Community Reinvestment Act Compliance:

Creating Partnerships to Serve

Communities in Minneapolis and St. Paul

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Conducted on behalf of the Minneapolis Consortium of Community Developers
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Introduction

The Community Reinvestment Act (CRA) is a regulatory tool that was enacted by the United States Congress in 1977. It is a system of rating financial institutions investment in the communities where they operate. The goal of the CRA is to encourage banks to help find solutions to capital and equity problems communities face, regardless of their size. It encourages lenders to invest in the communities where they are located. The Act was updated in 1990 to enhance public access to the evaluation reports and ratings that each bank maintains in order to make the legislation more sensitive to community needs. The compliance reports for all banks are produced and reported by three federal agencies. These agencies are the Office of Thrift Supervision (OTS), the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). The rating system used for evaluations is determined by the size of the bank, where large banks are held to different standards than small banks. For evaluation purposes, a large bank has over $250 million in assets.

There are four categories that represent CRA compliance. They are Outstanding, Satisfactory, Needs to Improve and Substantially Not in Compliance. All of the banks examined in this report rate 'satisfactory' or 'outstanding', though only four are in the latter category. Overall, Minneapolis is generally well served by local banks. The level of community commitment, however, depends greatly on the institutional interest on the part of the bank itself. Smaller, community-oriented banks tended to do better by the standards set by the regulatory agencies.

Looking only at the activities in Minneapolis was difficult at times. The CRA reports are generated on a Metropolitan Statistical Area (MSA). The information is subdivided by census tracts, of which Minneapolis has 126. Another factor looked at was the investment in census tracts included in the Minneapolis Empowerment Zone. Investing in these areas is a method of improving the rating of a bank and should be a focus for partnership opportunities.

This report will serve as a starting point for exploring partnership opportunities between the Minneapolis Consortium of Community Developers (MCCD) and local banks. The benefits for banks to improve their CRA ratings are many, and serving the demonstrated needs of a community can accomplish this goal. One of the major incentives for banks to increase their rating is the ease of expansion of their services with a higher rating. This includes applications for new branches or ATM locations, where regulators are likely to place strict compliance requirements on banks that need improvement before expansion will be approved.

Executive Summary

This report is the result of research completed during phase one of the CRA project for the Consortium. The goal was to identify the banks that have Minneapolis and St. Paul in their CRA assessment areas, then subdivided these banks into a group that specifically have qualified investments in Minneapolis. The results of this research will allow the Consortium to pursue partnership opportunities with lenders that promote a mutual set of goals.

Sixteen banks have substantial CRA qualified investments in Minneapolis. Of these 16, 12 are closely examined for patterns in their approach to CRA compliance. The banks that were excluded were the banks that had very little business in Minneapolis because only an auxiliary office existed in the city or the bank was too new to have a CRA rating. The 12 remaining banks were examined to find opportunities for the Consortium to partner with them for mutual benefit.

This survey found many similarities between banks of a particular rating. It also found great differences in the amount of detail provided in the reports. Though the banks are evaluated and the reports are produced by federal regulatory agencies, there is significant variation in the detail provided within them. Banks also take very different approaches to their internal approaches to CRA activities. Community-oriented banks are very active in pursuing CRA qualified investments and believe in the benefit of their CRA programs. Commercial-oriented banks tend to have less institutional commitment to the CRA itself, but that does not necessarily translate into poor community involvement.

'Outstanding' rated banks have a commitment to the principles of the CRA. They are usually cited for taking leadership roles in addressing community needs. They also focus their efforts on the needs as defined by the community they serve. These efforts could be developing mobile branches to serve seniors or investing in affordable housing projects. 'Satisfactory' banks often do many of the same types of activities without the leadership role. They will just act as a contributor. This is not a poor position, but it does leave room for improvement.

The most cited community need found through the evaluations was the need for affordable housing. Every bank that received an ‘outstanding’ rating had a substantial affordable housing component. This will be the Consortium’s best path for developing partnership with banks as it can provide the opportunity and experience in this arena. Pursuing these partnerships will be a focus of phase two of this project.

Overview of Information

The information available for CRA ratings is found in many different places. Each bank branch is required to keep a complete copy of the CRA Public Disclosure Statement available by request. This statement is a document that helps explain the rating that the bank received. The statement typically includes the overall CRA rating, a description of the institution and competitors, the scope of the evaluation, conclusions with respect to performance tests and supporting tables. A typical problem with the reports is that they are often incomplete. This issue will be discussed at depth in the methods section of the report.

The Internet is a source of much information for ratings, though there are few comprehensive websites available. Financial institutions report to one of the three regulatory agencies. These are the OTS, OCC or FDIC. The Federal Financial Institution Evaluation Corporation (FFIEC) then collects the reports and ratings are available through their site. The ratings are reported by bank by location of the headquarters. For example, this means that Wells Fargo information is only available system wide by searching for San Francisco banks.

The Federal Reserve keeps a limited number of public disclosure statements available on its website. The data used for evaluation is generally available online, but the disclosure statement is often only available from the banks themselves. The data is presented in consistent formats that present the lending, service and investment evaluations by census tracts. An unfortunate aspect of the methods used for CRA evaluations is that the individual banks are largely responsible for preparing their disclosure statements and the data used for the evaluations. They are not able to omit information, but the information included in the statements and the breadth of the discussion about the ratings varies greatly among banks. It is generally found that large banks have much more detailed reports than small banks. This is in part because detailing the number and distribution of consumer loans is optional for reporting to the regulatory agencies.

Methods

This survey relied heavily on the information provided by financial institutions operating in Minneapolis. The CRA ratings reports are prepared by the regulatory agencies based on the information provided by the banks. Most of the information is standardized and required, though some information regarding loan quantities and distribution are optional. A standard form and tables is to be followed when assembling the information but that is not always the case. More than once when requesting the information little more than an internal checklist of what should be included was given rather than the actual documents.

The public seldom requests the disclosure reports and CRA activities are more often than not a low priority for a bank. Because of this, collection was a time consuming and tedious process that required requesting the reports at the bank and looking at the file to determine what was to be included in the public disclosure. There are exceptions, but most banks contacted for this survey had trouble producing the requests easily. Most officers were quite happy to assist, but few actually knew what they were looking for.

To collect the reports and data necessary for this study, searching the Federal Financial Institutions Evaluation Corporation (FFIEC) was the first step. Through their website, all of the ratings from every regulatory agency are available. The downside using their site is much information must be already known about the institution. To use the FFIEC site to only retrieve the CRA rating, the bank headquarters complete name must be known. This is harder than it seems due to the large number of mergers and acquisitions that have occurred recently. In order to get the most recent reports, there is a lot of information that is needed. It was more effective to contact banks directly and request the reports.

Each bank presented a different CRA experience. Typically the smaller banks headquartered in the core cities are community minded and can easily produce the full disclosure. During the process of collecting the reports, as the size of the bank grew or it headquarters moved further away from the core cities, it became more of a challenge to find a bank officer that was quickly able to assemble the requested information. This was for a few reasons, which include automated phone systems, a community affairs department with no connection to the loan officers and a lack of institutional enthusiasm for the CRA. A lack of enthusiasm is not correlated to a lack of compliance, but does affect the institution's positioning in leadership roles for community development and affordable housing issues.

CRA reporting, while it is seems a natural fit for Internet distribution, is inconsistent, misunderstood in the industry and often treated as an afterthought. There are exceptions, such as Richfield Bank and Trust or Western Bank, both of which have CRA officers and take great pride in their 'outstanding' ratings. Banks such as these produced the requested reports quickly, cheerfully and complete. Securing complete reports was rarely accomplished from the first contact.

Findings

Though only four banks serving the Minneapolis assessment area received 'outstanding' ratings, there are common elements of their approach to CRA compliance. The banks that achieved this highest ranking are Western Bank, Richfield Bank, Northeast Bank and Wells Fargo[1]. Features that set these banks apart from the 'satisfactory' banks were:

- Use of innovative and flexible loan products.
- Taking a leadership role for community investment.
- Level and accessibility of service.
- Focus on personal banking needs in addition to commercial activities.
- Serving the identified community development needs.
- Helping to fulfill community credit needs.

These are the features that the regulatory agencies cited as setting these banks apart. Their interest and abilities to work with and serve low to moderate-income areas garnered their 'outstanding' rating. The banks that were rated as 'high satisfactory' typically did not fulfill one or more of these features. The most purposeful and deliberate feature cited was the leadership role. A bank that will act as a leader for community issues is more likely to have an active interest in promoting a higher CRA rating. In the case of Wells Fargo, they were lauded for taking leadership roles (when they were Norwest, the latest report is not yet available) though they do not have an identified CRA officer. The important point is that there is a culture of community involvement.

Most banks that were rated 'outstanding' or 'satisfactory' had substantial activity with regards to affordable housing. Those that had these ratings without a substantial affordable housing element had this absence noted in their report as an area that needs improvement. A lack of support for new affordable housing initiatives, especially rehabilitation of existing structures in the core cities, was damaging to a bank's rating. Riverside Bank (now Associated) was reduced to a 'satisfactory' rating in its 2000 evaluation in large part because their affordable housing investment was poor for a bank of its size. A constant for each report was that the community needs those banks should

[1] The Wells Fargo rating is for the entire system. The Minneapolis MSA rating was still on request as of December 31,2001.

serve included affordable housing. This is where Minneapolis Consortium of Community Developers should focus its future discussion with these financial institutions. It would be possible to expand the scope of MCCD interest to banks that operate in the near suburbs of the city, as well, as affordable housing is becoming recognized as a regional issue.

Banks that identify themselves as community banks were most likely to receive the highest rating. They also had higher rates of residential loans for home purchase, refinancing or remodeling. Not having enough residential activity hurt a bank's score. Marquette Capital, for instance, was rated 'satisfactory' rather than 'outstanding' largely because of its commercial focus left low to moderate income people out of its business model. Commercial activity is well cared for in the Twin Cities banking climate, though the two largest banks account for 36% of total small business lending activity. The personal banking needs are not nearly as well met once the excellent credit risks are taken care of.

The Consortium has many opportunities for partnerships available. Most banks have room for improvement, and those that are already 'outstanding' will be institutionally receptive to new possible avenues for community involvement. Only one bank was rated less than 'satisfactory' in Minneapolis. That bank was Minnesota Bankfirst. It is a bank that does little else than to collect deposits to support its South Dakota affiliate's credit card business. It is a new bank but has done almost nothing to improve its rating. Other banks that only operate as auxiliary offices also have almost no lending or investment activity in the Twin Cities area. These banks are not likely to change their business models to serve this community and are not worth much effort for partnering opportunities.

Bank Reports

U.S. Bank

Rating: Satisfactory-Minneapolis MSA
CRA qualified loans: 48% Small Business Loans
52% Residential HMDA qualified

Strengths:

- Community development loans
- Affordable housing investment
- Excellent distribution of mortgages in low to moderate income census tracts

Weaknesses

- Service hours and ATMs are not as convenient or accessible in low or moderate income areas
- Poor showing on small loans to businesses
- Poor responsiveness to small business

Notes: The system wide rating for U.S. Bank is outstanding. The Minneapolis-St Paul MSA is only rated satisfactory with a low satisfactory rating for service tests.

Richfield Bank and Trust

Rating: Outstanding
Only one permanent branch in Minneapolis, but they operate 33 'mobile' branches throughout the Twin Cities that serve the needs of seniors and other areas not convenient to their branches.

Strengths:

- Innovative and flexible loan programs.
- Programs for minorities and immigrant lending, credit building and housing.
- Excellent service through mobile branches.
- Very responsive to need for affordable housing.
- Often assumes leadership role.

Weaknesses

- Communities know of few opportunities for private lending to become involved in community development projects.

Notes: Second to none service for low income areas and lauded for its innovation. Richfield Bank also has a strong sense of community responsibility and takes great corporate pride in their rating.

Northeast Bank

Rating: Outstanding
This bank focuses on its immediate geographic area and excels at lending to small businesses.

Strengths:
- Provides financing for a variety of income levels, geographic areas and affordable housing projects.
- Partnerships with MCDA, Project for Pride in Living, GMMHC and other non-profit organizations.
- Innovative loan programs.
- 39% of loans are in low-income tracts. 26% of the assessment area tracts fit this demographic, meaning they do a superb job of reaching low- to moderate-income households.

Weaknesses:
- Poor loan to deposit ratio.

Notes: Northeast Bank is known for taking leadership roles in the community projects it gets involved in. It has very good balance of CRA activity between its Minneapolis, Columbia Heights and Coon Rapids branches.

Associated Bank (Riverside)

Rating: Satisfactory
Riverside Bank was recently purchased by Associated Bank, which is headquartered in Green Bay, Wisconsin. Riverside has a long history of being a very small business oriented bank.

Strengths:
- Uses innovative loan programs.
- Very high level of SBA lending.
- Good level of lending in low to moderate-income areas.

Weaknesses:
- Poor level of investment in affordable housing developments.
- Very focused on small business needs at the expense of personal activities.

Notes: Associated Bank is an enthusiastic supporter of the CRA. Opportunities exist to help improve their rating back to outstanding, where it had been for most of the last decade.

Minnesota Bankfirst

Rating: Not in Compliance

Notes: Minnesota Bankfirst is largely a depository institution that is used to help support the credit card activities of an affiliate in South Dakota. The bank has a high loan to deposit ratio and does only incidental local lending. The bank does, however, contribute to the Consortium. It is possible that local lending and partnership could be cultivated with the bank.

Bremer Bank

Rating: Satisfactory

Strengths:

- Very large affordable housing commitment throughout its service area.
- Excellent coverage with community development loans.

Weaknesses:

- Poor low income home refinancing.
- Only adequate consumer mortgage lending.

Marquette Capital

Rating Satisfactory
Marquette Capital was a subsidiary of Marquette Bancshares. It was recently sold to Wells Fargo.

Strengths:

- Bank focus on small business and commercial lending.

Weaknesses:

- Very little personal banking activity.
- Narrow business focus eliminates many possible CRA investments.

Notes: Marquette Capital never gained a significant market share in the region nor did it contribute much to CRA investments. Little to no CRA activity could be lost through the Wells Fargo acquisition.

National City Bank

Rating: Satisfactory

Strengths:
- Strong portfolio of community development lending.
- Solid programs with affordable housing elements.

Weaknesses:
- Even with strong community development lending, evaluated to have poor responsiveness to community needs.