includes lending activities in 31 census tracts in Kent County.<sup>3</sup> HMDA data for the Wilmington-Newark MA includes lending activities in 135<sup>4</sup> census tracts. This analysis is primarily based on the 2001 HMDA data, along with additional data from the Federal Reserve Bank of Philadelphia and the 2000 U.S. Census.

The State of Delaware has a diverse lending market. The dominant racial and ethnic minority groups in the Delaware are African Americans, followed by Hispanics. As reported

#### Exhibit VI-1

Home Loan Activity, Dover and Wilmington-Newark MAs, 2001							
	Applications Received	Loans Originated		Loan Applications Denied		Other Actions <sup>5</sup>	
	number	number	percent	number	percent	number	percent
Dover	11,136	5,461	49.0%	3,047	27.4%	2,628	23.6%
Wilmington-Newark	51,225	28,971	56.6%	10,725	20.9%	11,529	22.5%
Total	62,361	34,432	55.2%	13,772	22.1%	14,157	22.7%

Source: FFIEC; University of Delaware

<sup>3</sup> Based on 1990 U.S. Census tract configurations

<sup>4</sup> Based on 1990 U.S. Census tract configurations. Number includes 120 census tracts in New Castle County, DE and 15 census tracts in Cecil County, MD.

<sup>5</sup> "Other Actions" include approved applications that were not accepted by the applicant, application withdrawn by the applicant and files closed as incomplete by the financial institution.

earlier in this report, Delaware had an African American population of 19% in 2000, while Hispanics made up 5% of the state's overall population. As also discussed, New Castle County and Kent County had African American populations of 20% and 21% respectively, and Hispanic populations of 5% and 3% respectively.

During 2001, 62,361 home mortgage loan applications were submitted from applicants located within the Dover and Wilmington-Newark MAs. Eighty-two percent of these applications came from the Wilmington-Newark MA, while 18% were from the Dover MA. Twenty-two percent of the home mortgage loan applications submitted from these two MAs were denied (Exhibit VI-1).

### Lending in the Dover Metropolitan Area

The 2001 HMDA Aggregate Statement for the Dover MA reports the activities of 206 financial institutions that provided mortgage loan products in the Dover MA that year. These institutions originated \$516.9 million in mortgage loans. Four lenders collectively accounted for more than a third (\$194.4 million) of this total lending. These institutions are Well Fargo Home Mortgage Company, Chase Manhattan Mortgage Corporation, PNC Bank Delaware, and Wilmington Trust. The two top lenders, Wells Fargo Home Mortgage Company and Chase Manhattan Mortgage Corporation, are not based in the state of Delaware.

#### Analysis by Loan Type

According to the 2001 HMDA disclosure report, 11,136 home purchase, refinancing and home improvement loan applications were submitted to financial institution by individuals in the Dover MA. Financial institutions originated 49% of these applications, while 27% of the applications were denied. Twenty-four percent of the reported loan applications were subject to "other actions," which include: applications approved but not accepted by the applicant, applications withdrawn by the applicant and files closed as incomplete by the lending institution (Exhibit VI-2).

#### Exhibit VI-2

All Loans by Loan Type, Dover MA, 2001							
Type of Loan	Applications Received	Loans Originated		Loans Denied		Other Actions	
	number	number	percent	number	percent	number	percent
Government	1,003	829	82.7%	62	6.2%	112	11.2%
Conventional	2,834	1,382	48.8%	937	33.1%	515	18.2%
Refinancing	6,173	2,706	43.8%	1,673	27.1%	1,794	29.1%
Home Improve	1,126	544	48.3%	375	33.3%	207	18.4%
Total	11,136	5,461	49.0%	3,047	27.4%	2,628	23.6%

Source: FFIEC; University of Delaware

More than two-thirds of the submitted loan applications in the Dover MA were refinancing loans. This is very consistent with the national trend. As low interest rates have fallen, many

households have decided to take advantage of low rates and refinance their mortgage loans.

Government Loans

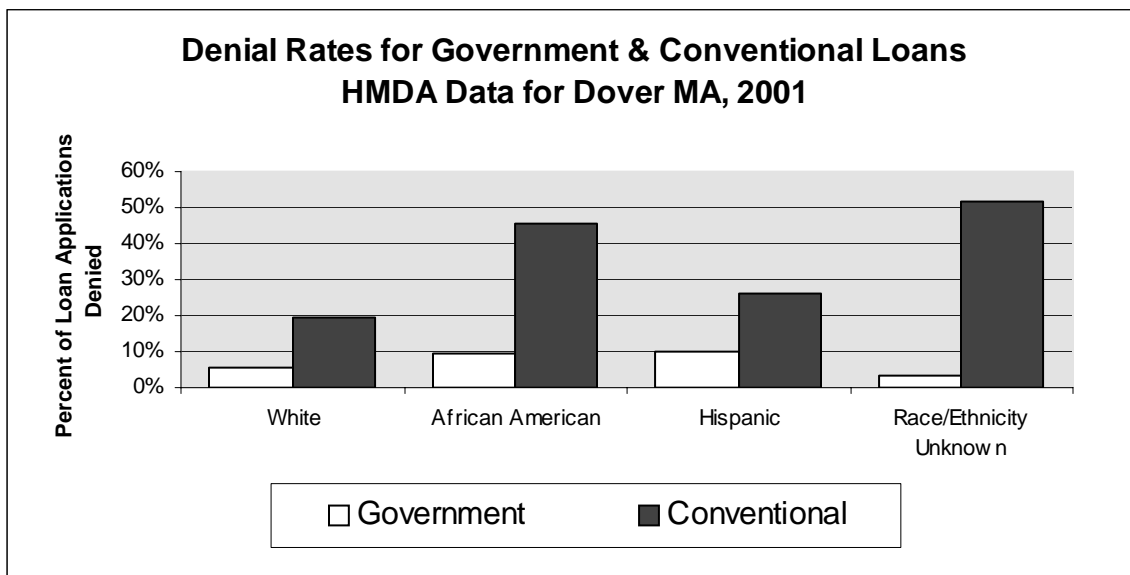
According to the 2001 HMDA data, 1,003 government mortgage loan applications were submitted to financial institutions in the Dover MA. Eight-three percent of all submitted government loans were originated. Overall, sixty-two government loan applications were reportedly denied by financial institutions. The denial rates of these loan applications varied among racial and ethnic groups. Government loan denial rates were lower for Whites (6%), and considerably higher for African American (10%) and Hispanic (10%) applicants (Exhibit VI-3).

Conventional Loans

HMDA data shows that 2,834 conventional loan applications were submitted from the Dover MA. Rates of loan originations varied among racial and ethnic groups. White applicants had the highest rate of conventional loan approvals (64% originated), and applicants that did not report their race had the lowest origination rate (28%). Only 36% of African American and 50% of Hispanic conventional loan applications were originated.

Looking at loan application dispositions from the perspective of denials, White applicants experienced a rejection rate of 19%. Minority applicants did not fare nearly as well. African Americans had their applications denied 45% of the time, which is more than twice the rate experienced by Whites. Hispanics were rejected 26% of the time. The denial rate is high (more than 50%) for applications containing no information on the race of the applicant. This is of concern because there is a high likelihood that many racial and ethnic minorities are represented in this group (Exhibit VI-3).

**Exhibit VI-3**



Source: FFIEC; University of Delaware

### Refinance Loans

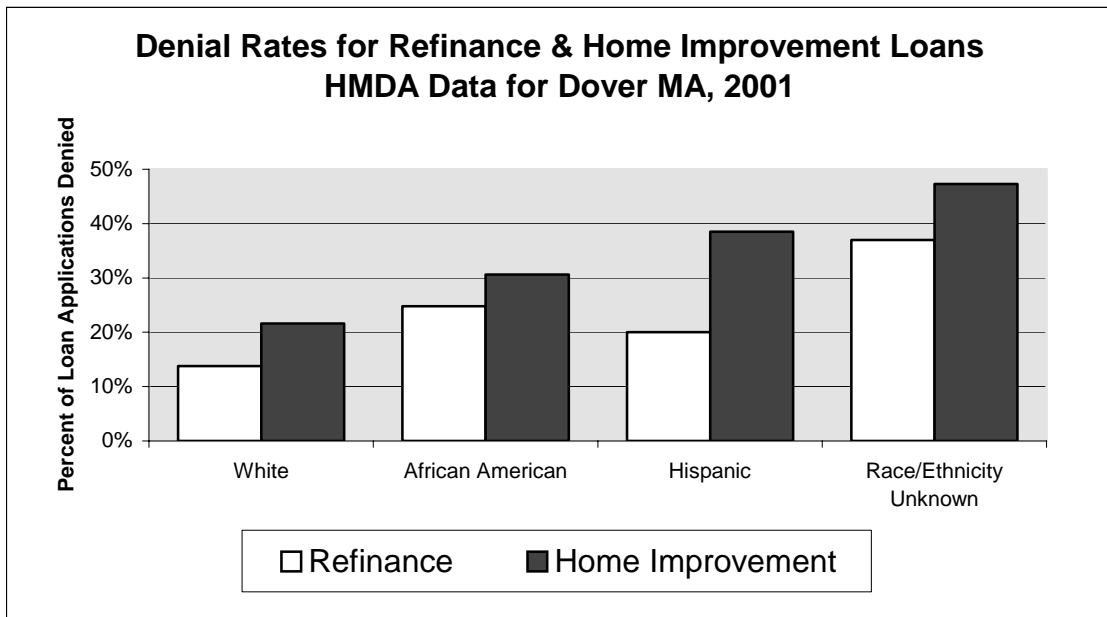
The 2001 HMDA data shows that 6,173 refinance loan applications were submitted to financial institutions, which was more than half of all loan applications of all types. Only 44% of all refinance applications were originated. For White applicants, 71% were approved and closed. For African American and Hispanic applicants, origination rates of 56% and 65% respectively were lower than the rate for Whites, but were higher than their origination rates for conventional mortgages. It stands to reason that origination rates for each of these groups would be higher for refinance loans than for conventional loans because those who are refinancing already have a mortgage loan, and hence have demonstrated their credit worthiness at least once in the past.

Overall, financial institutions denied 27% of the refinance loan applications submitted. A very large portion (74%) of the denied applications were from applicants of unknown race or ethnicity. Thirty-seven percent of these applications were denied loans, compared to 14% of White applicants, 25% of Black applicants, and 20% of Hispanic applicants. This tendency of high denial rates for those applications with unknown race and ethnicity is very troubling. As was the case with other types of loans, minority groups have the highest level of loan denial rates for refinance loans (Exhibit VI-4).

### Home Improvement Loans

Home improvement loans represented 10% of all loan application submissions in the Dover MA in 2001. Over 1,100 HMDA-reportable home improvement loan applications from the

**Exhibit VI-4**



Source: FFIEC; University of Delaware

area were presented to lenders. Forty-nine percent of these applications were approved and the loans originated. Again, White applicants had the highest rate of loans originated (70%); and again Blacks and Hispanics had lower origination rates (60% and 62% respectively).

Home improvement loan denial rates varied among racial and ethnic groups, but showed the same general pattern found for other types of loans. Whites got their loans denied 22% of the time, Blacks 31% of the time, and Hispanics, 39% of the time. For those applicants of unknown race or ethnicity, the denial rate was 47% (Exhibit VI-4).

### ***Analysis by Applicant Income***

This next stage in the analysis of HMDA data continues to look at loan originations and denials by race and Hispanic ethnicity, but also controls for the income of loan applicants. Many studies done across the country have shown that even when applicants with similar household incomes are compared to each other, there are still distinct differences between Whites, African Americans and Hispanics in their loan origination and denial rates.

To analyze lending data by the applicant's income level<sup>6</sup>, income is categorized into five groups according to FFIEC standards. These income groups are defined as percentages of metropolitan area median family income as follows:

- Less than 50% of Median Family Income (Low Income)
- 50%-79% of Median Family Income (Moderate Income)
- 80%-99% of Median Family Income (Middle Income)
- 100-119% of Median Family Income (Upper Middle Income)
- Equal to or greater than 120% of Median Family Income (Upper Income)

The analysis of loan application denial rates for all types of loans combined (government, conventional, refinance and home improvement) quickly shows that in the Dover MA minorities fared much worse in 2001 than whites when income is controlled (Exhibit VI-5). When applicant income is less than 50% of median, the denial rate for Whites is 36%, but over 50% for African Americans, Hispanics and others. This same pattern generally holds for higher income groups as well, especially for African Americans and for applicants of unknown race/ethnicity. Even when income is well above average, the loan denial rates are much higher for minorities than for Whites. Other than discrimination, the only plausible causes for this disparity would be differences in applicant credit ratings and overall household wealth. Unfortunately, HMDA reporting standards do not require lenders to provide such information.

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<sup>6</sup> Individual applicants are categorized on the basis of the ratio of their reported income to the Median Family Income of the metropolitan area. The Median Family Income of the metropolitan area is based on estimates developed by HUD, which are updated annually. The 2001 HUD Estimated Median Family Income for the Dover MA is \$50,400.

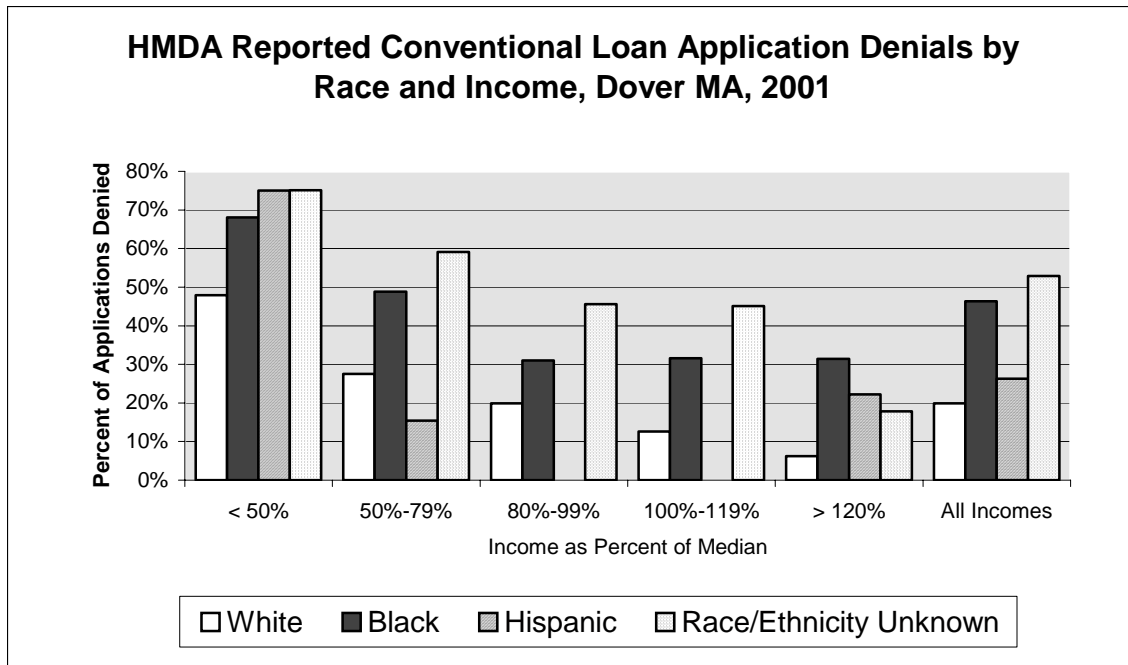
Exhibit VI-5

All Loan Application Denials By Race and Income Group, Dover MA, 2001												
Income as a Percent of Median	Race of Applicant											
	White		Black		Hispanic		Other		Race/Ethnicity Unknown		All Races	
	number	percent	number	percent	number	percent	number	percent	number	percent	number	percent
< 50%	169	35.8%	70	49.6%	10	50.0%	15	51.7%	397	56.6%	661	48.5%
50%-79%	225	20.3%	75	31.6%	7	21.9%	11	16.9%	484	44.9%	802	31.8%
80%-99%	119	17.1%	25	24.0%	1	4.5%	12	30.0%	269	37.4%	426	26.9%
100%-119%	80	12.8%	14	16.9%	3	23.1%	9	19.1%	195	34.0%	301	22.5%
> 120%	142	8.3%	60	26.4%	5	20.8%	9	9.2%	365	27.7%	581	17.2%
All Incomes	735	16.0%	244	30.8%	26	23.4%	56	20.1%	1,710	38.9%	2,771	27.2%

Source: FFIEC; University of Delaware

The analysis of loan denials by race and income continues with a look at specific types of loans. When viewed separately, government, conventional, refinance, and home improvement loans all show the same pattern with respect to income and race disparities. Because the volume of mortgage loan activity is much higher in the conventional and refinance loan markets than it is in the government and home improvement loan markets, the analysis of differences by loan type will focus on the first two types of loans.

Exhibit VI-6

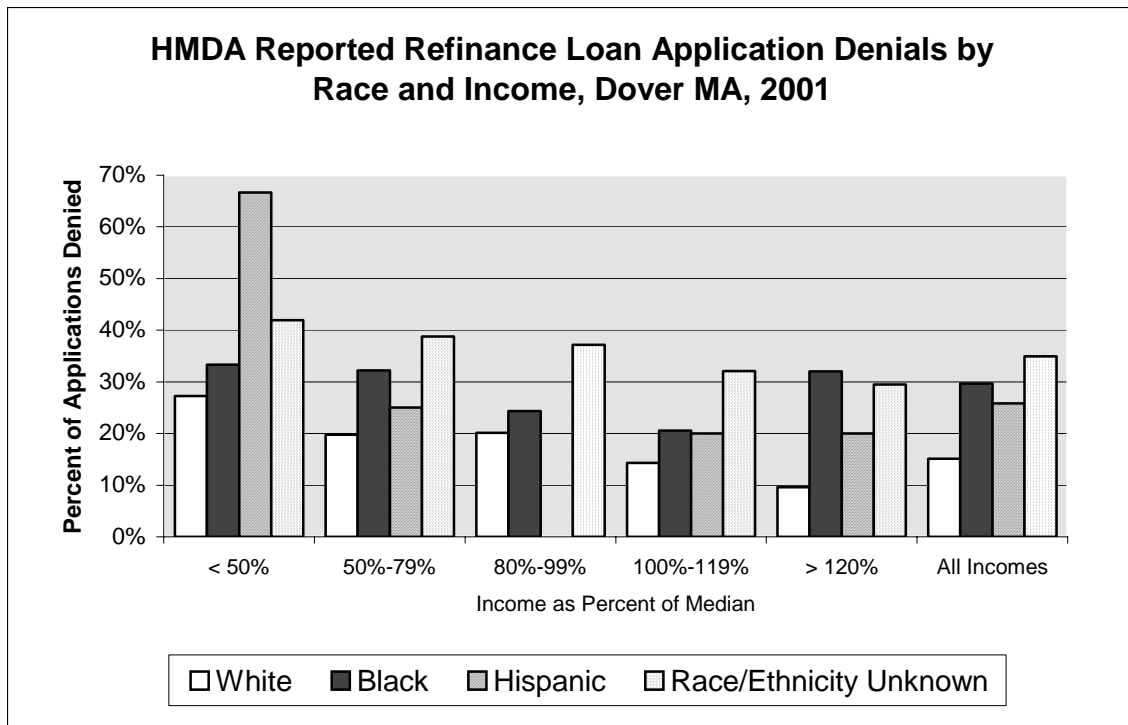


Source: FFIEC; University of Delaware

For conventional loans, the low-income group (those applicants with household incomes below 50% of median) had the highest loan rejection rates of any income group. However, within this low-income group, the denial rates for minorities are significantly higher than for Whites. The same can be concluded for African Americans in all other income groups where their denial rates are 50% or more above the rate for Whites (Exhibit VI-6). The data on denials for Hispanic is less clear, but their rates probably parallel the African American rate, but at a somewhat lower level. This is suspected because there are very few Hispanic conventional loan applications reported in the HMDA database, so the few that are reported may well mask the trend. A good guess is that there are many Hispanic applicants who were categorized as “race/ethnicity unknown.” This group is sizable (accounting for more than 50% of all HMDA-reported conventional loan applications) and, as has been pointed out previously, has very high denial rates.

The other large segment for mortgage lending is the refinance market. Here the very same trends emerge. African Americans’ applications are rejected considerably more frequently than those of Whites at each and every income level. Hispanics fare somewhat better than Blacks, but not as well as Whites Exhibit VI-7). Again, the data on Hispanics is sketchy because a very sizable number of loan applications reported are not identified by race or ethnicity, and this group no doubt contains many minority persons.

**Exhibit VI-7**



Source: FFIEC; University of Delaware

The data on loan application denials clearly shows that even as the income of applicants increases, the loan rejection rates of minorities continue to stay high relative to that of Whites. An increase in a minority family’s income does not protect them from the threat of

loan rejection as much as it protects the White family. This is especially the case for African American households.

Before concluding this discussion of denial rates by income level, it is important to once again emphasize the problem that this missing data poses. Not knowing the race of an applicant considerably inhibits an analysis of lending behavior in a metropolitan area. In the Dover area, more than forty percent of the reported loan applications were cases in which the race of the applicant was not available. Compared to White applicants, these cases held the highest denial rates across all income levels. In many instances, the denial rates of this group were more than double that of White applicants. This development requires further investigation into the reporting requirements and procedures of the Home Mortgage Disclosure Act to uncover why this problem has emerged, and how it can be corrected.

### Lending in the Wilmington-Newark Metropolitan Area

The 2001 HMDA Aggregate Statement for the Wilmington-Newark MA reports the activities of 328 financial institutions that provided mortgage loan products in this area that year. These institutions originated \$2.836 billion in mortgage loans. The following four major lenders collectively accounted for 28% of these dispersed funds: Well Fargo Home Mortgage Company, Chase Manhattan Mortgage Corporation, Wilmington Trust Company, and Wilmington Savings Fund Society. The reader will note that three of the top four lenders in the Wilmington-Newark area were also top lenders in the Dover area in 2001. Again, while Well Fargo Home Mortgage Company and Chase Manhattan Mortgage Corporation are the leading lenders, they are not based in Delaware.

#### Analysis by Loan Type

According to the 2001 HMDA disclosure report for the Wilmington-Newark area, 51,225 home purchase, refinancing and home improvement loan applications were submitted to financial institutions (Exhibit VI-8). The lenders approved and originated 57% of these applications, while 21% were denied. Twenty-three percent of the reported loan

Exhibit VI-8

All Loans by Loan Type, Wilmington-Newark MA, 2001							
Type of Loan	Applications Received	Originated Loans		Denied Loans		Other Actions	
		number	percent	number	percent	number	percent
Government	3,137	2657	84.7%	184	5.9%	296	9.4%
Conventional	11,928	8,644	72.5%	1522	12.8%	1,762	14.8%
Refinancing	29,486	14,501	49.2%	6,942	23.5%	8,043	27.3%
Home Improvement	6,674	3169	47.5%	2077	31.1%	1,428	21.4%
Total	51,225	28,971	56.6%	10,725	20.9%	11,529	22.5%

Source: FFIEC; University of Delaware

applications were subject to “other actions” because the application was withdrawn, was approved but not accepted by the applicant, or was closed because it was incomplete.

Almost 58% of the submitted loan applications in the Wilmington-Newark MA were for refinancing loans. Again, this is very consistent with the national trend due to decreasing interest rates.

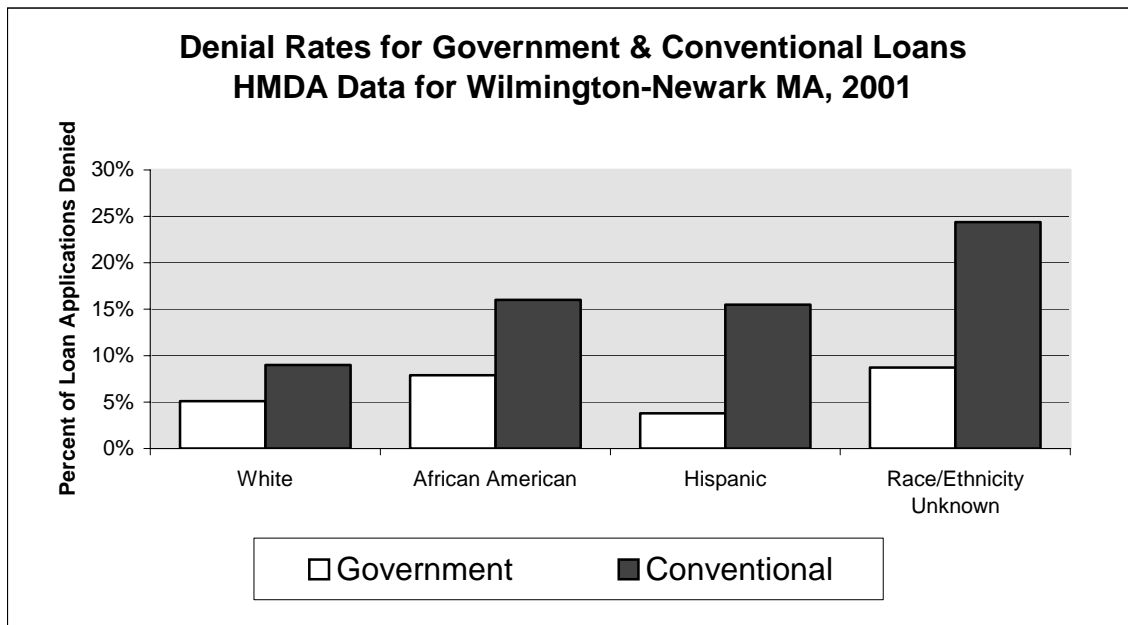
### Government Loans

For 2001 lenders reported receiving 3,137 government mortgage loan applications from prospective customers in the Wilmington-Newark MA. Eight-five percent of these were originated and 6% were denied. The denial rates for these applications varied among racial and ethnic groups. Government loan denial rates were lower for Hispanics (4%) and Whites (5%), and considerably higher for African American (8%) applicants (Exhibit VI-9).

### Conventional Loans

HMDA disclosure data shows that 7,666 conventional loan applications were submitted from households in the Wilmington-Newark metropolitan area, considerably more than the 2,834 submitted in the smaller Dover market area for this type of loan. White applicants had the highest rate of conventional loan originations (79%), and applicants of unknown race/ethnicity had the lowest rate (52%). The origination rates for African American and Hispanic for conventional loan applicants was 69%.

**Exhibit VI-9**



Source: FFIEC; University of Delaware

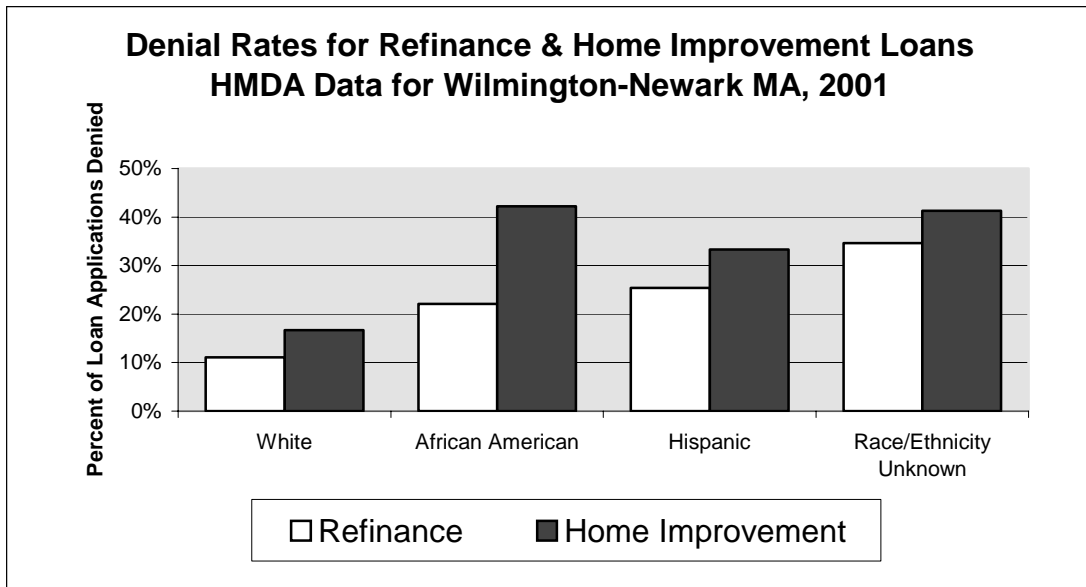
Looking at loan application disposition from the perspective of denials, White applicants experienced a rejection rate of 9%. Minority applicants did not fare as well. African Americans and Hispanics had their applications denied 16% of the time, which is more than three-fourths higher than the rate experienced by Whites (Exhibit VI-9). In comparison, the denial rate is high (more than 24%) for applications containing no information on the race of the applicant. Again, this is of concern because there is a high likelihood that many racial and ethnic minorities are represented in this group.

Refinance Loans

The HMDA data shows that 29,486 refinance loan applications were submitted to financial institutions, which constituted 58% of all loan applications of all types. This is about five times the volume found in the Dover area. Only 49% of all refinance applications were originated. For White applicants, 74% were approved and closed. For African American and Hispanic applicants, origination rates of 57% and 56% respectively were lower than the rate for Whites, but were lower than their origination rates for government and conventional mortgages. It is hard to understand why refinance denial rates are lower than for conventional loans given that those who refinance have demonstrated their credit worthiness at least once in the past.

Overall, financial institutions denied 24% of the refinance loan applications submitted. Like in the Dover area, a very large portion (73%) of the denied applications were from applicants of unknown race or ethnicity. Thirty-five percent of these applications were denied loans, compared to 11% of White applicants, 22% of Black applicants, and 25% of Hispanic applicants. As already discussed, this tendency of high denial rates for those applications with unknown race and ethnicity is very troubling. As was the case with other types of loans, minority groups have the highest level of loan denial rates for refinance loans (Exhibit VI-10).

**Exhibit VI-10**



Source: FFIEC; University of Delaware

Home Improvement Loans

The 6,674 home improvement loan application reported represented 13% of all applications submitted in the Wilmington-Newark MA in 2001. Forty-eight percent of these applications were approved and the loans originated. Again, White applicants had the highest rate of loans originated (70%); and again Blacks and Hispanics had lower origination rates (42% and 50% respectively).

Home improvement loan denial rates varied among racial and ethnic groups, but showed the same general pattern found for other types of loans. Whites got their loans denied 17% of the time, Blacks 42% of the time, and Hispanics, 33% of the time. For those applicants of unknown race or ethnicity, the denial rate was 41% (Exhibit VI-10).

**Analysis by Applicant Income**

As was done in the analysis of the Dover metropolitan area, attention now turns to an analysis of loans by income. The analysis of loan application denial rates for all types of loans quickly shows that in the Wilmington-Newark MA, like in the Dover MA, minorities fared much worse in 2001 than whites when income is controlled (Exhibit VI-11). When applicant income is less than 50% of median, the denial rate for Whites is 22%, is even lower for Hispanics at 20%, but is over 29% for African Americans. This pattern changes for higher income groups where both African Americans and Hispanics are both consistently burdened with higher loan denial rates compared to Whites. Even when income is above average, the loan denial rates are much higher for minorities than for Whites. The point has already been made -- other than discrimination, the only plausible causes for this disparity would be differences in applicant credit ratings and overall household wealth.

**Exhibit VI-11**

<b>All Loan Application Denials By Race and Income Group, Wilmington-Newark MA, 2001</b>												
<b>Income as a Percent of Median</b>	<b>Race of Applicant</b>											
	<b>White</b>		<b>Black</b>		<b>Hispanic</b>		<b>Other</b>		<b>Race/Ethnicity Unknown</b>		<b>All Races</b>	
	<b>number</b>	<b>percent</b>	<b>number</b>	<b>percent</b>	<b>number</b>	<b>percent</b>	<b>number</b>	<b>percent</b>	<b>number</b>	<b>percent</b>	<b>number</b>	<b>percent</b>
< 50%	805	22.0%	292	29.1%	53	20.1%	44	25.6%	1900	45.6%	3094	33.4%
50%-79%	753	12.7%	200	19.7%	39	16.7%	29	10.0%	1787	34.3%	2808	22.2%
80%-99%	333	9.1%	105	21.4%	11	16.4%	17	7.3%	1030	29.6%	1496	18.9%
100%-119%	220	7.6%	41	15.4%	7	17.5%	10	6.3%	417	25.4%	695	13.9%
> 120%	393	6.1%	104	20.4%	6	9.2%	39	7.5%	776	19.5%	1318	11.4%
All Incomes	2,504	11.1%	742	22.6%	116	17.3%	139	10.1%	5,910	32.0%	9,411	20.3%

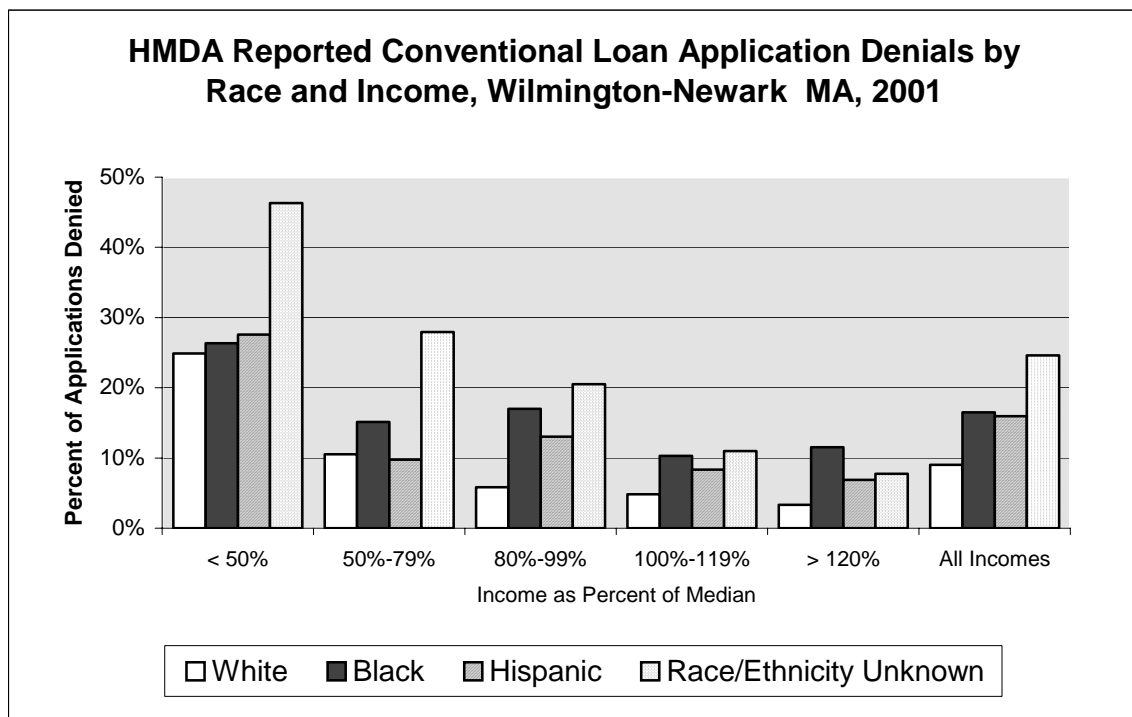
Source: FFIEC; University of Delaware

The analysis of loan denials by race and income continues with a look at specific types of loans. When viewed separately, government, conventional, refinance, and home improvement loans all show the same pattern with respect to income and race disparities.

Because the volume of mortgage loan business is much higher in the conventional and refinance loan markets than it is in the government and home improvement loan markets, the analysis of differences by loan type will focus on the first two types of loans.

For conventional loans, the low-income group (those applicants with household incomes below 50% of median) had the highest loan rejection rates of any income group. Within this income group the denial rates for Whites, African Americans and Hispanics are similar, ranging from 25%, to 26% and 28% respectively (Exhibit VI-12). Again, the rate for applicants of unknown race and ethnicity is considerably higher (46%). However, as income goes up, the denial rate differentials get more pronounced, especially for African Americans. The respective White, Black, Hispanic rejection rate comparisons are 11:15:10 for moderate income households, 6:17:13 for middle income households, 5:10:8 for upper middle income households, and 3:12:7 for upper income households. It is clear to see that the first number in each series, the White denial rate, is consistently significantly lower than the Black and Hispanic rates that follow. These differentials are probably worse than this because a sizable number of loans are categorized as “race/ethnicity unknown” and many of these are probably minority applicants.

**Exhibit VI-12**

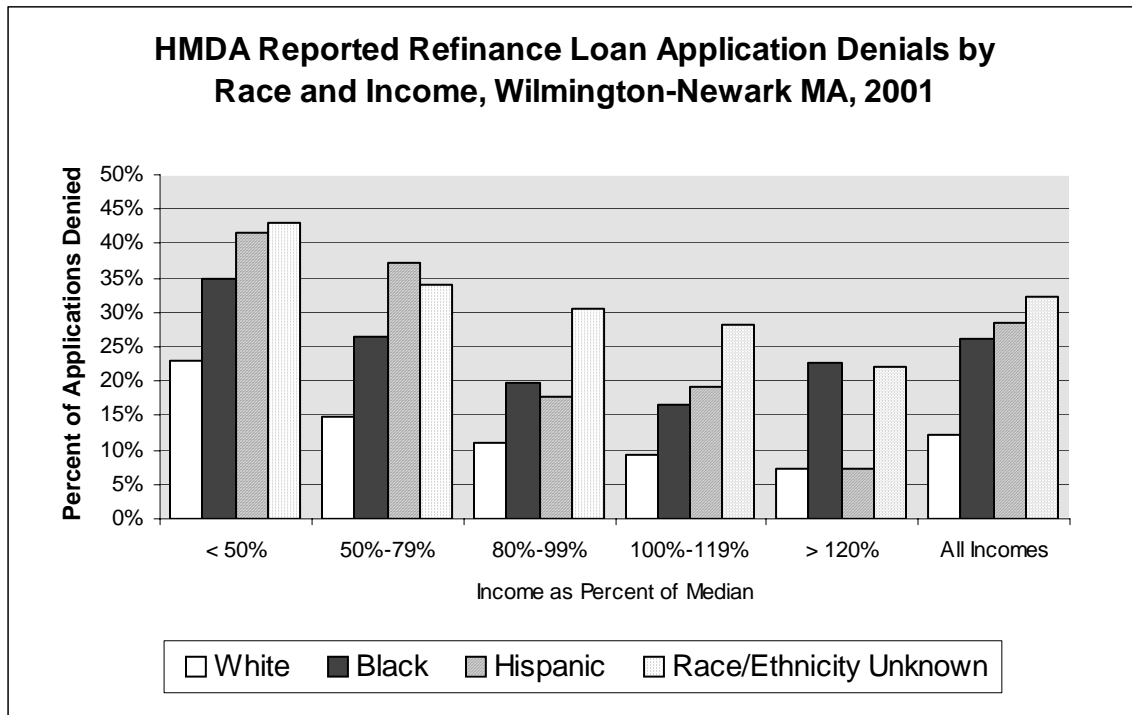


Source: FFIEC; University of Delaware

The other large segment for mortgage lending is the refinance market. Here, very similar trends are apparent. African Americans’ applications are rejected considerably more frequently than those of Whites at each and every income level. Hispanics fare somewhat better than Blacks, but not as well as Whites (Exhibit VI-13).

The overall conclusions of the analysis for the Wilmington-Newark metropolitan area are very similar to the conclusions reached for the Dover metropolitan area. The data on loan application denials clearly shows that even as the income of applicants increases, the loan rejection rates of minorities continue to stay high relative to that of Whites. An increase in a minority family's income does not protect them from the threat of loan rejection as much as it protects the White family. This is especially the case for African American households.

**Exhibit VI-13**



Source: FFIEC; University of Delaware

## Community Reinvestment Act Performance

### ***Background & CRA Regulations<sup>7</sup>***

Passed by Congress in 1977, the Community Reinvestment Act (CRA) states that “regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered.” The act then establishes a regulatory regime for monitoring the level of lending, investments, and services in low-and moderate-income neighborhoods. According to the National Community Reinvestment Coalition:

“Approximately once every two years examiners from four federal agencies assess and ‘grade’ lending institutions’ activities in low- and moderate-

<sup>7</sup> Information about current CRA regulations was obtained from the National Community Reinvestment Coalition ([www.ncrc.org](http://www.ncrc.org)).

income neighborhoods. If a regulatory agency finds that a lending institution is not serving these neighborhoods, it can delay or deny that institution's request to merge with another lender or to open a branch or expand any of its other services. The financial institution regulatory agency can also approve the merger application subject to specific improvements in a bank's lending or investment record in low-and moderate-income neighborhoods."

While denials of bank applications are rare, federal agencies can make approvals conditional upon specific improvements in a bank's CRA performance. Also, dialogue between banks and community organizations often result in bank commitments to increase lending and/or start affordable housing and small business lending programs.

In the spring of 1995, the federal agencies released new CRA regulations. The regulations outline how federal agencies are to assess the activities of lending institutions in traditionally underserved neighborhoods. The federal agencies conducting CRA examinations are: the Office of the Comptroller of the Currency (OCC) that examines nationally chartered banks, the Office of Thrift Supervision (OTS) that examines savings and loan institutions, and the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Board (FRB)--both of whom examine state chartered banks.

Starting in January 1996, the regulations specify three different tests for lending institutions and a strategic plan option. Under each test, examiners evaluate banks based on their lending records and their responsiveness to community needs. At the end of the process banks receive one of the following scores: "outstanding", "satisfactory", "needs to improve", or "substantial non-compliance". If a financial institution receives one of the two lowest scores, that bank can have plans for mergers, acquisitions, or expansions of services delayed or denied.

Large banks, defined as lending institutions with assets greater than \$250 million, are subjected to the most rigorous exams. These entities are evaluated under a lending test that considers the number and percentages of loans made to low-and moderate-income individuals and communities. They are also evaluated under an investment test and a service test that consider, respectively, the number and types of investments and services (branches and ATMs) in low- and moderate-income communities. The tests for big banks also consider "community development" loans, investments and services. Community Development activity includes affordable housing (including multifamily rental housing) for low- and moderate-income individuals; community services targeted to low- and moderate-income individuals; activities that promote economic development by financing small businesses and farms; and initiatives aimed at revitalizing or stabilizing low or moderate-income areas. (See Exhibit VI-14 for a summary of the examination process.)

Small banks, defined as institutions with less than \$250 million in assets, are evaluated under a "streamlined test" which does not include the investment and service test that is required for large banks. The small bank lending test consists of the following five criteria: a "reasonable" loan-to-deposit ratio, the percentage of loans in the bank's assessment area, the bank's distribution of loans to individuals of different income levels and businesses and farms of different sizes, the geographic distribution of loans, and the bank's record of responding to written complaints about its lending performance in its assessment area. A limited-purpose bank is a bank that only offers a narrow product line (such as credit card or motor vehicle loans) to a regional or broader market. A wholesale bank is a bank that is

not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers. Wholesale and limited purpose banks are assessed under a test tailored to the nature of their business. Lending tests are not appropriate for wholesale and limited purpose banks because many of them do not accept small deposits or make home or other retail loans. Instead examiners are to focus their evaluation on the number of community development loans and investments (such as affordable housing rehabilitation loans, low-income housing tax credits, or investments in organizations that finance small businesses) made by the special purpose bank.

## Exhibit VI-14

### OVERVIEW OF CRA EXAMINATION PROCESS

LARGE BANKS (Assets  $\geq$ \$250 Million) -- Three performance tests:

- Lending Test
- Investment Test
- Service Test

SMALL BANKS (Assets  $<$ \$250 Million)

- Small banks are not subject to the three performance tests, but are evaluated under a streamlined evaluation procedure.

SPECIAL TEST FOR WHOLESALE AND LIMITED PURPOSE BANKS

- Unlike the existing regulation, wholesale and limited-purpose banks are evaluated under a special test. CRA compliance is judged primarily on a lender's community development activities.

STRATEGIC PLAN OPTION

- All lenders have the option of submitting a strategic plan developed with community input detailing how a lender intends to meet its CRA obligation. The strategic plan must contain measurable performance goals.

DATA DISCLOSURE

- Large banks are now required to report small business, small farm, and community development lending data. In addition, some lenders are reporting consumer-lending data.

### ***CRA Performance of Delaware Banks***

Data on the CRA examinations of 68 banks in Delaware was obtained from the Federal Financial Institutions Examination Council (FFIEC). These examinations were conducted by the four regulatory agencies between 1990 and 2002. Given the tremendous restructuring that has occurred over this period in the financial services sector, some of the examined banks are no longer in business, and others have been purchased by or have been merged with another bank.

The FDIC conducted a total of 39 examinations, 21 were done by OCC, OTS did six, and FRB handled the remaining two. The overall results show that most banks in Delaware have been performing well during this 12-year period. Fifty banks were deemed to be "satisfactory," which accounted for almost three fourths of the total examinations. Sixteen, or about one quarter of the banks were rated "outstanding". Only two banks performed badly with ratings of either "needs to improve" or "substantial noncompliance."

**Exhibit VI-15**

<b>Most Recent CRA Rating of Examined Delaware Banks, 1990-2000</b>		
Ratings	Examined Banks	
	number	percent
Outstanding	16	23.5
Satisfactory	50	73.5
Needs to Improve	1	1.5
Substantial Noncompliance	1	1.5

Among the 16 “outstanding” banks, 14 were based in Wilmington and two in Newark (Exhibit VI-16). In other words, all the banks that received a rating of “outstanding” in their last CRA examination were based in northern Delaware, or more specifically, northern New Castle County. Of the 50 banks receiving a rating of “satisfactory,” 35 were in New Castle County, six were in Kent County and nine were in Sussex County (Exhibit VI-17). Both of the two banks that were not performing well were based in New Castle County at the time of their examinations (Exhibit IV-18). Based on the CRA examination data reported here from the Federal Financial Institutions Examination Council, the financial institutions in Delaware required to comply with CRA regulations have been doing so, and several have been doing an excellent job.

**Exhibit VI-16**

<b>Delaware Banks Receiving a Rating of “Outstanding” for their Most Recent CRA Examination</b>			
Bank Name	Regulator	Exam Date	City
American Express Centurion Bank	FDIC	February 1995	Wilmington
Bank of Delaware	FDIC	November 1993	Wilmington
Bankers Trust (Delaware)	FDIC	August 2000	Wilmington
Beneficial National Bank	OCC	June 1996	Wilmington
Chase Manhattan Bank USA, N.A.	OCC	May 1999	Wilmington
Citicorp Trust Bank, FSB	OTS	February 2001	Newark
Delaware Trust Company	FDIC	October 1995	Wilmington
First USA Bank, N.A.	OCC	March 2002	Wilmington
J.P. Morgan Delaware	FDIC	July 1995	Wilmington
MBNA America Bank, N.A.	OCC	March 1999	Wilmington
PNC Bank Delaware	FDIC	July 2000	Wilmington
SUN National Bank, Delaware	OCC	May 2000	Wilmington
The Chase Manhattan Bank (USA)	FDIC	January 1995	Wilmington
The Travelers Bank USA	FDIC	June 1999	Newark
Wilmington Saving Fund Society, FSB	OTS	May 2000	Wilmington
Wilmington Trust Company	FDIC	October 1999	Wilmington

**Exhibit VI-17**

<b>Delaware Banks Receiving a Rating of “Satisfactory” for their Most Recent CRA Examination</b>			
<b>Bank Name</b>	<b>Regulator</b>	<b>Exam Date</b>	<b>City</b>
AIG Federal Savings Bank	OTS	May 2001	Wilmington
Artisan's Bank	FDIC	August 2002	Wilmington
Associates National Bank (Delaware)	OCC	July 2001	Newark
Baltimore Trust Company	FDIC	September 2002	Selbyville
Bank of New Castle	FDIC	June 1999	New Castle
Calvin B. Taylor Bank of Delaware	FDIC	December 2000	Ocean View
Chemical Bank Delaware	FDIC	September 1991	Wilmington
Christiana Bank & Trust Company	FDIC	December 2001	Greenville
Citibank (Delaware)	FDIC	November 2000	New Castle
Citibank USA	FDIC	October 2001	Wilmington
Colonial National Bank USA	OCC	May 1991	Wilmington
CoreStates Bank of Delaware N.A.	OCC	August 1997	Wilmington
CoreStates Delaware, N.A.	OCC	August 1997	Wilmington
County Bank	FDIC	October 1998	Rehoboth
Cross Country Bank	FDIC	January 2002	Wilmington
Delaware First Bank, FSB	OTS	February 1998	Wilmington
Delaware National Bank	OCC	April 1998	Georgetown
Discover Bank	FDIC	January 2002	Greenwood
FCC National Bank	OCC	June 1999	Wilmington
Fidelity Bank DE	FRB	September 1990	New Castle
First Fidelity Bank, Delaware	FDIC	March 1996	Wilmington
First Omni Bank, N.A.	OCC	November 1994	Millsboro
First State Bank	FDIC	September 1995	Wilmington
First Union Bank of Delaware	FDIC	May 1999	Wilmington
First USA Bank	FDIC	January 1997	Wilmington
Greenwood Trust Company	FDIC	June 1999	Greenwood
ING Bank, FSB	OTS	August 2001	Wilmington
JC Penny National Bank	OCC	June 1995	Harrington
JC Penny Card Bank, N.A.	OCC	September 1997	Harrington
Lehman Brothers Bank, FSB	OTS	April 2000	Wilmington
Manufactures Bank, Wilmington	FDIC	April 1992	Newark
MBNA (Dover) Bank	FDIC	October 1990	Dover
Mellon Bank Delaware, N.A.	OCC	December 1997	Wilmington
Morgan Bank (Delaware)	FDIC	January 1991	Wilmington
NationsBank N.A.	OCC	July 1995	Dover
PNC National Bank	OCC	October 1996	Wilmington
Primerica Bank	FDIC	December 1992	Newark
Primerica Bank USA	FDIC	December 1992	Newark

Republic First Bank	FRB	June 2000	Brandywine
Texas Commerce Banks	FDIC	February 1993	Newark
The Bancorp.Com Bank	FDIC	November 2002	Wilmington
The Bank of Delmarva, N.A.	OCC	July 1999	Seaford
The Bank of New York (Delaware)	FDIC	March 1998	Newark
The Felton Bank	FDIC	November 1998	Felton
The First National Bank of Wyoming	OCC	December 1997	Wyoming
The Sussex Trust Company	FDIC	April 1991	Laurel
The Travelers Bank	FDIC	September 1997	Newark
Transamerica Bank, N.A.	OCC	July 1999	New Castle
United Missouri Bank, USA	FDIC	August 1994	New Castle
Whirlpool Financial National Bank	OCC	June 1996	New Castle

### Exhibit VI-18

Delaware Banks Receiving a Rating of “Needs to Improve” or “Substantial Non-Compliance” in their Most Recent CRA Examination			
Bank Name	Agency	Exam Date	City
Boatmen's Bank of Delaware	FDIC	March 1993	New Castle
Discover Card Bank of New Castle	FDIC	July 1995	New Castle

Sources for Tables VI-15, VI-16, VI-17, VI-18 are FFIEC and University of Delaware

## Homeowner’s Insurance

The term “insurance redlining,” describes the practice or policy of refusing to write an insurance product or varying the terms of an insurance product because of the geographical location of the property or because of the racial or ethnic composition of the area. The practice is a significant barrier to the creation of affordable housing and often has a discriminatory impact based on race and ethnicity. Discussions during the focus groups suggested that insurance redlining exists in Delaware, especially in the City of Wilmington. Some of the participants pointed to a policy of some companies of not insuring houses with “flat roofs,” which they believed was a pretext for discriminating against minority homeowners in Wilmington. We interviewed Delaware’s Insurance Commissioner to investigate this claim.

The Delaware Department of Insurance regulates insurance companies incorporated in Delaware and those that conduct business in Delaware. The Department of Insurance is responsible for, among other things:

- Licensing
- Financial monitoring
- Monitoring rate making
- Investigating market conduct

The Department of Insurance utilizes a three-year cycle of financial examinations to determine solvency. Its financial analysts also engage in ongoing monitoring which includes quarterly desk audits. When deciding whether to license an insurance company to conduct business in Delaware a review is conducted by the Department's Admissions Committee which examines the company's financial statements, business plan, and regulatory history.

The state in which an insurance company is incorporated bears responsibility for solvency oversight. The Delaware Department of Insurance monitors companies incorporated in Delaware and sends copies of examination reports to regulators in other states. Out-of-state regulators share similar information with Delaware about companies incorporated in their states. Approximately 150 insurance companies are incorporated in Delaware. Most of these conduct business throughout the United States and internationally.

### ***Consumer Services Division***

The Consumer Services Division provides services to Delaware residents. It handles a wide range of matters; from requests for information to consumer complaints. The division is organized by specialties: 1) life and health and 2) property and casualty. Consumer Services maintains communication with Delaware's insurance industry through quarterly meetings with insurance agents. It also engages in community outreach to raise the public's awareness about its rights.

During an interview with the Insurance Commissioner, we were advised that the Insurance Department has not received complaints based on claims of race discrimination in connection with homeowner's insurance. We asked about the following issues that arose during the focus groups:

#### *"Flat Roofs" in Wilmington*

The Commissioner stated that the agency has not had complaints about specific insurance companies choosing not to write insurance policies for residences with flat roofs in Wilmington.

#### *Moral Risk*

Moral risk describes circumstances in which the replacement value of a property is greater than its market value. Insurance companies may not want to insure such properties because the risk of fraudulent loss is deemed to be too high. Commissioner Williams stated that she is not aware of any companies that refuse to write coverage or charge higher rates based on moral risk determinations.

#### *Credit Scoring*

One issue that the Commission has addressed concerns credit scoring. Credit scoring can affect an individual's ability to obtain insurance because coverage may be denied based on the individual's credit score. Insurance companies that use credit scoring believe that there is a correlation between credit scores and risk of loss. It appears to be a practice gaining wide acceptance in the insurance industry. Some insurance companies use credit scoring for underwriting while others use it for setting rates.

Insurance and real estate agents in Delaware have complained to the Insurance Department about credit scoring. Credit scoring can affect a purchaser's ability to obtain a mortgage. To address the use of credit scoring in Delaware's insurance industry, the Department of Insurance issued a regulation that was signed in May of 2003. The regulation states that credit scoring cannot be used as the sole basis for denying coverage or raising rates. The regulation also gives the Department of Insurance the authority to examine the practice among companies that conduct business in Delaware.

