NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

The CRA and Fair Lending Performance of Financial Institutions in the City of Philadelphia

May 2006

National Community Reinvestment Coalition
727 15th St. NW, Suite 900
Washington, DC 20005
(202) 628-8866
http://www.ncrc.org

The National Community Reinvestment Coalition

The National Community Reinvestment Coalition (NCRC) is the nation's trade association for economic justice whose members consist of local community based organizations. Since its inception in 1990, NCRC has spearheaded the economic justice movement. NCRC's mission is to build wealth in traditionally underserved communities and bring low- and moderate-income populations across the country into the financial mainstream. NCRC members have constituents in every state in America, in both rural and urban areas.

The Board of Directors would like to express their appreciation to the NCRC professional staff who contributed to this publication and serve as a resource to all of us in the public and private sector who are committed to responsible lending. For more information, please contact:

John Taylor, President and CEO
David Berenbaum, Executive Vice President
Joshua Silver, Vice President, Policy and Research
Milena Kornyl, Research Analyst

Table of Contents

Executive Summary

NCRC's second comprehensive analysis of home lending, small business lending, and branching patterns revealed satisfactory but not outstanding CRA (Community Reinvestment Act) and fair lending performance of banks receiving City deposits. The City's program of requiring CRA goal statements from banks receiving City deposits (depositories) has boosted their performance in making home loans available to working class and minority communities. City depositories, however, need to improve their performance in small business lending and making branches available to working class and minority communities. This report analyzed 2004 HMDA (Home Mortgage Disclosure Act) data and CRA small business data.

Trends in Prime and Subprime Lending

The study analyzed trends in prime and subprime lending in the City and the suburbs. Disparities in prime and subprime lending are significant policy concerns for both the City and the suburbs.

Prime loans are loans made at prevailing interest rates to borrowers with good credit histories. Subprime loans, in contrast, are loans with rates higher than prevailing rates made to borrowers with credit blemishes. The higher rates compensate lenders for the added risks of lending to borrowers with credit blemishes. While responsible subprime lending serves credit needs, public policy concerns arise when certain groups in the population receive a disproportionate amount of subprime loans. When subprime lending crowds out prime lending in traditionally underserved communities, price discrimination and other predatory and deceptive practices become more likely as residents face fewer product choices.

- In the City of Philadelphia, African-Americans constituted 44.8 percent of the city's population. They only received 22.8 percent of all prime single family loans (home purchase, home improvement, and refinance) but received 46.2 percent of all subprime loans during 2004 (see Table 1).

- In the City, 32.3 percent of all single family loans made to African-Americans and only 15 percent of the loans made to Whites were subprime. In other words, African-Americans were 2.16 times more likely to receive subprime loans than whites. This was a greater likelihood than low- and moderate-income borrowers receiving subprime loans relative to middle- and upper-income borrowers. Given that minority borrowers include a mix of income groups (and are not just low- and moderate-income families), it would be reasonable to expect a different outcome, that is, disparities being greater by income than race.

- Disparities were also significant in the suburbs. Of the single family loans issued in the suburbs, 12.8 percent and 6.8 percent of the loans issued to Hispanics and whites, respectively, were subprime. Hispanics were 1.87 times as likely as whites residing in the suburbs to receive subprime loans (see Table 2a).

- Concerns about the quality of investor owned single family properties have been a significant issue in cities across the country. Both prime and subprime lenders were most likely to make loans to investors that were middle- and upper-income and that were purchasing properties in low- and moderate-income neighborhoods. While the volume of loans to non-occupant investors remained lower than the volume of loans to owner-occupants, the lending trends to investors bears watching (see Table 4).

Performance of City Depositories in Home Lending

NCRC compared and ranked the CRA and fair lending performance of City depositories on all single family lending and on home purchase, refinance, and home improvement lending separately. NCRC used 15 indicators of performance including the percent of loans issued to racial groups, low- and moderate-income borrowers, and women; the market share of loans issued to minority and low- and moderate-income neighborhoods; and denial disparity ratios comparing denial rates to whites and minorities. NCRC examined the prime lending trends of the City depositories against prime lending of other lenders. Subprime specialists among the affiliates of the City depositories were few in number.

- The nine banks receiving City deposits included Bank of America, Citizens, Commerce Bank, PNC, Mellon, Wachovia, United Bank of Philadelphia, Advance Bank and Republic Bank. Together, these lenders made about 16.8 percent of the home loans in the City and owned 61.4 percent of the bank branches in the City during 2004. By utilizing their large presence in the market and working with the City, these nine banks have an opportunity to be market leaders and thereby encourage all financial institutions to increase loans to traditionally underserved communities. The depositories' market share of home loans dipped from 19.8 percent in 2003 to 16.8 in 2004. It would be desirable for their market share to increase or at least remain stable so that their influence in the overall marketplace also increases or at least does not wane.

- The City depositories performed well overall in all single family lending (home purchase, refinance, and home improvement lending combined). More than half of the City depositories exceeded the performance of all other prime lenders in Philadelphia on 12 of 15 indicators or on 80 percent of the CRA and fair lending performance measures (see Table 15). However, the 2004 performance declined somewhat from the 2003 performance; in 2003 more than half the depositories exceeded the all lender benchmark on 88 percent of the indicators.

- Within lending types, City depositories performed the best on home purchase lending. More than half of City depositories exceeded the performance of their peers on 14 of the 15 indicators or 93 percent of the time. This was a significant improvement from 2003 when more than half the depositories passed the all lender benchmark on just 47 percent of the indicators.

- The depositories also improved their performance in refinance lending from 2003 to 2004. In contrast, depositories' performance in home improvement lending declined from 2003 to 2004. More than half of the depositories exceeded the performance of all lenders, as a group, in home improvement lending on 73 percent of the indicators in 2004, down from 94 percent of the indicators in 2003. In addition, the indicators on which fewer the half of the depositories exceeded the performance of their peers in both refinance and home improvement lending were indictors measuring lending to minorities (see Table 15).

- City depositories and all other lenders need to increase their percent of prime lending to African-Americans, females, and in minority and low- and moderate-income communities. The gap between the percent of prime loans and the percent of the City's population (and percent of the City's owner-occupied housing units) was wide for these borrowers (and neighborhoods) (see Table 15).

- Relative to other lenders in the City, the depositories lagged in the percent of single family loans issued to Asians (see Table 15).

Small Business Lending

Disparities were significant for small business lending. City depositories also had more difficulty competing against their peers in small business lending relative to home lending.

- During 2004, the portion of all small business loans made in low-income census tracts was 19.3 percent, but the portion of the City's small businesses located in low-income tracts was 26.3 percent (see Table 18). Likewise, the portion of small business loans in minority tracts (greater than 50 percent of the population is minority) was 33.4 percent, but the portion of the City's businesses that was in minority tracts was about 45.1 percent (see Table 19).

- In the City of Philadelphia, smallest businesses with less than $1 million in revenue made up 58.8 percent of all small businesses but received only 32.8 percent of the small business loans issued in the City. A similarly stark difference occurred in the suburbs (see Table 20).

- On the small business CRA performance measures, more than half of the City depositories exceeded the performance of other lenders in the City on just 40 percent of the indicators. This was a significant difference from the home lending performance where more than half of the City depositories exceeded peer performance on the majority of indicators (see Table 22). There was no improvement from 2003 results.

- City depositories struggled on the indicators measuring success in serving small businesses in low- and moderate-income tracts but performed well in serving the smallest businesses with less than $1 million in revenues (see Tables 21 and 22).

Branching Patterns

- A slim majority of depositories exceeded the performance of other banks and thrifts in placing branches in minority neighborhoods. Five of the nine City depositories located a higher percent of their branches in minority neighborhoods than all lenders, as a group (which placed 22.5 percent of their branches in minority tracts at year end 2004; see Table 23).

- The performance of depositories in placing branches in low- and moderate-income census tracts needs attention. Only three of the nine City depositories located a higher percent of their branches in low- and moderate- income (LMI) neighborhoods than all lenders, as a group (which placed 54.4 percent of their branches in low- and moderate-income tracts at year end 2004; see Table 23). In contrast, four of seven depositories analyzed in the previous NCRC report had a higher percent of branches in LMI neighborhoods than all banks, as a group, as of year end 2003.

- Branches are integral for making home and small business loans to traditionally underserved communities. It is therefore vital that depositories increase their branching presence in LMI and minority communities in future years. A goal should be that all or most of the depositories exceed the performance of other banks in locating branches in traditionally underserved communities.

Neighborhood Analysis

- NCRC conducted detailed home and small business lending analysis of nine target neighborhoods in the City. Three of the neighborhoods are empowerment zones and six others are targeted for redevelopment by Community Development Corporations (CDCs). These neighborhoods are heavily African-American or Hispanic, and are all low-income except for one moderate-income neighborhood.

- The performance of City depositories was commendable on a neighborhood level. Four of the five City depositories analyzed on the neighborhood level had a higher share or percent of home loans made in these neighborhoods than they did across the City (see Table 25). However, the two banks (Bank of America and Commerce) that had a smaller number of branches overall and in underserved neighborhoods had the most difficulty serving the nine neighborhoods as well as they served other neighborhoods across the city. All depositories, but particularly the two depositories with fewer branches, should consider branch expansion in minority and LMI neighborhoods.

- Overall, however, access to credit needs to improve in the target neighborhoods. In the City as a whole, the ratio of prime loans to owner-occupied units was 8.4 percent in 2004. In other words, lenders made loans to about 8 percent of all owner-occupied units. In the target neighborhoods, the ratios were generally about or below 4 percent (see Table 24).

- The gaps in small business lending are not as great for the nine target neighborhoods, but they are still significant. In the City overall, banks and thrifts made loans to 11.4 percent of the small businesses with revenues of less than $1 million. In two of the neighborhoods, the ratio was a bit higher at 11.5 and 12.5 percent. In five neighborhoods, however, the ratio was below 7 percent (see Table 26).

Quality Control

Before releasing the study publicly, NCRC provided copies to the banks analyzed in this report as well as City officials. Following the method established by the Government Accountability Office, NCRC believed that the rigor and fairness of the study would be enhanced by sharing it with key stakeholders and asking them to offer their comments and insights. NCRC greatly appreciated their perspectives and comments, which did improve the quality of the report. The methodology section of the report also discusses some of the issues discussed by the stakeholders.

Recommendations

Philadelphia's program requiring City depositories to issue annual CRA goals has made a valuable contribution to increasing access to credit and bank branches to minority and low- and moderate-income communities. The City depositories generally perform well on CRA and fair lending indicators of performance. However, performance remained uneven. The depositories significantly improved their home purchase lending performance but slipped on home improvement lending and branching. Their small business performance still needs to improve as well.

NCRC's specific recommendations are:

- City and suburban leaders should work together to address lending disparities and unmet credit needs. Disparities in prime and subprime lending cut across urban and suburban jurisdictions. In addition, small businesses with revenues under $1 million and businesses located in minority and low- and moderate-income census tracts have unmet credit needs in both the City and suburbs.

- NCRC supports the Small Business Loan Guarantee Fund proposal. Government-back guarantees have been important for increasing lending to traditionally underserved small businesses. Since small business lending continues to be a source of weakness, the Guarantee Fund proposal should assist in improving access to credit for the smallest of the small businesses in minority and LMI neighborhoods.

- Depositories should take steps to make their CRA and fair lending performance consistently exceed the performance of all other lenders in the City. Depositories are receiving a significant benefit from the City. In return, they should be leading the market in serving minorities, women, and working class borrowers and communities. The depositories have laid the foundation for good if not excellent performance, but they need to work on being more consistent. In addition, lags in branching and small business lending need to be addressed.

- The depositories should work closely with community organizations and City agencies in increasing access to capital and credit for traditionally underserved communities. Specifically, the City of Philadelphia has embarked on a Neighborhood Transformation Initiative, which has involved the development of alternatives to abusive lending, the refinancing of predatory loans, and housing counseling. City depositories should expand their cooperation and involvement with the City's Neighborhood Transformation Initiative.

- NCRC analyzed the home and small business lending trends in nine City neighborhoods that either had Empowerment Zone designations and/or are served by Community Development Corporations (CDCs). This report documents significant credit gaps in these nine neighborhoods. The City ought to work with lending institutions to expand bank branches in these and other underserved neighborhoods. Bank branches are instrumental for expanding access to loans, deposit accounts, and other bank services. Given the importance of bank branches in expanding access to credit and wealth building opportunities, the City ought to incorporate branch building as a formal part of its community development strategy.

- The City should monitor trends in home lending to investors in minority and low- and moderate-income neighborhoods. Should more investor opportunities be made available to low- and moderate-income families that may wish to invest in housing in low- and moderate-income neighborhoods? Alternatively, should more emphasis be placed upon lending to owner-occupants in minority and low- and moderate-income neighborhoods? It is beyond the scope of this study to assess the quality of investor owned housing stock in minority and working class neighborhoods. Nevertheless, it is appropriate to raise these questions now while lending to investor, non-occupants is manageable in the sense that it growing but is not surging in leaps and bounds to high levels.

- The City should advocate for continued enhancements in the lending data provided by the federal government. The City should ask Congress and the federal regulators to reverse the recent decision to eliminate small business data reporting by banks and thrifts with assets between $250 million and $1 billion. Some of the depositories covered by this report have assets in this range, and will no longer have to report CRA small business lending data. The counterproductive decision of the federal banking regulators will reduce the abilities of cities and their residents to monitor lending trends and hold banks accountable for lending to traditionally underserved neighborhoods.

- The City should ask the federal government to require disclosure of small business data on a census tract level, to require reporting of the race and gender of small business borrowers, and to include more precise reporting of the revenue size of the small business borrowers. Some of the stakeholders reviewing draft versions of this report commented that the small business data analysis did not account for loans in which the revenue size of the small business is unknown when calculating what percentage of the small business loans were made to small businesses with revenues less than $1 million. NCRC reviewed the CRA regulations, the Interagency Q&A document, and consulted with federal regulatory officials. There is no publicly available data on how many loans were made to small businesses with revenue size unknown. This data should be made publicly available as well as some additional revenue size categories of small businesses. The smallest of the small businesses have revenues considerably under $1 million; it would be valuable to have data revealing lending trends to these businesses.

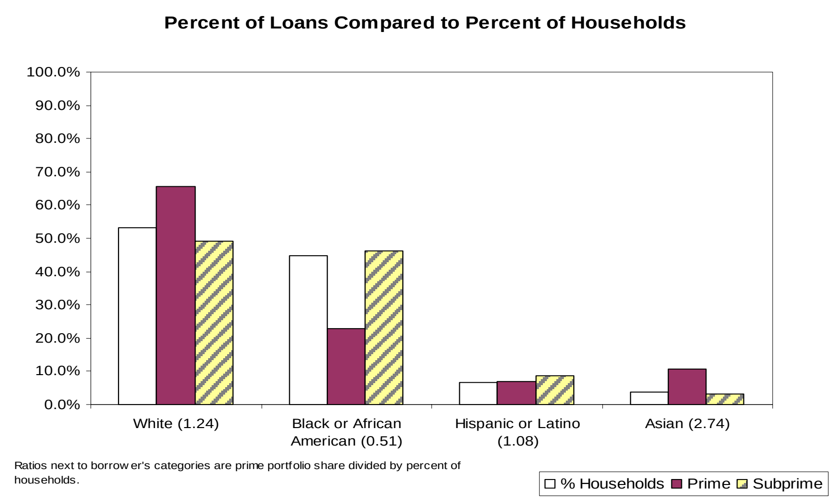
- Regarding HMDA data disclosure, the City should applaud the recent decision by the Federal Reserve Board to include price information for subprime loans but should advocate for pricing data for all loans and for the disclosure of key underwriting variables such as credit scores and loan-to-value ratios.

Comparison of Single Family Lending Trends in Suburbs to City of Philadelphia

Single Family Lending to Minorities in City and Suburbs

NCRC compared single family lending trends in the City and County in Philadelphia with trends in the four suburban counties (Bucks, Chester, Delaware, Montgomery) located in Pennsylvania that comprised the Philadelphia metropolitan area. Single family refers to refinance, home purchase, and home improvement lending combined. For the year 2004, disparities in access to prime loans are prevalent and significant in both the City and suburbs.

In both the City and suburbs, the African-American percent of prime loans was about half their percent of the population. In the suburbs (see Table 2a and Chart 2), African-Americans received a disproportionately high portion of subprime loans while in the City (see Table 1a and Chart 1) their share of subprime loans was proportional to their share of the households. In the suburbs, African-Americans received 14.9 percent of subprime loans but only 4.3 percent of the prime loans during 2004. According to the 2000 census, African-Americans were 7.2 percent of the suburbs' households. They therefore received a percent of subprime loans two times greater than their percent of suburban households but received a share of prime loans that was just six tenths of their share of households.[1] In the City and County of Philadelphia, African-Americans comprised 44.8 percent of the non-Hispanic households, and received 22.8 percent of the prime loans and 46.2 percent of the subprime single-family loans.[2]



[1] The percent of subprime loans for African-Americans is divided by the African-American percent of the households to derive a ratio of 2.05. Likewise, the ratio of six-tenths or (.59) is derived by dividing the percent of prime loans for African-Americans by the African-American percent of households.

[2] The African-American share of households was calculated by excluding Hispanic households from the household total for the City. The African-American share of households appears 4 percentage points higher than NCRC's report using the 2003 data but the anomaly is explained by excluding Hispanic households. The analysis attempted to control for the effects of ethnicity by excluding Hispanics from borrowers and households when considering lending by race for the 2004 analysis. The 2004 home loan data includes additional data elements that reveal both the race and ethnicity of borrowers. For the 2003 data, Hispanics were considered a race category.

Fair lending analysis for other minority groups such as Hispanics and Asians is more meaningful for the City since these groups were relatively small percentages of the suburban households and had a larger presence in the City. For example, Hispanics comprised just 1.62 percent of the suburban households, and received 1.6 percent of the prime and 2.8 percent of the subprime single family loans in 2004. In the City, Hispanics were 6.5 percent of the households, and received 7 percent of the prime loans and 8.8 percent of the subprime loans. Asians actually enjoyed a larger percentage of prime than subprime loans. At 3.9 percent of the City's households, Asians were issued 10.6 percent of the prime loans and just 3.2 percent of the subprime loans. A similar trend occurred in the suburbs, where Asians garnered a higher percentage of prime than subprime loans. In sum, African-Americans residing in the suburbs and City experienced significantly more disparities than other minority groups in the portion of prime and subprime loans received.

Market share analysis reinforces the conclusion that fair lending disparities for single family lending were the most pressing for African-Americans in both the City and suburbs. Market share analysis focuses on the percent of all loans that are subprime for minorities and other protected classes relative to whites and other unprotected classes. Minorities and other protected classes are more likely to receive subprime loans when subprime lending accounts for a larger market share of loans issued to minorities and other protected classes than to whites and other unprotected classes.

African-Americans and Hispanics experienced much higher market shares of subprime loans than whites in the City and suburbs. In the City, subprime lending accounted for 32.3 percent of all loans made to African-Americans but just 15 percent of loans made to Whites.[3] In other words, African-Americans were 2.16 times more likely to receive subprime loans than Whites (32.3 percent subprime market share to African-Americans divided by the 15 percent subprime market share to whites). In the suburbs, subprime lending accounted for 22.1 percent of all single family loans to African-Americans but only 6.9 percent of single family loans made to Whites. African-Americans residing in the suburbs were 3.2 times more likely than whites to receive subprime loans.

Hispanics also experienced significant market share disparities relative to Whites. Of the single family loans issued in the City, 22.8 percent and 15 percent of the loans issued to Hispanics and whites, respectively, were subprime. Hispanics were 1.5 times more likely as whites residing in the City to receive subprime loans. In the suburbs, Hispanics were 1.9 times more likely than whites to receive subprime loans. In contrast, a lower percent of loans issued to Asians than whites were subprime than prime in both the City and the suburbs in 2004.

Denial disparity ratios reveal that African-Americans in the city and suburbs experienced the highest denial disparities, but that Hispanics also experienced significant denial disparity ratios during 2004. In the City, African-Americans were denied single family loans 42.8 percent of

[3] The number and percent of subprime loans appeared to have climbed dramatically in 2004 compared to 2003. It is not possible to separate out the effects of new data reporting versus economic factors for this apparent increase. HMDA data has changed; in 2004 pricing information is available on a per loan basis while in 2003 researchers generally used a list generated by HUD that identified prime and subprime specialists. During 2003, subprime lenders issued 17.8 percent of all loans made to African-Americans but only 7.8 percent of loans made to Whites. These are significantly lower percentages than this study reports for 2004.

the time while whites were denied loans just 22 percent of the time. African-Americans were denied 1.95 times more often than whites (42.8 percent divided by 22 percent). In the suburbs, African-Americans were denied loans 30.8 percent of the time and whites were denied 14 percent of the time. African-Americans were denied 2.2 times more often as whites for loans. Hispanics were 1.7 times more likely to be denied loans in the City than whites (37.2 percent of Hispanic applicants denied versus 22 percent of White applicants denied). In the suburbs, Hispanics were 1.4 times more likely to be denied loans than Whites during 2004.

Single Family Lending to Low- and Moderate-Income Borrowers in the City and Suburbs

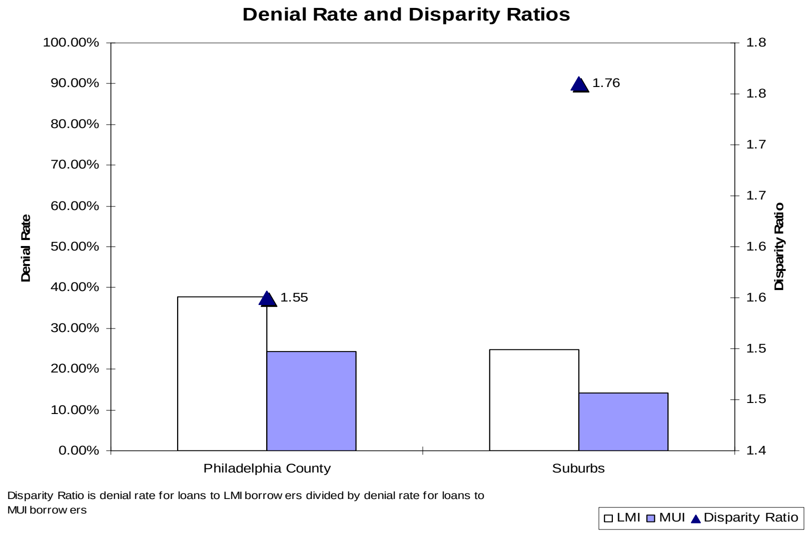
Low- and moderate-income borrowers received a share of prime single family loans that was lower than their share of the household population but received a share of subprime loans higher than their share of the household population in both the City and suburbs. In the City of Philadelphia (see Table 1b and Chart 3), low- and moderate-income (LMI) households (with up to 80 percent of area median income) comprised 57.4 percent of the City's households. LMI borrowers received 52.8 percent of the prime single family loans and 66.4 percent of the subprime single family loans issued in the City. In the suburbs (see Table 2b), LMI households constituted 29 percent of all the households. They received 24 percent of the prime single family loans but 38.6 percent of the subprime loans in 2004.

Institutions issuing subprime loans had a higher market share to LMI borrowers than to middle- and upper-income (MUI) borrowers in both the City and the suburbs. Subprime lending accounted for 25 percent of the single family loans to urban LMI borrowers but made up just 15.8 percent of the loans to MUI borrowers. The subprime market share to LMI borrowers was 1.58 times greater than their market share to MUI borrowers. In other words, LMI borrowers were 1.58 times more likely than MUI borrowers to receive subprime loans. In the suburbs, subprime loans comprised 13.5 percent of the loans to LMI borrowers but just 7.3 percent of the loans to MUI borrowers. LMI borrowers in the suburbs were 1.85 times more likely than MUI borrowers to receive subprime loans.

In the suburbs, subprime market share to LMI borrowers relative to MUI borrowers was lower than their market share to Hispanics relative to whites and to African-Americans relative to Whites. In the City, subprime market share to LMI borrowers relative to MUI borrowers was lower than their market share to African-Americans relative to whites. The fact that subprime relative market share to minorities was often higher than their market share to LMI borrowers suggests that lending disparities by race were larger than disparities by income. Given that minority borrowers include a mix of income groups and are not solely LMI, it would be reasonable to expect disparities by race to be less than disparities by income. This expectation is reinforced by the importance of income and the ability to repay in loan underwriting decisions.[4] The larger disparities by race suggests that lenders, community groups, and public officials should work together to intensify efforts to reduce racial disparities in lending.

[4] Differences in creditworthiness are often cited as one explanation for lending disparities by race. Yet, previous research including NCRC's *Broken Credit System* report (available via http://www.ncrc.org) and papers co-authored by Federal Reserve economists have found that even controlling for creditworthiness, disparities by race remain in Philadelphia and several other large metropolitan areas. See Paul S. Calem, Kevin Gillen, and Susan Wachter, *The Neighborhood Distribution of Subprime Mortgage Lending*, October 30, 2002. See also Paul S. Calem, Jonathan E. Hershaff, and Susan M. Wachter, *Neighborhood Patterns of Subprime Lending: Evidence*

Denial disparity analysis also suggests that disparities by race should be reduced since they were larger than disparities by income.



In the City, lenders denied LMI applicants 37.7 percent of the time and MUI applicants 24.2 percent of the time. LMI applicants were denied 1.55 times more often than MUI applicants. As stated above, African-American applicants were denied 1.95 times more often than white applicants. In the suburbs, LMI applicants were denied 24.7 percent of the time while MUI applicants were denied 14 percent of the time. LMI applicants were denied 1.76 times more often than MUI applicants. In contrast, suburban African-American applicants were denied 2.2 times more often than white applicants.

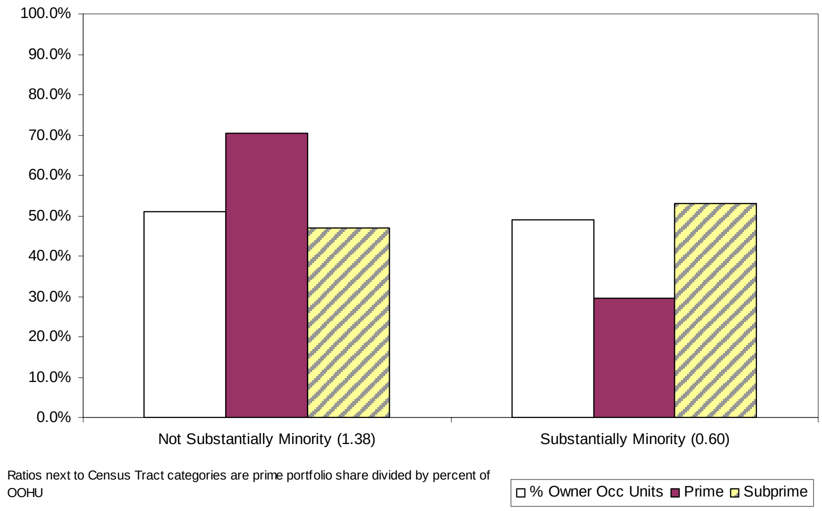
Single Family Lending by Minority Level of Census Tracts

In the City, significant disparities were present when considering single family lending by minority level of census tracts. Substantially minority census tracts (more than 50 percent of residents are minority) contained 49 percent of the owner-occupied housing units in the City. However, residents of these neighborhoods received just 29.4 percent of prime loans but 52.9 percent of subprime loans in 2004 (see Table 1c and Chart 4). In contrast, non-minority tracts (less than 50 percent of residents are minority) contained 51 percent of the owner-occupied housing stock but received 70.6 percent of the prime single family loans and just 47.1 percent of the subprime loans (see Maps 1 and 2). In the suburbs (see Table 2c), the presence of substantially minority census tracts is small; these tracts contained just 2.6 percent of the owner-occupied housing units. Yet, even in the suburbs disparities occurred by minority level of census tracts. These tracts received just 1.3 percent of the prime loans and 5.7 percent of the subprime loans during 2004.

---

from Disparate Cities, in Fannie Mae Foundation's Housing Policy Debate, Volume 15, Issue 3, 2004 pp. 603-622.

Percent of Loans Compared to Percent of Owner Occupied Units, Philadelphia County



Market share and denial disparity analyses also suggested significant lending disparities by race of neighborhood. In the City, subprime lending accounted for 31 percent of all loans in substantially minority tracts and only 14.3 percent of loans in non-minority tracts.[5] Residents of minority tracts were 2.2 times more likely than residents of non-minority tracts to receive subprime loans. The likelihood was even higher (3.6 times) for suburban residents of minority tracts to receive subprime loans relative to their counterparts in non-minority tracts. The denial disparity ratio for residents of minority tracts relative to non-minority tracts was higher at 2.3 in the suburbs versus 1.7 in the City.

Single Family Lending by Income Level of Census Tracts

In the City, the great majority of owner-occupied housing units (67 percent) are in LMI census tracts (see Table 1d and Chart 5). In the suburbs, the portion in LMI tracts is much smaller at 5.6 percent of all owner-occupied housing units (see Table 2d).[6]

Disparities in lending by income level of tracts were present in both the City and suburbs. In the City, LMI tracts received a considerably smaller portion of single family prime loans (51.6 percent) than their portion of owner-occupied housing units (67 percent). In contrast, the percent of subprime loans (69.8 percent) is slightly higher than the percent of owner-occupied housing units in LMI tracts. In the suburbs, residents of LMI tracts received 4.1 percent of prime single family loans and 12.2 percent of subprime loans. The portion of prime loans was

[5] As mentioned above, the subprime percentages of all loans were higher in 2004 than 2003. During 2003 in the City, subprime lenders made 19.5 percent of all loans in substantially minority tracts and 9.4 percent of loans in non-minority tracts. Notice that the percentages of subprime loans in both categories of tracts were higher in 2004.

[6] One reason for the much higher percentages of owner-occupied housing units in LMI tracts in the City relative to the suburbs is that the CRA definition of LMI are incomes up to 80 percent of the metropolitan area median income. Due to lower absolute income levels in the City, more census tracts have median incomes that are 80 percent or lower than the metropolitan area income.

slightly smaller than the portion of owner-occupied housing units in suburban LMI tracts while the portion of subprime loans was 2.2 times greater (in percentage point terms) than the portion of owner-occupied housing units.

Subprime lending accounted for 25.3 percent of all loans in LMI urban tracts but just 13.5 percent of loans in MUI tracts (see Maps 3 and 4). Residents of LMI urban tracts were 1.9 times more likely to receive subprime loans than residents of MUI tracts. This likelihood of receiving subprime loans was lower than the likelihood (of 2.2) in substantially minority tracts versus non-minority tracts. In the suburbs, subprime loans constituted 21.7 percent of all loans in LMI tracts but just 7.8 percent in MUI tracts. Residents of LMI suburban tracts were 2.8 times more likely to receive subprime loans than residents of MUI tracts. Again, residents of substantially minority suburban tracts were more likely relative than residents of non-minority tracts to receive subprime loans than residents of LMI tracts relative to MUI tracts.

Residents of urban LMI tracts were rejected for loans 37.8 percent of the time while residents of MUI tracts were declined 22.3 percent of the time. LMI tract inhabitants were 1.7 times more likely to be rejected than those of MUI tracts. Likewise, in the suburbs LMI tract residents were 1.9 times more likely to be denied loans than MUI tract residents.

Single Family Lending by Gender

In both the City and suburbs, males fared better than females but joint applications submitted by males and females together fared the best. Joint applicants were the least likely to receive subprime loans and had the lowest denial rates. In the City (see Table 1e and Chart 6), males received 35 percent of prime loans and 36.8 percent of subprime loans in 2004. Males were 22.4 percent of the City's households, so they received a portion of prime and subprime loans about 1.6 times greater than their share of the City's households. Women received a substantially higher percent of subprime loans (42.5 percent) relative to prime loans (35.1 percent). Females constituted 45 percent of the City's households. In contrast to males, their share of prime loans was just three fourths of their share of the City's households.

Joint applicants, in contrast, received a considerably lower percentage of subprime loans (20.7 percent) than prime loans (29.9 percent). In the suburbs (see Table 2e), the trends were similar with both female and male borrowers receiving a higher portion of subprime than prime loans but joint applicants receiving a higher portion of prime than subprime loans. Joint applicants (males and females applying together) were probably more likely to have two sets of incomes and higher levels of assets than males and females applying separately. Thus, the most favorable outcomes for joint applicants reflected their bolstered economic position.

In the City and the suburbs, the subprime market share of loans made to males and females were very similar, but the subprime market share to joint applicants was lower. For instance, subprime lending comprised 21 percent of all single family loans to urban males, 23.3 percent of loans to urban females, but just 14.8 percent to joint applicants. Similarly, joint applicants fared the best when considering denial rates. In the city, males, females, and joint applicants were denied loans 32.4 percent, 34.9 percent, and 26.1 percent of the time, respectively.

Lending Trends to Non-Occupant Investors as Compared to Owner-Occupants in the City of Philadelphia

Several articles have commented recently about the increase in lending to investors who do not occupy the homes they purchase. The commentaries remark about how the record low interest rates, the rapid appreciation of housing values, and a myriad of new underwriting flexibilities has stimulated a surge of lending to investors. Across the nation, 11.1 percent of single family loans during 2004 were issued to investors that did not reside in the homes for which they received loans (see Table 4).

Table 4: Lending to Owner-occupants versus Non-occupant owners
City of Philadelphia

Portfolio and Market Share Analysis

	All Loans		Prime			Subprime		
	Count	% of total	Count	% of total prime	Mkt share	Count	% of total subprime	Mkt share
Non-Owner Occupied	7,641	17.3%	5,889	16.7%	77.1%	1,752	19.3%	22.9%
Owner-Occupied	36,593	82.7%	29,272	83.3%	80.0%	7,321	80.7%	20.0%
Total	44,234		35,161		79.5%	9,073		20.5%

Totals were based on the number of loans to census tracts of different minority levels. These totals included the most loans.
See methodology section for more details

Nation	All Loans	
	Count	% of total
Non-Owner Occupied	1,319,894	11.1%
Owner-Occupied	10,584,640	88.9%
Total	11,904,534	

In the City and County of Philadelphia, the portion of loans made to investor non-occupants was higher than for the nation, as a whole. According to the 2004 data on all single family lending (home purchase, refinance, and home improvement), 17.3 percent of the loans in the City were issued to non-occupant investors. Likewise, 16.7 percent of the prime loans were issued to non-occupant investors and a higher portion (19.3 percent) of subprime loans were issued to non-occupant investors.

Subprime lending comprised a higher market share to non-occupant investors than owner-occupants. In the City, subprime loans were 20 percent of the loans to borrowers that reside in their homes while subprime loans made up 22.9 percent of the single family loans to investor non-occupants. It is possible that a higher portion of investor non-occupants are taking riskier and higher priced loans than owner-occupants.

Financial institutions made a greater percentage of prime and subprime loans to middle- and upper-income (MUI) investor non-occupants for homes in low- and moderate-income (LMI) and minority neighborhoods. In 2004, LMI and MUI owner-occupants received 52.8 percent and 47.2 percent of the prime loans, respectively. In contrast, LMI and MUI non-occupant investors were issued 21.8 percent and 78.2 percent of the prime loans, respectively (see Table 3b). The same trend holds true for subprime loans constituting a much greater percentage of loans to MUI investors relative to MUI owner-occupants.

In contrast to the trends for borrowers, lending institutions issued a larger percentage of their loans to non-occupant investors in LMI neighborhoods (see Table 3d). Non-occupant investors of homes in LMI neighborhoods received 73.1 percent of the prime loans and non-occupant investors of homes in MUI neighborhoods received 26.9 percent of the prime loans. In contrast, owner-occupants in LMI neighborhoods were issued just 51.6 percent of the prime loans during 2004. Similarly, investors holding property in minority census tracts were issued 41.5 percent of the prime loans (see Table 3c). But owner-occupants in minority tracts received just 29.4 percent of the prime loans.

Lending institutions made a greater portion of their loans to non-occupant male investors than female investors (see Table 3e). During 2004, non-occupant investor males, females, and joint borrowers received 53 percent, 21.3 percent, and 25.7 percent of the prime loans, respectively. In contrast, owner-occupant males, females, and joint borrowers were issued 35 percent, 35.1 percent, and 29.9 percent of the prime loans, respectively.

The disparity in subprime market shares tended to be higher for lending to investor non-occupants, but not by large margins. For example, subprime lending made up 31 percent of all the loans to owner-occupants in substantially minority neighborhoods and 14.3 percent of the loans to owner-occupants in non-minority census tracts. This was a market share disparity of 2.17, meaning that owner-occupants in minority neighborhoods were 2.17 times more likely to receive subprime loans than owner-occupants in non-minority neighborhoods. Likewise, subprime lending accounted for 32.8 percent of the loans to non-occupant investors in minority neighborhoods and 14 percent of the loans to non-occupant investors in non-minority neighborhoods. Investors holding property in minority neighborhoods were 2.35 times more likely to receive a subprime loan than investors in non-minority neighborhoods.

While the disparity in subprime market share tended to be higher to investors than owner-occupants, the most significant difference in lending patterns was the propensity of both prime and subprime lenders to offer greater percentages of their loans to MUI investors holding property in LMI and minority neighborhoods than LMI investors. The larger amount of owner-occupied lending (36,593 loans) than lending to non-occupant investors (7,641) suggests that lending to non-occupant investors will not be approaching the majority of loans overall in the City or to specific neighborhoods in the near future. Nevertheless, stakeholders should assess if it is worthwhile to pursue more investor opportunities for LMI borrowers. Likewise, stakeholders should investigate the impacts of lending to investors in LMI and minority neighborhoods on the quality of the housing stock, and determine if steps should be taken to increase the amount and percentage of owner-occupied lending to these neighborhoods.

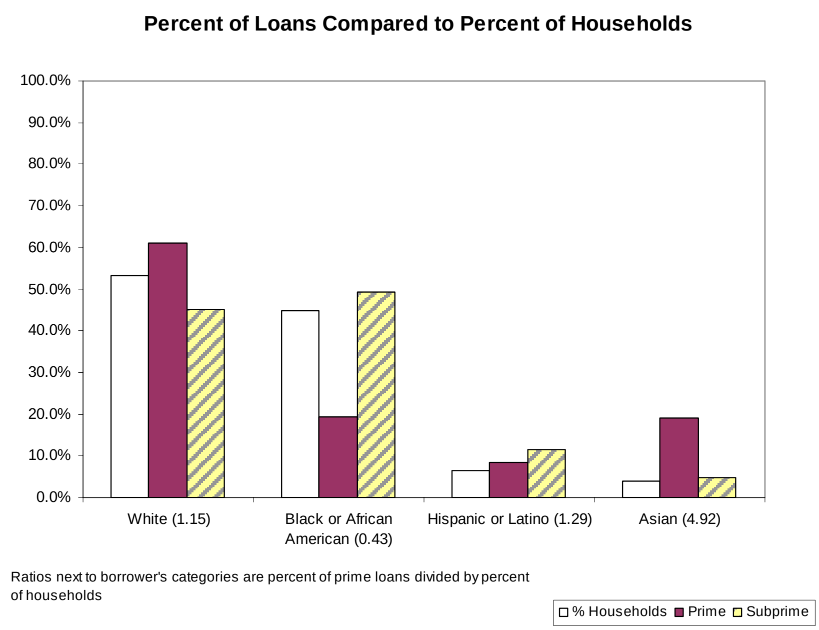
Aggregate Prime and Subprime Home Lending in Philadelphia

This chapter presents an aggregate 2004 home lending analysis in the city of Philadelphia by loan type. In particular, the chapter illustrates home purchase, refinance and home improvement lending patterns by gender, income and minority level of borrower and census tract.

Comparison of Philadelphia Demographics and Home Purchase Lending

There were 13,935 home purchase loans originated in Philadelphia in 2004, out of 21,340 applications submitted. The great majority of the home purchase lending was prime; 12,194 loans were prime loans and 1,741 were subprime. Nevertheless, disparities by race and income emerge (see Table 7a).

By Race of Borrower (see Table 5a and Chart 7)
White borrowers received a higher proportion of prime home purchase loans than their household share of the population (61% of prime loans vs. 53.2% of households). In contrast, lenders made 45% of their subprime home purchase loans to white borrowers. White homeowners received a portion of prime loans that is 1.2 times higher than the percent of households.



Hispanic borrowers received a higher share of prime home purchase loans than the percentage of households they represent in the city (8.4% of prime loans vs. 6.5% of the population). They also received 11.6% of subprime home purchase loans in 2004. The percent of prime loans was 1.29 times higher than the percent of Hispanic households. The percent of subprime loans was 1.77 times higher than the percent of Hispanic households.

Asian borrowers received a higher share of both prime and subprime home purchase loans than the portion of households they represent. Asian households constituted 3.9% of the City's households whereas they received 19.1% of prime loans and 4.8% of subprime loans in 2004. The percent of prime loans received by Asians was nearly 5 times higher than the percent of households that were Asian.

In contrast, African-American borrowers received a substantially lower percentage of prime home purchase loans than their share of total households (19.3% of prime loans vs. 44.8% of households). However, lenders made 49.2% of their subprime home purchase loans to African-American borrowers. Thus, the percent of prime loans received by African-Americans was just four tenths the percent of households that were African-American. At the same time, the percent of subprime loans was 1.1 times higher than the percent of households.

By Income of Borrower (see Table 5b and Chart 7)
Low- to moderate-income (LMI) borrowers received 55.6% of prime home purchase loans, and 66.9% of subprime home purchase loans during 2004. The percentage of LMI households in the city was 57.4%. Thus, LMI borrowers received 1.2 times higher percent of subprime loans than the percent of their households.

Middle- to upper-income (MUI) borrowers received 44.4% of prime home purchase loans and 33.1% of subprime loans. MUI households made up 42.6% of households in Philadelphia. MUI borrowers received almost one fourth less subprime loans than the percent of households they represent.

By Tract Minority Level (see Table 5c)
Lenders made 27.3% of their prime home purchase loans in substantially minority census tracts (50-100% minority population). By comparison, nearly half (49%) of the county's owner occupied housing units were in minority tracts. Lenders originated almost 49% of their subprime home purchase loans in minority tracts. Interestingly, lenders evenly distributed their subprime loans between minority and non-minority census tracts. In other words, the percent of owner-occupied housing units located in census tracts of each of the racial categories was the same as the percent of subprime loans made in these census tracts. However, for prime lending the percent of loans in non-minority census tracts was 1.4 times higher than the percent of owner-occupied housing units located in these census tracts. As for the minority census tracts, the percent of prime loans was about half the percent of owner-occupied housing units in these census tracts.

By Tract Income Level (see Table 5d)
Lenders made 53.6% of prime home purchase loans and 72.6% of subprime home purchase loans in low- to moderate-income (LMI) census tracts. Owner occupied housing units in LMI tracts constituted 67% of the units in the city.

In middle- to upper-income (MUI) tracts, lenders made 46.4% of their prime home purchase loans and 27.4% of their subprime loans. MUI tracts contained 33% of owner occupied units.

The percent of prime loans in MUI census tracts was 1.4 times higher than the percent of owner-occupied housing units located in these census tracts. The ratio for LMI census tracts was 0.8 which indicates that the percent of prime loans made in LMI census tracts was one fifth lower than the percent of owner-occupied housing units located in these census tracts.

By Gender (see Table 5e)
Lenders made 41.3% of their prime loans to male borrowers, 36.3% to females and 22.4% to joint applicants. At the same time, male borrowers received 46% of subprime loans, while female and joint applicants received 42.8% and 11.2%, respectively.

A comparison to the percent of households of these gender categories showed that male borrowers received 2 times greater percent of prime home purchase loans than their percent of the City's households. In contrast, the ratio for female applicants was below 1.

<u>*Market Share Analysis of Home Purchase Lending*</u>

Market share analysis compares the share of all loans that are prime and subprime to different categories of borrowers. Disparities occur when subprime home purchase loans are issued at a higher percent to minorities and/or other protected classes than to whites and/or other unprotected classes. When disparities occur, the frequency or likelihood of receiving subprime loans increases for protected classes relative to unprotected classes.

By Race of Borrower (see Table 5a and Chart 7)
Of all home purchase loans to white borrowers in 2004, 91% were prime loans and 9% were subprime. For African-American borrowers, 74.6% of home purchase loans were prime loans, and 25.4% were subprime. Therefore, the ratio of the subprime market share of African-Americans to the subprime market share of whites was 2.83. This means that African-American borrowers received subprime loans nearly three times as frequently as white borrowers. For Hispanics the ratio was 1.7 whereas for Asians the ratio equaled 0.4.

By Income of Borrower (see Table 5b and Chart 8)
Of all home purchase loans to low- and moderate-income (LMI) borrowers, 85.7% were prime loans and 14.4% were subprime. For middle- and upper-income (MUI) borrowers, 90.6% of home purchase loans were prime loans and 9.4% were subprime. LMI borrowers received subprime loans 1.52 times as frequently as MUI borrowers.

By Tract Minority Level (see Table 5c)
Of the home purchase loans to borrowers in substantially minority census tracts, 79.6% were prime loans and 20.4% were subprime during 2004. In non-substantially minority census tracts, 90.9% of home purchase loans received were prime loans and 9.1% were subprime. Therefore, the resulting subprime market share ratio shows that borrowers in minority tracts received subprime loans 2.24 times as frequently as borrowers in non-minority tracts.

By Tract Income Level (see Table 5d)
In LMI tracts 83.8% of the loans were prime and 16.2% of the loans were subprime. In MUI tracts, 92.2% were prime loans and 7.8% were subprime. The resulting subprime market share ratio shows that subprime loans occurred 2.1 times more frequently in LMI tracts than MUI tracts.

By Gender (see Table 5e)
Of all home purchase loans made to male borrowers and of all loans made to female borrowers, about 86% were prime loans and 14% were subprime. For male and female borrowers applying jointly, 93.4% of the home purchase loans were prime loans and 6.6% were subprime.

<u>Denial Disparities in Home Purchase Lending</u>

In 2004, there were 21,340 applications for home purchase loans and 3,167 of these applications (14.8%) were denied.

By Race of Applicant (see Table 5a and Chart 7)
African-American applicants were denied home purchase loans 21.8% of the time. Hispanic applicants were denied home purchase loans in 16.4% of the time. White applicants were denied 9.9% of the time.

A comparison of the denial rates shows that African-American applicants were denied home purchase loans 2.22 times more frequently than whites (21.8% denial rate for African-Americans divided by a 9.9% denial rate for whites). Additionally, Hispanics were denied home purchase loans 1.66 times more frequently than white applicants. Asian applicants were denied home purchase loans at virtually same rate as whites were, the ratio was 1.03.

By Income of Borrower (see Table 5b and Chart 8)
Low- to moderate-income applicants were denied home purchase loans 16.9% of the time. Middle- to upper-income applicants were denied home purchase loans in 11.4% of the applications. LMI applicants were denied home purchase loans 1.48 times more frequently than MUI applicants.

By Tract Minority Level (see Table 5c)
Home purchase loan applications in substantially minority census tracts were denied 21.4% of the time. Home purchase loan applications from non-minority tracts had a denial rate of 11.1%. Applications for home purchase loans in substantially minority census tracts were denied 1.92 times more frequently than loan application in non-minority tracts.

By Tract Income Level (see Table 5d)
The denial ratio of home purchase loans from low- to moderate income tracts was 18.1%. Home purchase loan applications from middle- to upper-income census tracts were denied 9.9% of the time. Lenders denied home purchase loan applications from LMI tracts 1.83 times more frequently than applications in MUI tracts.

By Gender (see Table 5e)
Denial rates were similar for male and female home purchase loan applicants, 15.32% for males and 15.39% for females. For joint applicants the denial rate was 10.1%.

<u>Comparison of Philadelphia Demographics and Refinance Lending</u>

There were 19,958 refinance loans originated in Philadelphia in 2004, out of 60,431 applications submitted.

By Race of Borrower (see Table 6a and Chart 9)
The percent of prime refinance loans received by white borrowers was greater than their share of the households in the county (69.7% of prime refinance loans vs. 53.2% of households). White borrowers received 50.3% of subprime refinance loans. The percent of prime loans received by white borrowers was 1.3 times greater than the percent of the City's households that were white.

Hispanic borrowers received six percent of prime refinance loans, whereas they made up 6.5% of households. Hispanic borrowers received 7.4 percent of the subprime refinance loans. The percent of prime loans received by Hispanics was slightly less than their percent of the City's households. In contrast, the percent of subprime loans was 1.1 times greater than the percent of the City's households that were Hispanic.

Lenders made 3.9% of their prime and 2.7% of their subprime refinance loans to Asians. Asian households represented 3.9% of households in Philadelphia County.

African-American borrowers received a substantially lower proportion of prime refinance loans than their share of the households. Nearly 25 percent of prime refinance loans originated went to African-Americans, whereas African-Americans accounted for 44.8% of households in the county. African-Americans received 45.3% of subprime refinance loans. The ratio between the percent of prime refinance loans received by African-Americans and the percent of the urban households that were African-Americans was only 0.6.

By Income of Borrower (see Table 6b and Chart 10)
Low- to moderate-income (LMI) borrowers received 49.6% of prime refinance loans, while LMI households made up 57.4% of all households in the county. LMI borrowers received 66.1% of subprime refinance loans.

Middle- to upper-income (MUI) borrowers were the recipients of 50.4% of prime refinance loans and 33.9% of subprime refinance loans. MUI households accounted for 42.6% of all households.

The percent of prime refinance loans made to MUI borrowers was 1.2 times greater than the percent of MUI households. In addition, the percent of subprime refinance loans made to LMI applicants was also 1.2 times higher than the percent of LMI households in the city.

By Tract Minority Level (see Table 6c)
The percentage of prime refinance loans in substantially minority tracts is below the percentage of the owner occupied housing units found in such areas. Lenders made 29.8% of prime refinance loans in substantially minority census tracts, whereas 49% of owner occupied housing units in Philadelphia County were located in minority census tracts. In contrast, 52.9% of subprime refinance loans were originated in minority tracts.

The percent of prime refinance loans issued in non-substantially minority census tracts was 70.2% whereas percent of subprime refinance loans was 47.2%. Fifty one percent of owner occupied housing units were located in non-minority tracts.

The percent of prime refinance loans issued in non-minority census tracts was 1.4 times greater than the percent of owner-occupied housing units located in these census tracts. On the contrary, the percent of prime loans made in minority census tracts was only six tenths of the percent of owner-occupied housing units located in these census tracts.

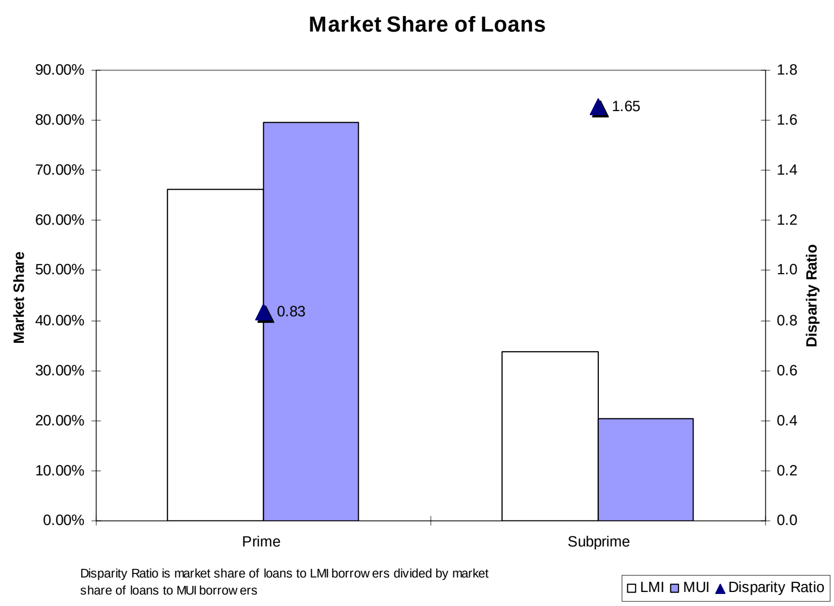
By Tract Income Level (see Table 6d)
Lenders made 48.3% of prime and 67.8% of subprime refinance loans in low- to moderate-income (LMI) census tracts. In Philadelphia County, 67% of owner-occupied housing units were found in LMI census tracts.

In middle- to upper-income (MUI) census tracts, 51.7% of prime refinance loans and 32.3% of subprime refinance loans were originated. In comparison, 33% of owner occupied housing units were located in MUI census tracts.

The percent of prime loans made in LMI census tracts was only seven tenths of the percent of owner-occupied housing units in these tracts. In contrast, the percent of prime loans issued in MUI census tracts was 1.6 times greater than the percent of owner-occupied housing units located in these census tracts.

<u>Market Share Analysis of Refinance Lending in Philadephia</u>

By Race of Borrower (see Table 6a and Chart 9)
Of all refinance loans to African-American borrowers, 63.2% were prime and 36.8% were subprime. The percent of prime refinance loans received by Hispanics was 71.2% and the percent of subprime loans was 28.8%. Asian borrowers received 81.7% prime refinance loans and 18.3% subprime loans. White borrowers received 81.1% prime refinance loans and 18.9% subprime refinance loans.



African-American borrowers received subprime loans 1.94 times more frequently than white borrowers. Hispanic borrowers received subprime refinance loans 1.52 times more frequently than whites. The ratio for Asians was 0.97.

By Income of Borrower (see Table 6b and Chart 10)
Of all refinance loans to low- to moderate-income (LMI) borrowers, 66.2% were prime loans and 33.8% were subprime. For middle- to upper-income (MUI) borrowers, 79.6% were prime loans and 20.4% were subprime. LMI borrowers were 1.65 times more likely than MUI borrowers to receive subprime refinance loans.

By Tract Minority Level (see Table 6c)
The percent of refinance loans that were prime in substantially minority census tracts was 62.4% and the percent of subprime loans was 37.6%. In non-substantially minority tracts, the break down of refinance lending was 81.4% prime loans and 18.6% subprime. Borrowers in minority census tracts received subprime refinance loans nearly 2 times as frequently as borrowers in non-minority tracts.

By Tract Income Level (see Table 6d)
Of all the loans in LMI tracts, 67.7% were prime loans and 32.3% were subprime. In middle- to upper-income tracts, the percentage of prime refinance loans was 82.5% and subprime loans accounted for 17.5%. Borrowers in LMI census tracts were 1.85 times more likely to receive subprime loans than borrowers in MUI tracts.

By Gender (see Table 6e)
Of all loans to males, 72.6% were prime and 27.5% were subprime. Of all loans to females, 69.7% were prime and 30.3% were subprime. For joint (male/female) applicants the prime/subprime breakdown was 81.2% and 18.8%. Female borrowers received prime and subprime refinance loans just about as frequently as male applicants. Joint applicants were 1.12 times more likely than male borrowers to receive prime loans and three tenths less likely to receive a subprime loan.

<u>Denial Disparities in Refinance Lending in the City of Philadelphia</u>

There were 60,431 applications for refinance loans in 2004, of which 22,242 (36.8%) were denied.

By Race of Applicant (see Table 6a and Chart 9)
Lenders denied 46.3% of refinance loan applications submitted by African-Americans. Hispanic applicants were denied refinance loans in 42.8% of cases. Asian applicants were denied by lenders 31.8% of the time. However white applicants were denied on 26.2% of refinance loan applications.

Minority applicants were denied more frequently than white borrowers. The largest denial rate disparity was between the denial rate of whites and African-American applicants. African-Americans were denied a refinance loan 1.77 times more frequently than white borrowers. Hispanic applicants were denied 1.64 times more frequently than whites. Asians were 1.21 times more likely to be denied than white applicants.

By Income of Applicant (see Table 6b and Chart 10)
Low- to moderate-income (LMI) applicants were denied refinance loans at a rate of 42.7%, whereas the denial rate for middle- to upper-income (MUI) borrowers was 28.5%. LMI applicants were denied refinance loans 1.5 times more often than MUI applicants.

By Tract Minority Level (see Table 6c)
Applicants in substantially minority census tracts were denied refinance loans 45.4% of the time. For non-substantially minority census tracts the denial rate was 28.9%. Applicants in minority tracts were denied refinance loans 1.57 times more frequently than applicants in non-minority tracts.

By Tract Income Level (see Table 6d)
Applicants in low- to moderate-income (LMI) census tracts were denied refinance loans at a rate of 42.6%. For applicants in middle- to upper-income (MUI) tracts the denial rate was 26.5%. Applicants in LMI tracts were 1.61 times more likely to be denied refinance loans than applicants in MUI census tracts.

By Gender (see Table 6e)
Denial rates for applicants seeking refinance loans were close for male and female applicants, 38.1% and 40.2%, respectively. Joint applicants had lower denial rate, 29.4%. In addition, joint applicants were denied refinance loans nearly one fifth less often than male applicants.

Comparison of Philadelphia Demographics and Home Improvement Lending

There were 2,700 home improvement loans originated in Philadelphia County in 2004, out of 7,274 applications submitted. More than 80% of these loans were prime loans (2,187 loans) and 513 loans were subprime. Home improvement loans were denied at a higher rate than either home purchase or refinance loans, with more than 45% of all applications denied.

In the home improvement lending market, there were large disparities between white and minority borrowers (see Table 7a). African-American borrowers received two fifths lower percent of prime loans than the percent of their households in the City. The percent of subprime loans received by Hispanics was 1.71 times higher than the percent of their households.

Substantially minority census tracts had a lower percentage of prime home improvement loans originated and higher percentage of subprime loans than their share of the housing stock (see Table 7c).

Hispanic and African-American borrowers were nearly 2 times more likely than white applicants to receive a subprime home improvement loan (see Chart 11). Similarly, borrowers from substantially minority census tracts received subprime home improvement loans 2.57 times more frequently than borrowers from non-minority census tracts.

The denial rates for African-Americans and Hispanic applicants were two times higher than the denial rate for whites. LMI applicants and applicants from LMI and substantially minority census tracts were denied home improvement loans at a rate that was about 1.6 times higher than the denial rate for their MUI or white counterparts.

Ranking of Banks Receiving City Deposits on Home Loans

Introduction

The City of Philadelphia asked NCRC to provide a comprehensive analysis and comparison of the CRA and fair lending performance of lending institutions receiving City deposits. The nine institutions receiving City deposits include Advance, Bank of America, Wachovia, PNC, Citizens, Commerce, Mellon, Republic, and United Bank of Philadelphia (see Table 17 and Chart 17). NCRC ranked Bank of America, Wachovia, PNC, Citizens and Commerce. The other lenders reported very small numbers of HMDA loans below the threshold level of 25 loans. Any lender with less than 25 loans was not included in the ranking analysis because less than 25 loans does not provide a meaningful number of loans for analysis. Although the other lenders are not ranked, their single family lending data is displayed in a summary table.

For this analysis, NCRC ranked institutions on 15 measures of lending performance including percent of loans to various groups of borrowers, denial disparity ratios, and ratios of market shares to different groups of borrowers and communities. A complete description of the indicators is contained in the methodology section of the report.

The ranking analysis is conducted for all single family lending considered together, and for home purchase, refinance, and home improvement lending separately. The analysis is conducted for prime loans of institutions receiving City deposits. All the lenders except for Wachovia reported fewer than 25 subprime loans. Thus, NCRC did not conduct a separate subprime ranking since all lenders except one were below the threshold level of loans for analysis.

Lenders receiving the lowest score overall performed better on our analysis. A score of “1” means the lending institution performed best on an indicator of performance such as percent of loans to minorities. A score of “5” means the institution performed the worst on an indicator or came in “last” place on an indicator. Therefore, the worst possible score is 75 (or 15 indicators multiplied by 5, which is the worst score on an indicator). The best possible score is 15 (or 15 indicators multiplied by 1, which is the best score on an indicator).

All Single Family Lending

The overall ranks for all prime single family lending in order from top to bottom is (see Table 11 and Chart 13):

Wachovia
PNC
Bank of America
Citizens Bank
Commerce Bank

All of the lenders made more than 500 single family loans in the City during 2004, except for Commerce, which made 314 loans. Citizens and Wachovia made more than 1,000 loans each, PNC issued 745 loans, and Bank of America made 543 loans. Combined, the banks receiving City deposits made 4,943 loans or 16.8 percent of the 29,272 single family prime loans issued in the City. The share of loans made by City depositories in 2004 declined somewhat from their 19.8 percent share of all loans in 2003.

Nevertheless, their significant market share provides the potential for the City to influence overall access to credit for traditionally underserved borrowers. If the City and these depositories (the banks receiving City deposits) can work together to increase the portion of loans the depositories issue to traditionally underserved borrowers, it may also be possible to increase lending to underserved borrowers by other major lenders in the City. In other words, the City and the depositories have the potential to act as leaders of the market, directing the entire market to make more safe and sound loans to traditionally underserved populations.

Summary

Compared to all lenders, as a group, the depositories generally performed well on the CRA and fair lending indicators (see Table 15 and Chart 13). For the vast majority of indicators (12 of 15 indicators or 80 percent), 60 percent of the depositories (or 3 of the 5 in the analysis) performed better than all lenders, as a group, doing business in Philadelphia. On 8 of the 11 indicators of performance comparing percent of loans to borrowers and denial ratios, three or more of the depositories exceeded the performance of all lenders, as a group. Interestingly, the two indicators on which none of the depositories performed better than all lenders were indicators measuring performance in serving Asians (percent of loans and denial disparity ratios). On the four indicators measuring the banks' market share of loans to traditionally underserved borrowers as compared to whites and affluent borrowers, three or more depositories exceeded the threshold performance levels. The threshold level was a ratio of one, meaning that the bank's market share of loans to the traditionally underserved borrower group was at least equal to its market share of loans to the white or affluent borrower group.

The performance of the depositories on all single family lending slipped slightly when compared to 2003 HMDA data. Using 2004 HMDA data, this report finds that one half or more of the depositories exceeded the all lender benchmark on 80 percent of the indicators. In NCRC's report submitted last fall using the 2003 data, half or more of the depositories exceeded the all lender benchmark on 88 percent of the indicators. As described in more detail below, depositories' performance on home purchase and refinance lending improved markedly between 2003 and 2004. In contrast, 2004 performance on home improvement lending slipped.

Depositories did not perform as well when comparing performance against the City's demographic profile than when comparing performance against all other prime lenders. The gaps between the percent of loans and the percent of the City's households or owner occupied housing units were wide for depositories and all lenders, as a group, for African-Americans and females, and for minority and low- and moderate-income neighborhoods.

Single Family Lending to Minorities

PNC and Wachovia performed the best regarding the portion of their loans to African-Americans (see Table 11, Chart 13 and Maps 5,7,9,11 and 13). Both lenders issued about 38 percent of their prime loans during 2004 to African-Americans. None of the lenders made a percent of loans that was commensurate with the portion of African-Americans in the City (44.8 percent of the non-Hispanic households were African-American). To their credit, PNC and Wachovia came much closer to the demographic benchmark than the other depositories. The lender in third place, Bank of America, was much further from the demographic benchmark, issuing 24.1 percent of its loans to African-Americans. Four of the five depositories issued a percentage of loans to African-Americans greater than all prime lenders, as a group. All prime lenders, as a group, made 22.78 percent of their loans to African-Americans. Only Commerce Bank issued a lower percentage of their loans to African-Americans than all lenders, as a group.

Depositories and all other lenders doing business in the City of Philadelphia were more successful in reaching Hispanics than African-Americans. Hispanics constituted 6.5 percent of the City's households and all lenders, as a group, made 7 percent of their loans to Hispanics. Led by Wachovia (12.8 percent of their loans to Hispanics) and Bank of America (10.4 percent) four of the five depositories issued a percent of their single family prime loans to Hispanics that was greater than the percent of Hispanics in the City's population. Commerce, in contrast, issued a percent of their loans (2.1 percent) that was smaller than the percent of loans made by all lenders doing business in the City and the percent of the City's households that were Hispanic.

Depositories were about as successful in making loans in proportion to the Asian as the Hispanic population. Asians comprised 3.8 percent of the City's households. All the depositories issued a percent of loans that was greater than the Asian percent of the City's households. Bank of America was at the top of the pack with 7.8 percent of its loans to Asians. Wachovia lagged the other City depositories with 5.5 percent of its loans to Asians. While the depositories made a portion of loans proportional to the Asian population, they nevertheless lagged the all lender benchmark on this indicator. All lenders, as a group, made 10.6 percent of their loans to Asians – a portion about 3 percentage points greater the best depository, Bank of America.

Another measure of performance in reaching minority borrowers is comparing a lender's market share to African-American versus its market share to White borrowers. The top performer in this regard is Wachovia, whose share of all loans made to African-Americans is 2.13 times greater than its share of all single family loans issued to whites. Similarly, PNC's market share to African-American borrowers was 2.1 times greater than its market share to white borrowers. On the other end of the scale in this performance measure, Commerce Bank's market share of all loans issued to African-Americans in the City was only about eight tenths of its market share of loans issued to Whites.

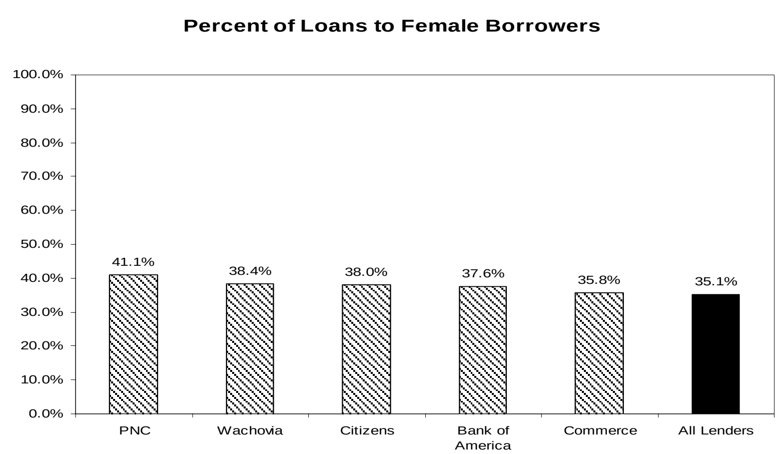
Single Family Lending to Low- and Moderate-Income Borrowers

Performance by the depositories on the percent of loans to the LMI borrower indicator was commendable (see Maps 6,8,10,12 and 14). Low- and moderate-income households were 57.4 percent of the City's households. Three of the depositories, Wachovia, Citizens, and Bank of America, made a portion of their single family loans during 2004 that exceeded the LMI household percent of the City's households. The two other depositories(PNC and Commerce) issued a percent of loans to LMI households that was greater than the percent of single family loans made by all lenders, as a group (of 52.8 percent).

On the LMI borrower market share indicator, Wachovia and Citizens were the top performers. Wachovia's and Citizens' market share of all loans made to LMI borrowers were 1.38 and 1.34 times their market share of loans made to middle- and upper-income (MUI) borrowers in the City, respectively. All depositories exceeded a ratio of 1, meaning that their share of all loans made to LMI borrowers exceeded their share of all loans issued to MUI borrowers.

Single Family Lending to Females

The depositories and all lenders doing business in the City were not lending in proportion to the portion of the City's households that were headed by females. Females constituted 44.9 percent of the City's households. All lenders, as a group, made 35.1 percent of their loans to female households. The depository coming closest to the demographic benchmark was PNC at 41.1 percent of its loans to females. But the second place depository on this performance measure, Wachovia, made 38.4 percent of its loans to females – about 6 percentage points less than the portion of the City's households that were females. On the positive side, all depositories made a portion of loans greater than all lenders, as a group, to females.



Single Family Lending to Minority and Low- and Moderate-Income Neighborhoods

Substantially minority census tracts contained 49 percent of the City's owner-occupied housing units. All prime lenders, as a group, did not lend in proportion to the minority tract share of owner-occupied housing units. All prime lenders made just 29.4 percent of their loans in these tracts. Fortunately, all of the five lenders in the ranking analysis made a higher percent of their single family loans in minority tracts than all lenders, as a group. Leading the way were PNC and Wachovia that issued 45 percent and 44 percent, respectively, of their single family prime loans in minority neighborhoods. On the other end of scale of performance, Commerce issued 30.6 percent of their loans in minority communities, just 1.2 percentage points higher than all lenders, as a group.

PNC and Wachovia also set the pace on the minority tract market share indicator. PNC's and Wachovia's market share of all loans issued in minority tracts were about twice as great as their market share of all loans made in non-minority tracts. Bank of America, Citizens, and Commerce had ratios just exceeding one, meaning that their market share in minority neighborhoods exceeded their market share in white neighborhoods in 2004. This was an improvement from 2003 when Commerce had a lower market share in minority than white communities.

More than two thirds of the owner-occupied housing units were in LMI census tracts (67 percent) but all lenders, as a group, issued just 51.6 percent of their prime single family loans in LMI tracts. Wachovia's and PNC's share of loans in LMI tracts came the closest to the percent of owner-occupied units – these lenders issued 64.4 and 63.2 percent of their single family loans in LMI tracts, respectively, during 2004. All of the five depositories exceeded the all lender benchmark of 51.6 percent of loans in LMI tracts.

Wachovia and PNC had a market share of all loans in LMI tracts that was greater than 1.5 times their market share of all loans in MUI tracts. All the depositories had a market share ratio of greater than 1, meaning that their market share of loans in LMI tracts was greater than their market share of loans in MUI tracts.

Denial Disparity Ratios

NCRC constructed four performance measures involving denial disparity ratios. A denial disparity ratio compares the white denial rate and denial rates of various minority groups. The four measures in this analysis include the disparity ratio of African-Americans compared to whites, Hispanics compared to whites, Asians compared to whites, and minority census tracts compared to non-minority census tracts.

Within minority groups, African-Americans experienced the highest denial rates relative to whites. African-Americans were denied single family loans 2 times more often than whites. In contrast, Hispanics and borrowers residing in minority neighborhoods were denied 1.71 times and 1.78 times as often as whites and borrowers from non-minority neighborhoods, respectively. Asians were less likely to be denied than whites. Asians were denied .83 times as often as whites.

Four of the five banks receiving deposits from the City had narrower denial disparity ratios to African-Americans and whites than all lenders, as a group. Commerce and Bank of America did the best on this indicator, denying African-Americans 1.42 and 1.8 times as often as whites, respectively. Citizens was the one depository with a disparity ratio slightly worse than all lenders, as a group; Citizens denied African-Americans 2.04 times more often as whites.

In contrast to the African-American and white denial disparity ratio, fewer depositories exceeded the all lender benchmark when considering the Hispanic and white disparity ratio. Bank of America performed commendably, denying Hispanic applicants at virtually the same rate as whites. Citizens denied Hispanics 1.52 times more often than whites whereas all lenders, as a group, rejected Hispanics 1.71 times more often than whites. In contrast, Commerce denied Hispanics 1.97 times more often than whites and Wachovia rejected Hispanics 2.18 times more often than whites.

On the Asian to white denial disparity ratio, all of the depositories had higher denial disparity ratios than all lenders as a group. All lenders, as a group, denied Asians .83 times as often as whites. Bank of America had the best ratio, 1.09, of all the depositories. But performance trailed off after Bank of America. PNC was in second place with a ratio of 1.21 while Commerce was in fifth place with a ratio of 1.5.

The banks receiving City deposits performed well when considering the denial rates for residents of minority neighborhoods compared to the denial rates for residents of non-minority neighborhoods during 2004. All lenders, as a group, denied residents from minority tracts 1.78 times more often than those from non-minority census tracts. PNC, among the five lenders in the analysis, was in last place, but this bank's denial disparity ratio of 1.63 was still better than the all lender ratio. The two banks receiving City deposits at the top of the rankings were Commerce 1.53 and Bank of America at 1.59.

Home Purchase, Refinance, and Home Improvement Lending Compared

The depositories excelled in home purchase lending, performed admirably in refinance lending, but slipped in home improvement lending when comparing their 2004 and 2003 performances. In 2004, more than half of the depositories exceeded the all lender benchmark on 93 percent of the indicators (14 of 15 indicators) in home purchase lending. In contrast, half or more of the depositories exceeded the all lender benchmark on just 47 percent of the indicators in home purchase lending in 2003. The results were similar in refinance lending: more than half of the depositories passed the all lender mark on 60 percent of the indicators in 2004 but just 47 percent of the indicators on 2003. In home improvement lending, more than half of the depositories exceeded the all lender benchmark on 73 percent of the indicators. However, in 2003, the depositories surpassed all lenders on 94 percent of the indicators.

The depositories' performance in home purchase lending was admirable in 2004 (see Table 12 and Chart 13), considering the significant improvement from 2003 and their effort on a number of the indicators. For example, while 57.4 percent of the City's households are LMI, Bank of America, Citizens, and PNC issued more than 65 percent of their home purchase loans to LMI borrowers. PNC had market share ratios of 4.16 and 3.28 in LMI tracts compared to MUI tracts and in minority tracts compared to non-minority tracts, respectively. The performance of the depositories on market share indicators was also laudable. For instance, three depositories had market shares in minority tracts 1.5 times greater than their market shares in non-minority tracts.

While depository performance overall was good in refinance and home improvement lending, they need to improve on the indicators measuring performance to minorities (see Table 13-14 and Chart 13). In refinance lending, the six indicators in which fewer than half of the depositories exceeded the all lender benchmark were four minority to white denial disparity indicators, the African American market share compared to the white market share, and the percent of loans to African-Americans indicator. Similarly in home improvement lending, fewer than half of the depositories exceeded the all lender benchmarks in percent of loans to Hispanics, percent of loans in minority census tracts, Asian to white denial disparity ratio, and minority tract to non-minority tract market share.

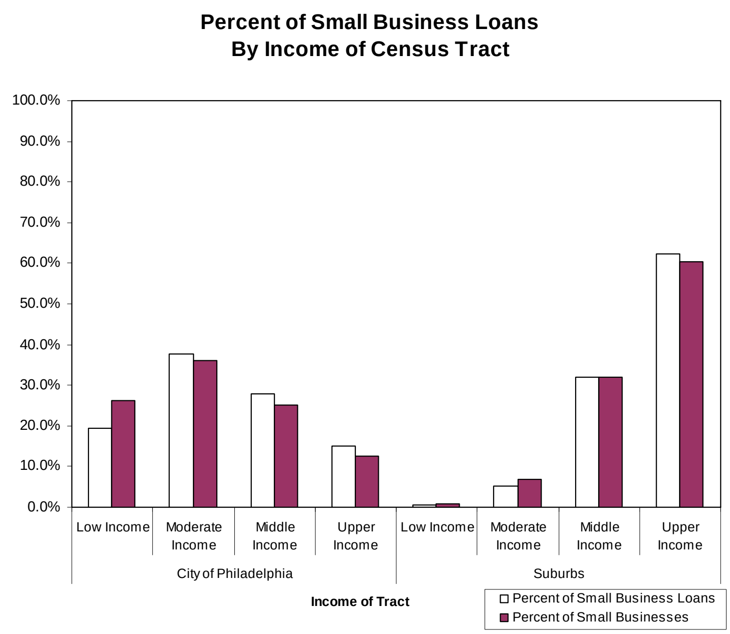
PNC occupied the first place rankings in home purchase and home improvement lending, and the second place ranking in refinance lending. Wachovia was first in refinance lending, but last in home purchase lending. Citizens was in fourth place in all types of lending, and Commerce was in fifth place except for home purchase lending. Bank of America was in third place in all loan types except for home purchase lending in which it was in second place.

Small Business Lending in Philadelphia

In the City

Disparities by Income Level of Neighborhood

In the case of low income census tracts, the percent of loans to small businesses was lower than the percent of small businesses which were located in those census tracts. The percent of all small business loans made in low income census tracts was 19.3%, whereas the percent of all small businesses in low income census tracts was 26.26% (In the analysis, loans in tracts with income levels unknown were excluded so that comparisons between the portion of loans and small businesses in tracts of different income levels could be made with more precision). Ideally these proportions would be more similar, with the percent of loans to these areas increasing to match the percent of businesses (see Table 18 and Chart 14).



For businesses with less than $1 million dollars in revenues, this trend continued for low income census tracts as well as for moderate income census tracts. Approximately 19.32% of all loans to small businesses with $1 million or less in revenues went to low–income census tracts, while 25.33% of these businesses were located in low-income tracts. For these "smaller" businesses in moderate income tracts, the percentage of loans they received was 35.92% and the portion of businesses with revenues less than $1 million they represented was 37.02.

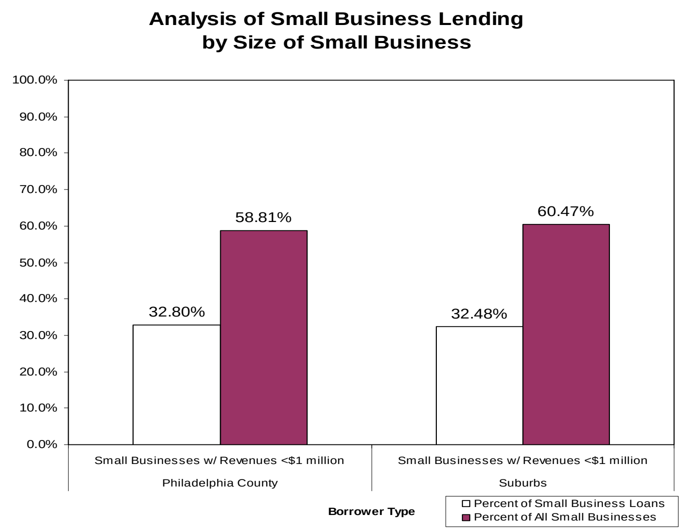
Disparities by Minority Level of Neighborhood

The difference between the proportion of loans to all small businesses in minority (50% or more of the residents are minority) census tracts and the proportion of all small businesses in those tracts was even more pronounced than for low- and moderate-income (LMI) census tracts. The percent of all small businesses in minority tracts was 45.14%, while only 33.36%

of all small business loans were made in minority tracts (see Table 19 and Chart 14). This is a difference of about 12 percentage points. For the businesses with less than $1 million in revenues in minority tracts the difference in proportion was 11 percentage points (45.23 percent of businesses with revenues under $1 million as opposed to 34.2 percent of the loans).

Disparities by Revenue Size of Small Business

In the City of Philadelphia small businesses with revenues less than $1 million made up 58.81% of all small businesses, yet they only received 32.8% of all small business loans (see Table 20 and Chart 15).



Businesses this small are already at a disadvantage even without being located in a low income or minority neighborhood.[7]

In the Suburbs

Disparities by Income Level of Neighborhood

In LMI census tracts the proportion of all small businesses was again higher than the proportion of small business loans in these areas, although the difference was 1.8 percentage points. This trend repeated for small businesses with less than $1 million in revenues as well. One reason for the smaller disparity in the suburbs than the City is the relatively small portion of businesses in LMI tracts; only 7.6% of all suburban small businesses are in LMI tracts, while about 92% are in middle- and upper-income (MUI) tracts (see Table 18 and Chart 14).

[7] The CRA regulations permit lenders not to report whether they made loans to small businesses with less than $1 million in revenue if they did not consider revenue size of the small businesses in loan underwriting decisions. The data therefore includes loans in which the revenue size of the business is unknown. Despite this limitation, it is instructive to compare lenders on how well they are reaching businesses with revenues under $1 million. This exercise will hopefully encourage all the banks receiving city deposits to report whether the revenue size of the small business is greater or less than $1 million for all of their loans.

Disparities by Minority Level of Neighborhood

For all small businesses as well as small businesses with less than $1 million in revenues in minority census tracts, the disparity was about 1.2 percentage points. Using all small businesses for example, the percent of small businesses in minority tracts was 3.01%, while the percent of all small business loans to minority tracts was 1.72% (see Table 18 and Chart 14).

Disparities by Revenue Size of Small Business

In the suburbs of Philadelphia small businesses with less than $1 million in revenues made up 60.47% of all the small businesses, but only received about 32.5% of all small business loans (see Table 18 and Chart 14). This disparity was even more pronounced than in the city of Philadelphia.

Comparing the City to the Suburbs

Disparities by Income Level of Neighborhood
The recurring trend in both suburban and urban Philadelphia was that the portion of small business loans in LMI areas was less than the portion of small businesses in LMI areas. This trend was more severe in the urban part of Philadelphia.

Disparities by Minority Level of Neighborhood

A disproportionately small amount of lending in minority census tracts was common in both the City and the suburbs of Philadelphia. However, this disparity was much more severe in the City of Philadelphia, which may be partly a result of a much larger portion of businesses located in the urban minority census tracts.

Ranking of Banks Receiving City Deposits on Small Business Lending

NCRC used five different performance measures regarding small business lending to rank seven banks. These banks were Bank of America, Citizens, Commerce, Mellon, PNC, Republic and Wachovia. The seven banks were ranked for every criterion, and then an overall rank was created based on the sum of the five different rankings. See the Table immediately below.

Criteria	Bank of America	Citizens	Commerce	Mellon	PNC	Republic	Wachovia
% of loans in LMI CT's	6	3	7	2	4	1	5
LMI/MUI Mrkt Share Ratio	6	3	7	2	4	1	5
% of SB loans <$100,000	1	3	7	6	4	8	5
% Loans to SB <$1 mill rev	5	3	2	7	4	1	6
SB Loans/loans to biz<$1 mill rev mkt sh ratio	5	3	2	7	4	1	6
Score	23	15	25	24	20	12	27
Overall Rank	4	2	6	5	3	1	7

The first criterion was the percent of each lender's total small business loans that went to small businesses in low-and moderate-income census tracts. For all lenders, the percent of all small business loans that went to small businesses in LMI tracts was about 57.11%, and just two of the lenders we analyzed made a greater portion of their loans to businesses in LMI tracts. Commerce Bank and Bank of America lagged in this criterion, with 52.63% and 55.03%, respectively, of their loans going to small businesses in LMI tracts. Wachovia, at 55.34%, and PNC, at 55.72%, were also behind the all lender benchmark. Republic and Mellon performed the best. Republic made 60.87% of their loans in LMI census tracts, while Mellon made 59.18% of their loans in LMI tracts (see Table 21 and Chart 16).

The second criterion was the LMI/MUI market share ratio. This measures the ratio of the institution's share of all small business loans made in LMI census tracts divided by the institution's share of all small business loans made in MUI census tracts. If the ratio is greater than 1, the institution is making more of an effort to lend to businesses in LMI tracts than MUI tracts. If the ratio is less than 1, the institution is focusing its efforts more on businesses in MUI tracts than LMI tracts. Commerce Bank and Bank of America fell behind the pack on this criterion, with ratios of 0.83 and 0.92, respectively. The banks that performed the best on the LMI/MUI market share ratio were Mellon and Republic bank. Mellon had a ratio of 1.09 and Republic had a ratio of 1.17.

NCRC used the percent of all small business loans made by the institution which were less than $100,000 in size as the third performance measure. Since these types of loans are often made to the smallest businesses, this performance measure was included as a means of testing an institution's record of reaching the smallest businesses.[8] More than 93% of the loans issued by banks and thrifts in Philadelphia were in amounts of under $100,000. Only 17.4% of Republic's loans and 50% of Commerce's loans were for $100,000 or less. Mellon was next with just 65.31% of its small business loans being $100,000 or less. Lenders in the middle of the pack on this indicator were Wachovia at 73.1%, PNC at 84% and Citizens at 86.3%. Only Bank of America excelled in making loans under $100,000. In particular, it issued nearly 95% of their small business loans were $100,000 or less.

The fourth criterion for the ranking analysis was the percent of a bank's small business loans that went to small businesses with less than $1 million in revenues. In the City of Philadelphia, 58.81% of all small businesses have less than $1 million in revenues. The percent of all small business loans that went to small businesses with less than $1 million in revenues was 32.8% (see Table 19 and Chart 15). Four of the seven banks receiving City deposits exceeded the percent of loans made by all lenders and the percent of the City's small businesses that have revenues less than $1 million. The three which did not do this were Mellon, Wachovia and Bank of America. Mellon made only 1.02% of their loans to businesses with less than $1 million in revenues. Wachovia made 21.78% of its small business loans to businesses with revenues less than $1 million. Bank of America made 31.32% of loans to the "smallest" businesses. The top performing banks were Republic, Commerce, Citizens, and PNC. They

[8] CRA exams likewise use loans of $100,000 or less as a indicator of a bank's record of serving the smallest businesses.

made 85.5%, 72.6%, 71.5%, and 67.7%, of their loans to businesses with less than $1 million in revenues, respectively.

Similar to the LMI/MUI market share ratio, NCRC used a market share ratio comparing an institution's market share of loans to small businesses with revenues less than $1 million to the institution's market share of loans to all small businesses. If this ratio is greater than 1, the institution is making more of an effort to lend to businesses with less than $1 million in revenues than all types of small businesses. If the ratio is less than 1, the institution is focusing its efforts more on generally on all small businesses. Again, Mellon Bank, Wachovia and Bank of America lagged their peers on this indicator. Mellon, because it made only 1 loan to a small business with $1 million in revenues or less, had a ratio of 0.03. Wachovia had a ratio of 0.66 and Bank of America had a ratio of 0.95. The rest of their peers had ratios that were higher than 2. Citizens, Commerce, PNC and Republic had ratios of 2.18, 2.21, 2.06 and 2.61, respectively.

Summary of Lender Rankings

In descending order of performance, NCRC ranks the banks receiving City deposits on five indicators of CRA performance:

Republic
Citizens
PNC
Bank of America
Mellon
Commerce
Wachovia

United Bank of Philadelphia and Advance Bank were not included in the analysis because they did not report CRA small business data.

Overall, the banks receiving City deposits did better relative to all lenders in home lending and lagged in small business lending. For small business lending just like home lending, NCRC calculated how many banks receiving City deposits exceeded their peers in the percent of loans to various categories of small businesses or how many banks had a market share ratios greater than one, indicating more of an effort to traditionally underserved small businesses. More than half of banks receiving City deposits exceeded the performance of all lenders or had market share ratios of greater than one on two of the five indicators of performance or just 40 percent of the time. For all single family home lending, more than half the banks receiving City deposits scored above threshold levels on the great majority of indicators.

While the small business ranking involved fewer indicators than home lending, the difference in performance between home and small business lending is still striking.[9] For example, just two of the seven lenders performed better than threshold levels on the percent of small business

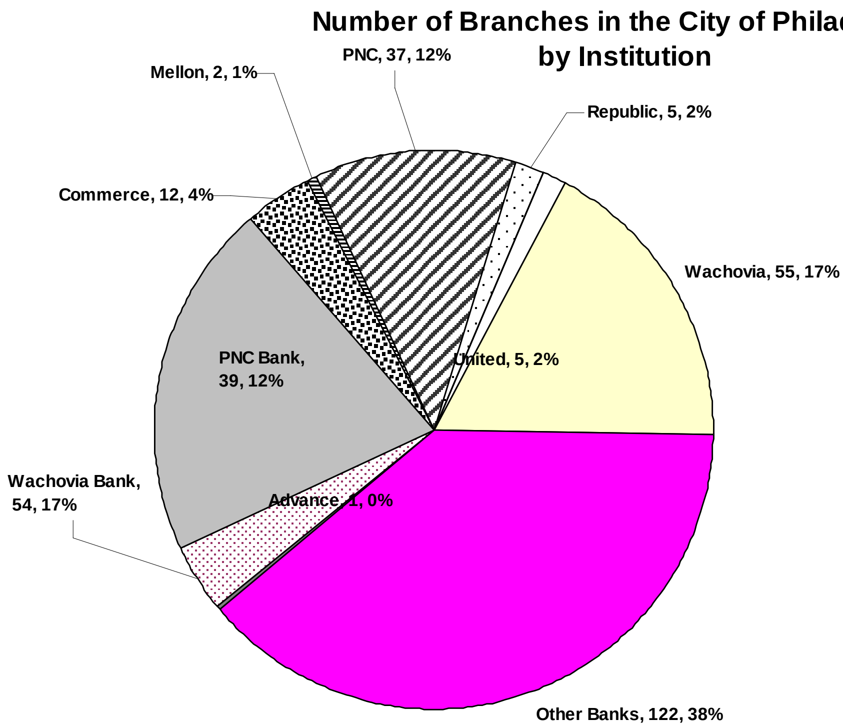
[9] Fewer indicators of performance were used for small business lending because the CRA small business data is not as detailed as the HMDA data.

loans in LMI tracts and on the LMI/MUI market share ratio measure. Only one of the banks receiving City deposits exceeded the percent of small business loans under $100,000 made by all lenders (see Table 22 and Chart 16). The banks receiving City deposits did perform well on the two indicators measuring loans made to businesses with less than $1 million in revenue. The challenge is to improve performance in reaching businesses in LMI tracts and offering loans of under $100,000.

Branching Analysis

Branches in Minority Census Tracts

Using the FDIC database on branches, NCRC calculates that the banks receiving City deposits had a majority of the bank branches in the City as of year end 2004. The banks receiving City deposits had 194 branches or 61.4 percent of the 316 branches located in the City and County of Philadelphia (see Table 23 and Chart 17).



The total number of branches of each of the banks receiving City deposits ranges from 65 for Citizens Bank and 55 for Wachovia to 5 for United Bank of Philadelphia and Republic Bank each, 2 for Mellon Bank and 1 for Advance Bank. PNC has 37 branches while Commerce and Bank of America had 12 branches each.

All banks and thrifts placed 22.5 percent of their branches in substantially minority census tracts (more than 50 percent of residents are minority). Five of the nine banks receiving City deposits had a higher percent of their branches in minority tracts. Advance Bank located its only branch in a minority census tract; United Bank of Philadelphia located 4 of its branches or 80 percent, in minority tracts. Wachovia, Citizens Bank, and PNC Bank each had significant numbers of overall branches and placed between 25 to 29 percent of their branches in minority census tracts. Commerce and Bank of America each had just 12 branches in the City and Mellon had 2; none of these lenders located branches in substantially minority tracts (see Table 23 and Chart 17).

Banks overall did not place branches in minority census tracts in proportion to the presence of minority tracts in the City. About 52 percent of the City's census tracts were substantially minority and they contained 49 percent of the owner-occupied housing units. All lenders, as a group, located just 22.5 percent of their branches in these tracts. The difference between the portion of all lender branches and the portion of census tracts that are substantially minority was 29.8 percentage points (see Table 23 and Chart 17). The percent of United Bank's branches in minority census tracts was higher than the percent of minority census tracts in the city. Four other banks receiving City deposits (Advance, Wachovia, Citizens and PNC) also exhibited narrower disparities than all banks, as a group, in terms of percentage points in the portion of their branches in minority tracts and the portion of City tracts that were minority.

Branching in Low- and Moderate-Income Tracts

Only three of nine banks receiving City deposits had a higher percent of branches in low- and moderate-income (LMI) tracts than all banks and thrifts doing business in the City. Of the 316 total bank and thrift branches in the City as of year end 2004, 54.4 percent of them were in LMI tracts. Advance Bank, United Bank of Philadelphia, and Wachovia Bank, placed 100 percent, 60 percent, and 58.2 percent of their branches, respectively, in LMI tracts. PNC with 54.1 percent of its 37 branches in LMI tracts was just under the all lender benchmark.

Banks did not place branches in proportion to the portion of census tracts that are LMI, but the majority of banks receiving City deposits were more successful than all lenders, as a group, in serving LMI neighborhoods. LMI census tracts constituted about 69.3 percent of the census tracts in the City and contained 67 percent of the owner-occupied housing units. All lenders, as a group, located about 54.4 percent of their branches in LMI tracts. The gap between the percent of branches and the percent of census tracts that were LMI was 14.9 percentage points. Three of the nine lenders receiving City deposits had a narrower gap. For example, Wachovia had 55 branches in the City, and the gap between the percent of its branches in LMI tracts and the portion of tracts that were LMI was just 11.1 percent. Likewise, United Bank had a gap of just 9.3 percentage points and Advance Bank located its only bank in LMI census tract. On the other end of the scale, Bank of America had a gap of 27.6 percentage points and Republic Bank had a 29.3 percentage points difference.

Summary of Performance

Overall, the majority of banks receiving City deposits located a higher percentage of their branches in the minority census tracts than all banks and thrifts serving Philadelphia. However, only three of nine banks did better than all the Philadelphia banks in locating branches in LMI census tracts. The banks receiving City deposits that trailed the all lender benchmark in locating branches in minority census tracts were those that had relatively few branches in the City as of year end 2004. These banks included Bank of America and Commerce Bank with 12 branches each, and Mellon and Republic with just 2 and 5 branches, respectively. In addition, four of six banks that fell behind the all lenders benchmark in placing branches in LMI census tracts also had a small number of branches. If these banks expand their branching network by just a few branches in LMI and minority neighborhoods, they have opportunities to improve both their relative and absolute presence in minority and working class communities.

Neighborhood Analysis

In addition to evaluating lending in the City of Philadelphia, as a whole, NCRC analyzed lender performance and demographic data in specific neighborhoods within Philadelphia. Neighborhood boundaries were provided by the Philadelphia Association of Community Development Corporations and city agency information on Empowerment Zones. NCRC investigated home and small business lending patterns in these neighborhoods. Since small business lending data for individual lenders is not available on a census tract level from the Federal government, we were not able to review small business lending performance on a lender level in these neighborhoods.

These minority and low- and moderate-income neighborhoods were areas in which community development corporations (CDCs) and Empowerment Zones had been established in order to rebuild and revitalize that local community. These neighborhoods and the census tracts which comprised them are listed below:

- Association of Puerto Ricans on the March (APM) – 156
- Hispanic Association of Contractors & Enterprises (HACE) – 175, 176.01, 176.02, 195
- Allegheny West Foundation (AWF) – 170, 171, 172, 173
- Ogontz Avenue Revitalization Committee (OARC) – 262, 263.01, 263.02, 264, 265, 266, 267
- Project Home – 151, 152, 168, 169.01
- Peoples' Emergency Center (People's) – 90, 91, 108, 109
- American Street Empowerment Zone – 144, 156, 157, 162, 163
- North Central Empowerment Zone – 140, 141, 147, 148, 165
- West Philadelphia Empowerment Zone – 105, 111

Demographic Data

APM

The Association of Puerto Ricans on the March (APM), located in northeastern Philadelphia, was comprised of 76.5% Hispanic households and 13.9% African-American households. With a median income of 32.1% of MD (metropolitan division) median income[10], APM was a low-income census tract and had 289 owner-occupied housing units. In 2004, there were 146 small businesses in the neighborhood, of which 66 were businesses with revenues under $1 million.

HACE

Comprised of 4,022 owner-occupied housing units in four census tracts, the Hispanic Association of Contractors & Enterprises (HACE) was the poorest of the nine neighborhoods. It was a low-income neighborhood, with a median income of 27.3% of MD median income. HACE was also made up of 74.8% Hispanic households and 19.3% African-American

[10] CRA Wiz, produced by PCI Services, Inc., calculates the median income as a percent of MD median income for each neighborhood by dividing the Weighted Average Median Family Income of Tracts by the Weighted Average of MD Median Family Income.

households. There were also 1,115 small businesses in the area, 623 of which had revenues under $1 million.

AWF

Allegheny West Foundation (AWF) was a predominantly African-American neighborhood, with 94.1% African-American households and only 1% Hispanic households. Located in north Philadelphia, it had 4,584 owner-occupied housing units and a median income of 40.9% of MD median income. AWF held 1,039 small businesses, 593 of which had revenues under $1 million.

OARC

With seven census tracts, the Ogontz Avenue Revitalization Corporation (OARC) was the largest of the selected neighborhoods. It had 11,794 owner-occupied housing units and 95.7% of its households were African-American. With a median income of 66.7% of MD median income, it was the only moderate-income neighborhood of the nine selected. Of the 1,793 small businesses in OARC, 1,147 had revenues under $1 million.

Project Home

In Project Home, which was south of AWF, 98.4% households were African-American. These four census tracts also held 3,894 owner-occupied housing units and had a median income of 29.8% of MD median income, making it a low-income neighborhood. There were 840 small businesses in Project Home, 514 of which had revenues under $1 million.

People's

People's Emergency Center (People's) was comprised of 64.6% African-American households and 2.5% Hispanic households. It had a median income of 31.9% of MD median income and had 1,445 owner-occupied housing units. Of the 756 small businesses in the neighborhood, 462 had revenues under $1 million.

American Street Empowerment Zone

The largest of the three empowerment zones, American Street Empowerment Zone held 2,165 owner-occupied housing units and was comprised of 65.6% Hispanic households and 17.3% African-American households. It had a median income of 32.4% of MD median income and was made up of five census tracts. There were 1,304 small businesses in American Street EZ, 713 of which had revenues under $1 million.

North Central Empowerment Zone

Approximately 90.3% households in the North Central Empowerment Zone were African-American, while 5.0% were Hispanic. The neighborhood held 1,339 owner-occupied housing units and had a median income of 28.9% of MD median income. North Central EZ also held 1,166 small businesses, 681 of which had revenues under $1 million.

West Philadelphia Street Empowerment Zone

West Philadelphia Empowerment Zone held 1,399 owner-occupied housing units in its two census tracts. West Philadelphia EZ was comprised of 95.3% African-American households and 0.8% Hispanic households. It was also a low-income neighborhood, with a median income of 36.1% of MD median income. Of the 610 small businesses in West Philadelphia EZ, 336 had revenues under $1 million.

City of Philadelphia

Comparatively, the City of Philadelphia held 349,651 owner-occupied housing units and had a median income of 59% of MD median income. The City was also comprised of 40.7% African-American households and 6.5% Hispanic households[11]. In Philadelphia there were 108,319 small businesses, 63,387 of which had revenues under $1 million (see Table 24).

Home Lending in Neighborhoods: Aggregate Lender Analysis

Using 2004 HMDA data, NCRC analyzed all single family lending in the nine neighborhoods by all lenders, as a group.

Percent of Subprime Lending

In each of the nine selected neighborhoods, NCRC compared the percent of subprime all single-family loans. Lenders made the most subprime loans, 450 or 39.5% of all single-family loans, in OARC, which was the largest neighborhood of the nine and was 95.7% African-American. In AWF, approximately 43.28%, or 58, of all single-family loans were subprime. Comparatively, in the City of Philadelphia, 20%, or 7,321, of all single-family loans were subprime. Overall, lenders made a higher proportion of subprime loans in all the CDC neighborhoods than they made in the City of Philadelphia (see Table 24).

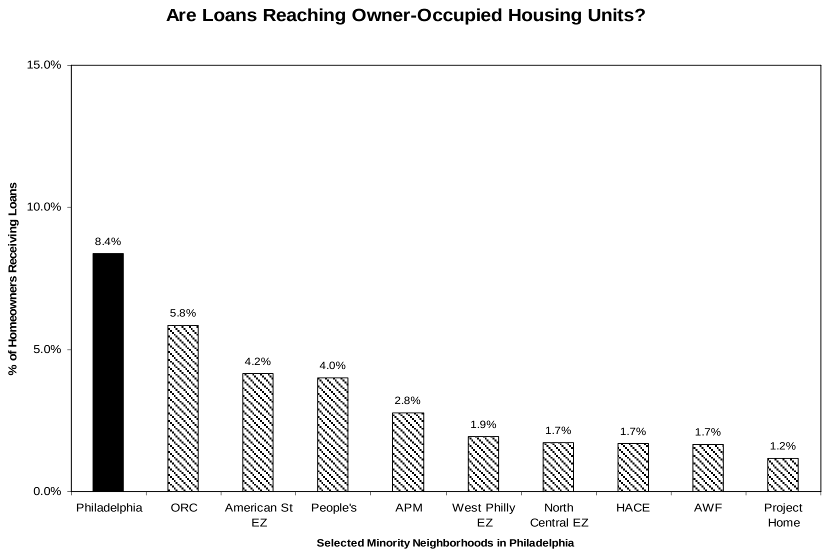
Comparing Neighborhoods' Percent of City Loans to Neighborhoods' Percent of City Owner-Occupied Housing Units

The nine selected neighborhoods received a disproportionately small percent of the City's prime and subprime loans compared to the percent of the City's owner-occupied housing units they comprised. For example, HACE represented 1.2% (or 4,022) of the City's owner-occupied housing units; however, it received 0.23% (or 68) and 0.53% (or 39) of the prime and subprime loans, respectively, issued in Philadelphia city. Similarly, the American Street EZ held 0.6% (or 2,165) of the City's owner-occupied housing units but was issued 0.31% (or 90) and 0.51% (or 37) of the prime and subprime loans, respectively, in Philadelphia (see Table 24). OARC contained 3.4% of owner-occupied housing units in the city of Philadelphia and received 6.2 percent of subprime loans and only 2.4% of the prime loans.

[11] In the neighborhood analysis, NCRC did not remove Hispanic households from the total number of households when calculating the percent of African-American households in the City. That is why the percent of African-American households is about 4 percentage points less here than elsewhere in the analysis.

Are Home Loans Reaching Borrowers?

Directly comparing the number of prime and subprime loans in a neighborhood to the number of owner-occupied housing units in the same neighborhood may help indicate if loans are reaching the borrowers in need.



Using this method, we found that in the City of Philadelphia, there were 8.37 prime all-single family loans and 2.09 subprime loans for every 100 owner-occupied housing units. Looking at the selected neighborhoods, OARC performed the best as it received 5.84 prime loans and 3.82 subprime loans for every 100 owner-occupied housing units in the neighborhood. Project Home performed the worse with this ratio, as there were 1.18 prime loans and 0.95 subprime loans for every 100 owner-occupied housing units in the neighborhood. All the nine neighborhoods' ratios of loans to owner-occupied units were lower than for the City, as a whole (see Table 24 and Chart 18).

Home Lending in Neighborhoods: Lender-by-Lender Analysis

Using 2004 HMDA data, NCRC analyzed all single-family lending combined for the five previously selected lenders in the nine CDC neighborhoods.

Neighborhood by Neighborhood, lenders' market share

All lenders issued thirteen loans in the APM neighborhood. Citizens being the second largest lender compared to the other selected lenders made two (15.4%) of these 13 loans. Wachovia's market share was 7.7%. APM was a predominantly Hispanic neighborhood and was the smallest community analyzed of the nine CDC neighborhoods (see Table 25).

In HACE, a predominantly Hispanic neighborhood, Wachovia made 24 single-family loans, which was the most of all of the five lenders and constituted a market share of 22.4% of all loans. Other lenders made five or fewer loans each.

Wachovia and Citizens performed the best out of the five lenders in AWF, issuing 13 and 9 loans in AWF, respectively.

In the predominately African-American neighborhood of OARC, Wachovia made 63 (5.5%) of the 1,139 all single-family loans issued in 2004, making it the largest lender of the five reviewed. PNC and Citizens made 46 (4% market share) and 33 (2.9%) loans in the area, respectively.

With 9 (10.8% market share) out of the 83 all single-family loans made in Project Home, Citizens and Wachovia each made the most number of loans of its peers receiving city deposits. The other depositories issued 2 loans each in Project Home neighborhood.

Wachovia made the largest number of loans, eight (10.8% market share), in People's neighborhood. PNC and Citizens made 5 (6.8% market share) loans each.

With 18 loans (14.2% of the market) issued in the American Street EZ, Wachovia and Citizens made each the most number of all single-family loans of the reviewed lenders to this predominately Hispanic neighborhood. PNC, Commerce, and Bank of America each made less than 5% of the loans in this neighborhood.

In the North Central EZ, which had 90.3% African-American households, Citizens made 18 of the 39 all single-family loans issued which represented 46.2% of the market. The other depositories each issued less than 8% of all the loans in the neighborhood.

All lenders, as a group, made 49 all single-family loans in the West Philadelphia EZ. Citizens made 7, which was the most number of loans of the reviewed lenders. The households in West Philadelphia EZ were 95.3% African-American.

Lender Performances across All Nine Neighborhoods Combined

Overall, each lender covered less than 8% of the market in all the neighborhoods combined. Wachovia issued 7.8% of all loans, Citizens made 6% of the loans, and PNC issued 4% of the loans in the nine neighborhoods combined. On the other end of the scale, Bank of America made 1.9% of the loans and Commerce covered only 0.7% of the market. NCRC also found that the percent of the market of these nine neighborhoods covered by four of the lenders was higher than their market share of loans made in the City of Philadelphia. Only Commerce had a lower market share in the nine neighborhoods combined than in the City.

Analyzing portfolio share or the percent of loans the depositories made to the nine neighborhoods combined, NCRC found that PNC and Wachovia performed the best out of the five lenders in the nine communities. In particular, PNC and Wachovia issued 9.2% and 7.7% of their loans, respectively, in the nine neighborhoods. In comparison, all lenders made 4.8% of their all single-family loans in the neighborhoods. Only Commerce did not reach all lenders' benchmark devoting just 4.1% of its loans to these nine neighborhoods. Bank of America and Citizens issued 5.9% and 6.1% of their portfolios, respectively, in the nine neighborhoods.

Small Business Lending in the Neighborhoods: Aggregate Lender Analysis

For this analysis, NCRC evaluated small business loans by all lenders, as a group, in the nine neighborhoods for 2004. As mentioned previously, the federal government does not provide small business loan data on a census tract level for individual lenders.

Small Business Lending Volumes in the Neighborhoods

Out of the nine neighborhoods, lenders issued the most small business loans, 246 and 223, respectively in the American Street EZ, a predominantly Hispanic neighborhood, and AWF, a predominantly African-American neighborhood. With 23 and 83 loans each, APM and Project Home received the fewest small business loans (see Table 26).

Lenders performed the best in OARC and the American Street EZ in issuing loans to small businesses with revenues under $1 million; they issued 63 and 89 loans to small businesses with revenues under $1 million in these two neighborhoods, respectively. Comparatively, lenders issued the least number of loans to small businesses with revenues under $1 million in APM and Project Home, making only 4 and 19 loans in each neighborhood, respectively (see Table 26).

Comparing Neighborhoods' Percent of City Loans to Neighborhoods' Percent of City Small Businesses

The CDC neighborhoods received a disproportionately small percent of the City's small business loans compared to the percent of the City's small businesses they comprised. For example, OARC represented 1.7% (or 1,793) of the City's small businesses; however, the neighborhood received only 0.9% (or 202) of the small business loans issued in the City. Six of the nine neighborhoods received a percent of small business loans smaller than their percent of the City's small businesses.

North Central EZ represented 1.1% (or 681) of the City's small businesses with revenues under $1 million but was issued 0.6% (or 43) of the loans to small businesses with revenues under $1 million in the City of Philadelphia (see Table 26). Likewise, five of the nine neighborhoods received a percent of loans to the smallest businesses that was lower than their percent of small businesses with revenues less than $1 million.

Are Small Business Loans Reaching Small Businesses?

Directly comparing the number of loans to the number of small businesses in a neighborhood may help indicate if banks are reaching small businesses in need. Using this method, we found that in the City of Philadelphia, there were 20.4 small business loans for every 100 small businesses. Looking at the selected neighborhoods, AWF performed the best as it received 21.5 small business loans for every 100 small businesses in the neighborhood. Project Home performed the worst with this ratio, as there were only 9.9 small business loans for every 100 small businesses in the neighborhood. Overall, seven of the nine neighborhoods had a lower ratio in this category than the City of Philadelphia (see Table 26 and Chart 18).

Across the City of Philadelphia, there were 11.4 small business loans to businesses with revenues under $1 million for every 100 small businesses with revenues under $1 million. American St. EZ performed the best and Project Home performed the worst in this ratio, as there were, respectively, 12.5 and 3.7 small business loans to businesses with revenues under $1 million for every 100 small businesses with revenues under $1 million in the neighborhoods. Overall, seven of the nine neighborhoods had a lower ratio in this category than the City of Philadelphia.

Methodology

Sources of Data

NCRC used Home Mortgage Disclosure Act (HMDA) and CRA data on small business lending for this report. We obtained data on branches from the website of the Federal Deposit Insurance Corporation. NCRC also used CRA Wiz software produced by the PCi Corporation. CRA Wiz software is well known in the industry, used by several banks and federal agencies.

Geographical Area

NCRC analyzed lending trends in the County of Philadelphia, which was one of the counties in the metropolitan division (MD) of Philadelphia, Pennsylvania. The County of Philadelphia was composed of 381 census tracts. For the suburban analysis, NCRC considered the remaining four counties of the Philadelphia MD. These were the counties of Bucks, Chester, Delaware, and Montgomery. These four counties contained 606 census tracts.

Loan Types for Home Lending Analysis

For the single-family home loan analysis, NCRC considered all loan types that included conventional loans and government-insured loans (FHA, VA, and FSA/RHS-backed loans). NCRC combined all loan purposes (home purchase, refinance, and home improvement loans) for some of the analysis and also separately scrutinized trends in home purchase, refinance and home improvement lending. NCRC analyzed only first lien loans with not transition application status (this data became available for the first time for the year of 2004). For most of the analysis, NCRC considered loans only to owner-occupants since part of the analysis sought to compare the portion of single family loans to the portion of owner-occupied housing units by income and minority level of census tracts. Another part of the analysis compared trends in lending to owner-occupants against investor non-occupants.

Most HMDA loans were made to specific groups of borrowers (such as African-Americans) or to specific neighborhoods (such as low-income census tracts). There were some HMDA reported loans for which the characteristics of borrowers or neighborhoods were unknown. We excluded these loans from the analysis.

Within each category of borrowers and neighborhoods, NCRC did not include the following loans in the analysis:

For Applicant Income: did not include "Income Not Available"
For Applicant Gender: did not include "Not Applicable"
For Tract Characteristics: when considering lending by income level of tracts, did not include loans for which income of tracts was not available.

The 2004 HMDA data had a new structure in terms of the race of borrower. In particular, each borrower had ethnicity and race characteristics. For example, a borrower could be African-American and Hispanic at the same time or could be just African-American. Due to these changes NCRC used the following procedure to determine number of loans made to a specific race/ethnicity group. For African-Americans, Asians and Whites we excluded those that were Hispanic. Hispanics, on the other hand, could be borrowers of any race. To determine the percent of loans issued to a racial category of borrowers, we subtracted Joint (white/minority race co-applicants) and race not available from the total number of loans in the denominator. For ethnicity category (Hispanics), NCRC subtracted joint (Latino/not Hispanics) and ethnicity not available from the total number of loans in the denominator.

When determining percent of households in each race/ethnicity category NCRC used similar procedures. For households in a particular race category, we excluded those that in addition to the particular race were Hispanic. For total number of households in the denominator, we subtracted the census category of other race only households and number of Hispanic households from the total number of households. For the ethnicity category of Hispanics, NCRC simply used the total number of households.

Hence, totaling loans by race will yield a different total from adding up loans by gender. Generally speaking, NCRC used the totals for loans to tracts by minority levels in the narrative when referring to loan totals. Loans by minority level of census tracts usually captured all the loans made in a geographical area because there were fewer loans with borrower characteristics unknown.

Identification of Prime and Subprime Loans

Starting in 2004 banks were required to report pricing information of a first lien loan if its interest rate was three percentage points or higher than the Treasury rate. Thus, loans that had pricing information were considered subprime and loans that did not have pricing information reported were prime. For the 2004 HMDA data, the Federal Reserve Board reported that the vast majority of loans with pricing information were subprime.

Home Loan Ranking Analysis

The first step in the ranking analysis was to identify the affiliates of the banks receiving City deposits. NCRC used two resources: the National Information Center (NIC) database on the web page of the Federal Financial Institutions Examination Council and CRA exams. The NIC lists HMDA reporters of bank holding companies by year. For the 2004 data analysis, NCRC asked the NIC database for all HMDA reporting affiliates as of year end 2004. NCRC then cross-referenced this list with CRA exams.

The following is a description of the CRA and fair lending indicators of performance used in the study:

1. Percent of loans to African-Americans – This indicator measures the percent of a financial institution's loans that are made to African-Americans. Another way to think about this indicator is the portion of the institution's loan portfolio devoted to African-Americans.

2. Percent of loans to Hispanics – This indicator measures the percent of a financial institution's loans that are made to Hispanics.

3. Percent of loans to Asians – This indicator measures the percent of a financial institution's loans that are made to Asians.

4. Percent of Loans to Low- and Moderate-Income (LMI) Borrowers – This indicator measures the percent of a financial institution's loans that is made to LMI borrowers. Another way to think of this indicator is the share of a lender's portfolio devoted to LMI borrowers. Low- and moderate-income definitions conform to CRA definitions. Borrowers with incomes up to 50 percent of area median income are low-income. Borrowers with incomes between 51 to 80 percent of median income are moderate-income.

5. Percent of Loans to Female Borrowers - This indicator measures the percent of a financial institution's loans that are made to women. Another way to think about this indicator is the portion of the institution's loan portfolio devoted to women.

6. Percent of Loans to Minority Tracts - This indicator measures the percent of a financial institution's loans that are made to residents of substantially minority census tracts. Another way to think about this indicator is the portion of the institution's loan portfolio devoted to residents of substantially minority census tracts. A census tract is defined as substantially minority if more than 50 percent of the population is minority.

7. Percent of Loans to LMI tracts - This indicator measures the percent of a financial institution's loans that are made to residents of LMI census tracts. Another way to think about this indicator is the portion of the institution's loan portfolio devoted to residents of LMI census tracts.

8. African-American Denial Disparity Ratio – This indicator divides the African-American denial rate by the white denial rate. Higher ratios are worse. Higher ratios indicate that a lender is denying African-Americans at higher rates relative to whites.

9. Hispanic to White Denial Disparity Ratio – This indicator divides the Hispanic denial rate by the white denial rate.

10. Asian to White Denial Disparity Ratio – This indicator divides the Asian denial rate by the white denial rate.

11. Minority Tract Denial Disparity Ratio – This indicator divides the denial rate for applicants from minority tracts (more than 50 percent of the tract population is minority) by the denial rate for applicants from non-minority tracts.

12. Ratio of LMI (low- and moderate-income) to MUI (middle- and upper-income) Market Share to Borrowers – Market share measures an institution's share of all the loans made by all financial institutions in a geographical area to a certain demographic group. The LMI and MUI market share ratio indicator measures the ratio of the institution's share of all loans made to LMI borrowers divided by the institution's share of all loans made to MUI borrowers. If an institution's share of the LMI market is larger than its share to the MUI market, the institution is making more of an effort to lend to LMI borrowers than MUI borrowers. The LMI and MUI market share ratio indicator will then be greater than one. In contrast, if an institution is

making a greater effort to lend to MUI borrowers than LMI borrowers, this market share ratio indicator will be less than one.

13. Ratio of African-American Borrower Market Share to White Borrower Market Share – This indicator is a ratio of a bank's market share to African-American borrowers divided by its market share to white borrowers.

14. Ratio of LMI and MUI Market Share by Tracts - Market share measures the institution's share of all the loans made by all financial institutions in a geographical area to a certain census tract category. The LMI and MUI market share ratio indicator measures the ratio of the institution's share of all loans made to LMI census tracts divided by the institution's share of all loans made to MUI census tracts. If an institution's share of the LMI market is larger than its share to the MUI market, the institution is making more of an effort to lend to LMI tracts than MUI tracts. The LMI and MUI market share indicator will then greater than one. In contrast, if an institution is making a greater effort to lend to MUI tracts than LMI tracts, this market share ratio indicator will be less than one.

15. Ratio of Market Share in Minority and Non-Minority Tracts – This indicator is a ratio of a bank's market share in minority tracts divided by its market share in non-minority tracts.

Small Business Lending Analysis

NCRC analyzed loans to small businesses and excluded purchases of small business loans. In other words, NCRC excluded secondary market activity (financial institutions purchasing loans from banks or thrifts) from the small business lending analysis.

NCRC excluded loans when the income level of the census tract is unknown because the analysis sought to make precise comparisons between the portion of small businesses and the portion of loans in census tracts of various income levels. According to the Interagency Question and Answer document on CRA, banks must report the state, MSA, and county but not the census tract if the small business borrower had a post office box or rural route number. For these cases the census tract location was reported as "NA" for not available. Some other loans were made in census tracts that could be identified but the income level of the census tract was unknown. The income level of a census tract can be unknown if the census tract is sparsely populated, making the calculation of a median income level difficult. In total, less than 3.5% of all small business loans in the City were not included in the total number of loans in NCRC's analysis.

The small business lending analysis ranked the banks receiving City deposits against each other. The performance indicators were discussed above.

Some of the lenders have raised the issue of how the rankings take into account variations in loan volume and dollar total of loans. The depositories had differences in their loan volumes; some had a few hundred small business loans while others had several hundred. If NCRC had assigned a greater weight in the rankings to depositories making several hundred loans, we would have effectively penalized the smaller banks that do not have nearly as many assets or reserves against which to lend. While we acknowledge the contributions of the larger lenders to the City’s economic and small business development, we must also strive for the fairest ranking system possible.

NCRC continually explores refinements to our ranking measures. One possibility is to add a measure that compares loan volumes to assets in order to assess if an institution is lending commensurate with its capacity. But this measure cannot effectively capture how much of an institution’s assets are devoted to serving specific credit needs in any particular geographical area. Any specific suggestions regarding performance measures are always welcome.

Another issue raised by a couple of the stakeholders regards credit card lending. These stakeholders assert that credit card lending is effective in reaching small businesses with less than $1 million in revenue. Lenders that do not have large scale credit card operations may not perform as well on performance indicators measuring lending to businesses with less than $1 million in revenue according to these stakeholders.

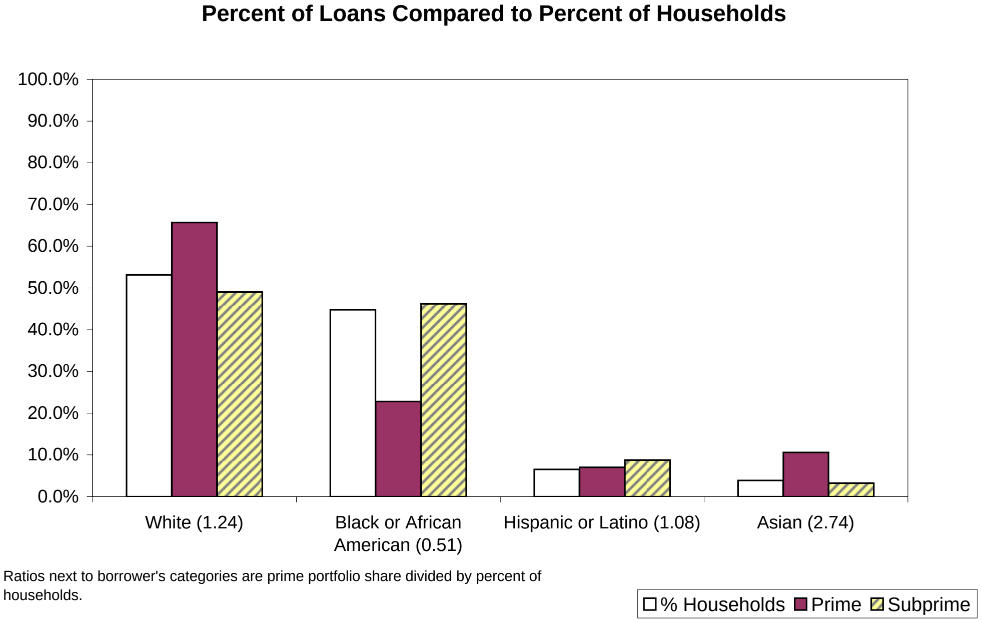
NCRC responds that more research is needed to assess exactly how lenders are serving small businesses with assets less than $1 million in revenue. While credit card lending may be an effective means for some lenders in serving these small businesses, it appears that other loan products are also effective. Some lenders have mentioned SBA lending as a tool for reaching the smallest businesses. In addition, NCRC is aware of the literature on small business lending which suggests that mid-size banks are effective in reaching the smallest businesses since they employ a “relationship” model of lending that relies on direct knowledge of these businesses in lieu of credit card lending or automated underwriting. It is premature at this point to suggest that credit card lending is alone driving the differences in lending to small businesses with revenues less than $1 million.

NCRC intends to further probe the issue of credit card lending in more detail in future studies we conduct. Ultimately, one powerful way to more precisely evaluate the effectiveness of various types of loans is for more information to be available in small business lending data. NCRC has called for more information including loan renewals as well as loan originations to be reported separately in the small business data. In addition, a data field should be added to indicate if the loan is a credit card loan.

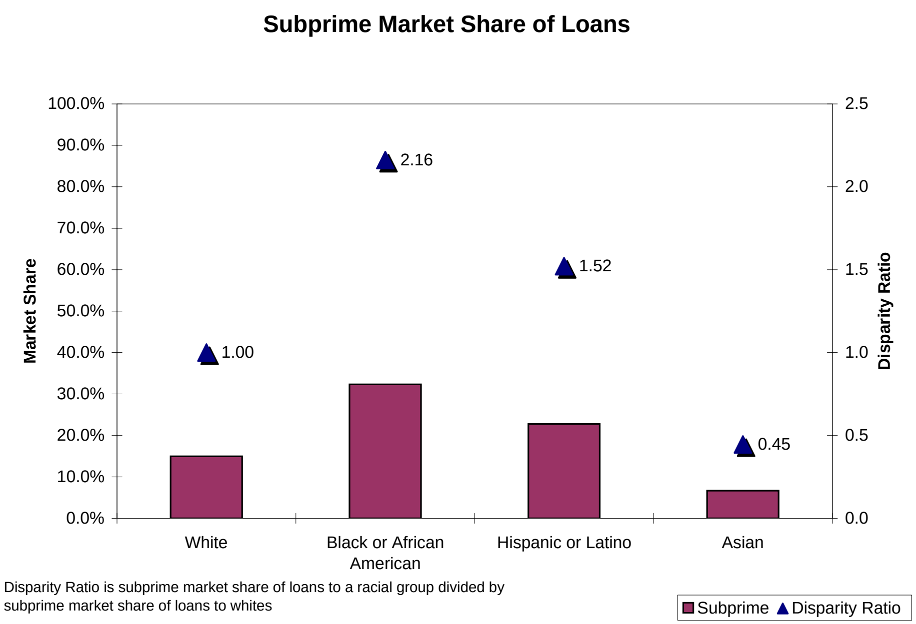
Appendices

Appendix 1: **Charts**

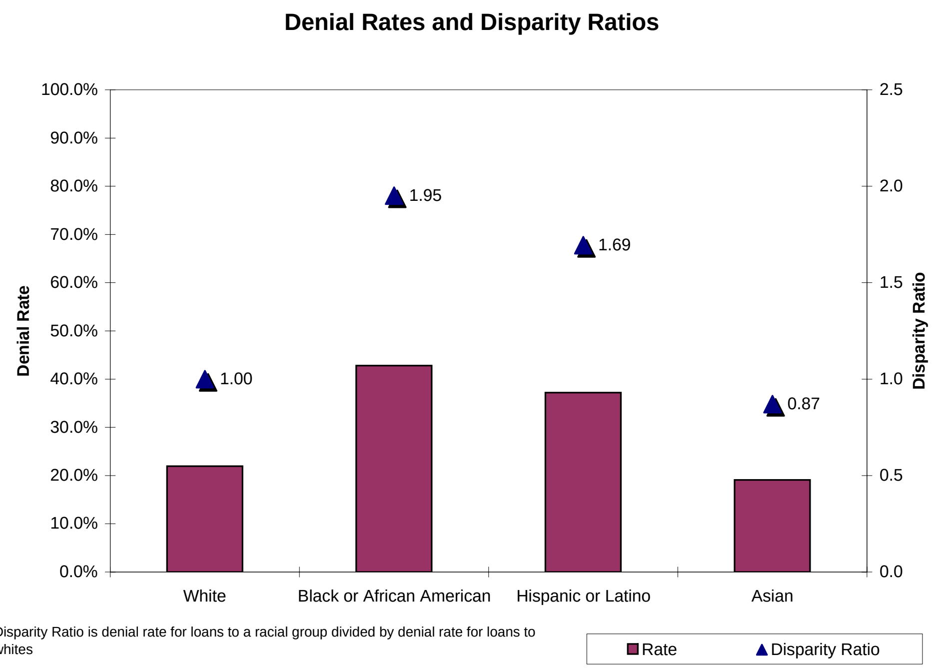
Chart 1: All Single Family Lending to Owner-Occupants by Race of Borrower, City of Philadelphia



Ratios next to borrower's categories are prime portfolio share divided by percent of households.

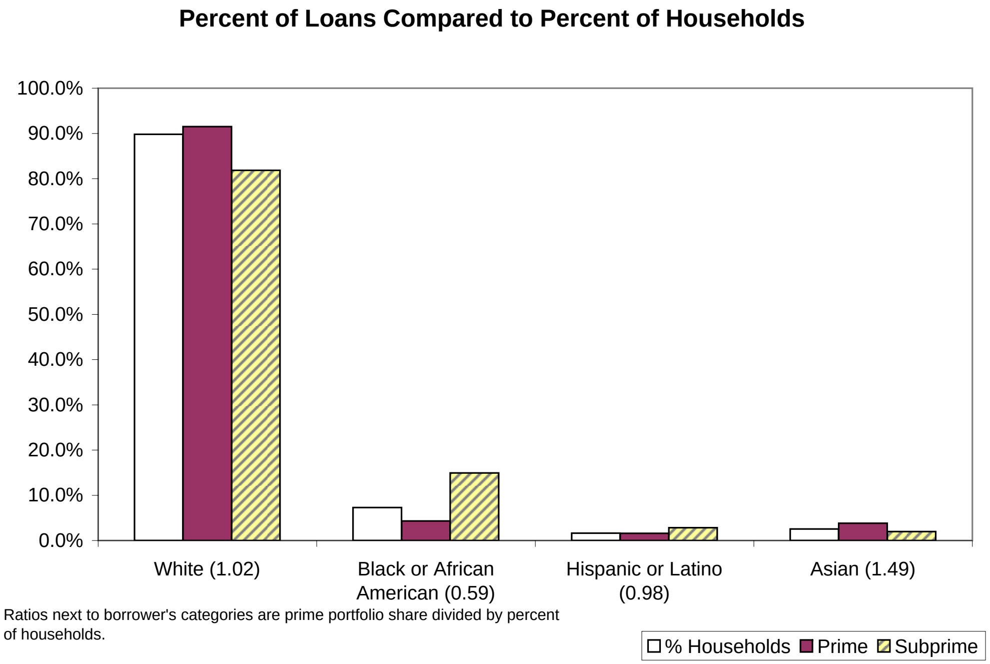


Disparity Ratio is subprime market share of loans to a racial group divided by subprime market share of loans to whites

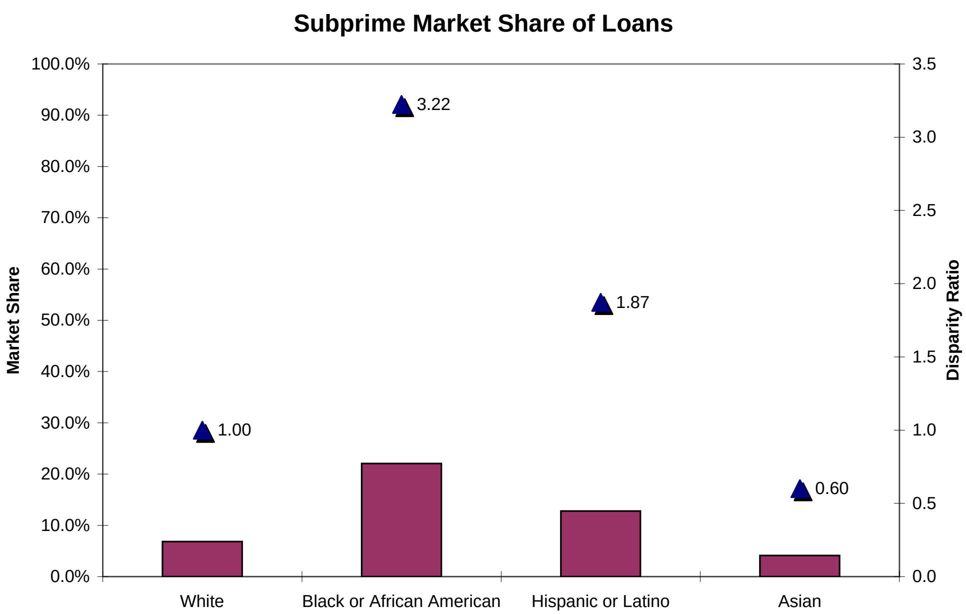


Disparity Ratio is denial rate for loans to a racial group divided by denial rate for loans to whites

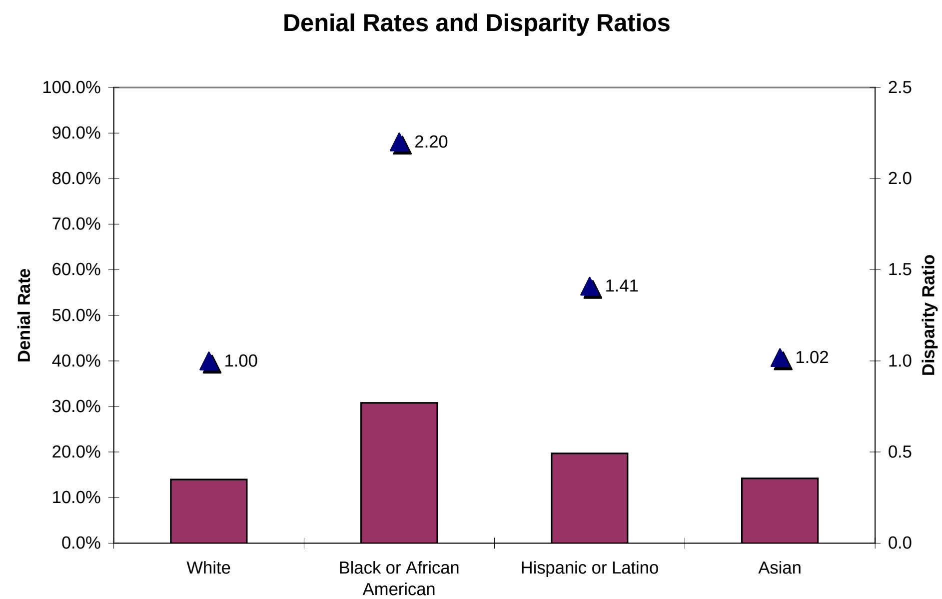
Chart 2: All Single Family Lending to Owner-Occupants by Race of Borrower, Suburbs



Ratios next to borrower's categories are prime portfolio share divided by percent of households.



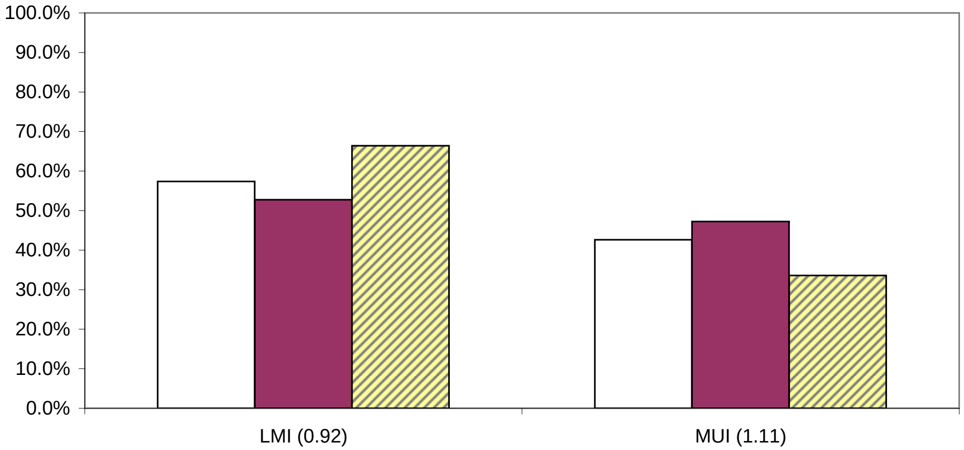
Disparity Ratio is subprime market share of loans to a racial group divided by subprime market share of loans to whites



Disparity Ratio is denial rate for loans to a racial group divided by denial rate for loans to whites

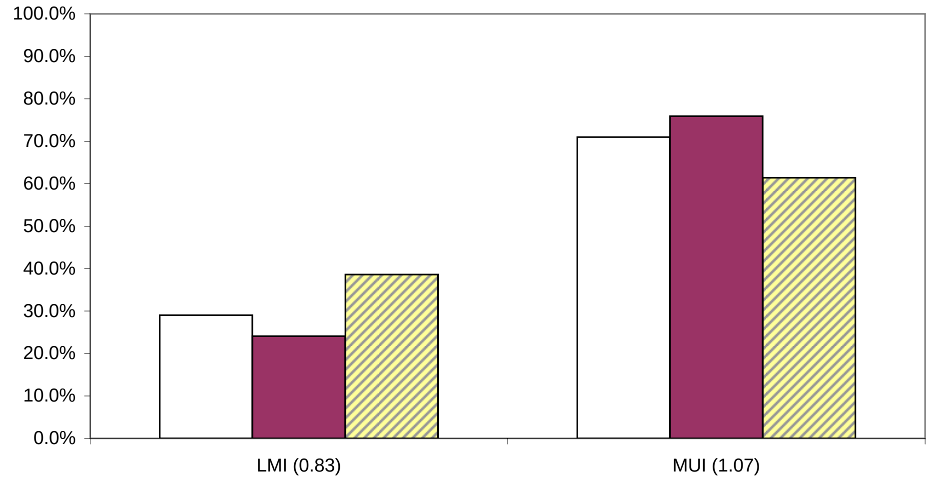
Chart 3: All Single Family Lending to Owner-Occupants by Income of Borrower, City of Philadelphia and Suburbs

Percent of Loans Compared to Percent of Households, Philadelphia County



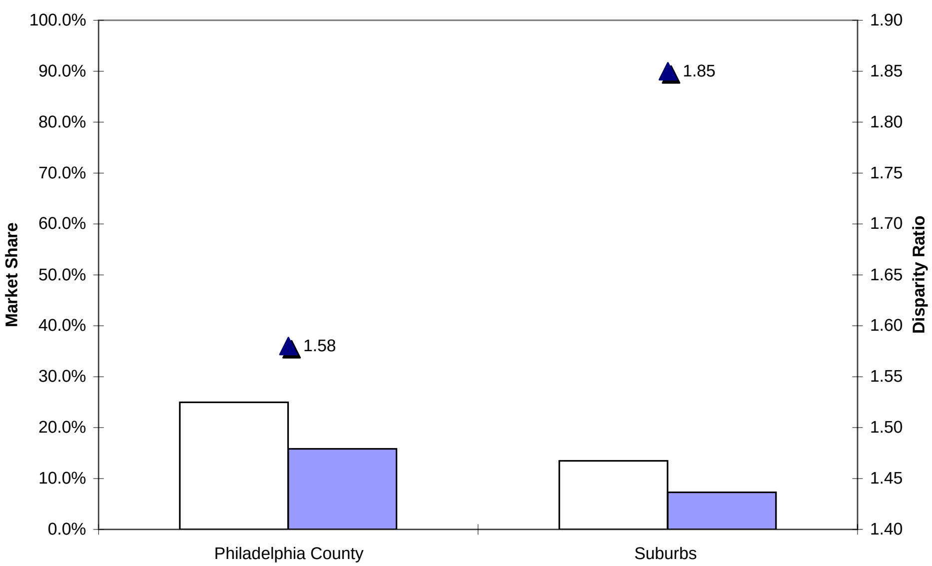
Ratios next to Borrowers' categories are prime portfolio share divided by percent of households

Percent of Loans Compared to Percent of Households, Suburbs



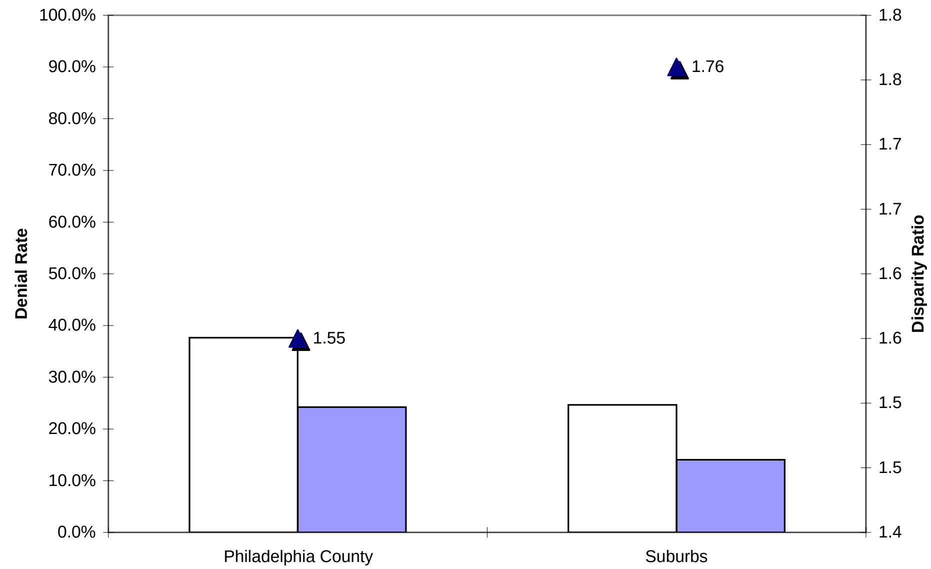
Ratios next to Borrowers' categories are prime percent divided by percent of households

Subprime Market Share of Loans



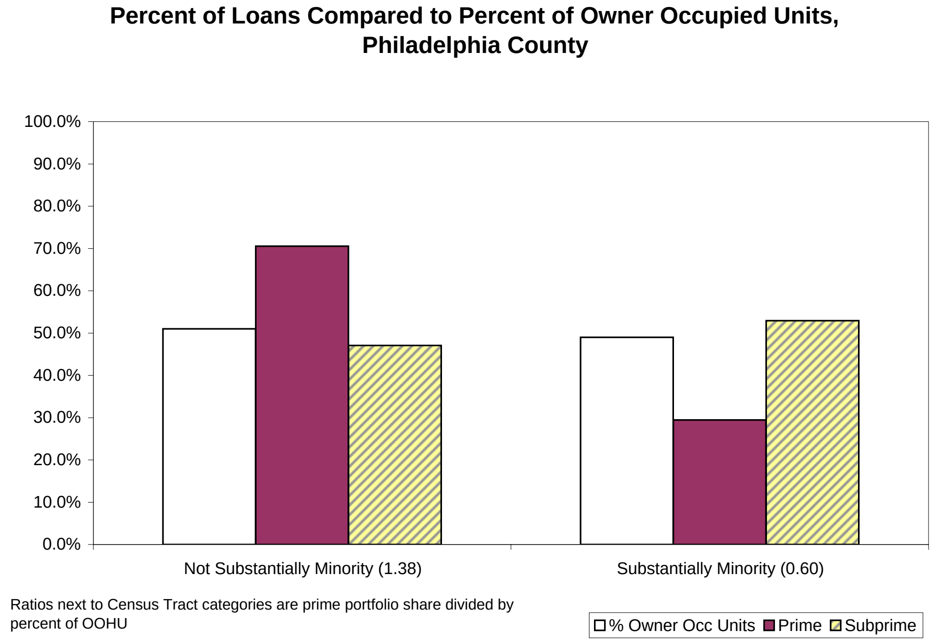
Disparity Ratio is market share of subprime loans to LMI borrowers divided by market share of subprime loans to MUI borrowers

Denial Rate and Disparity Ratios

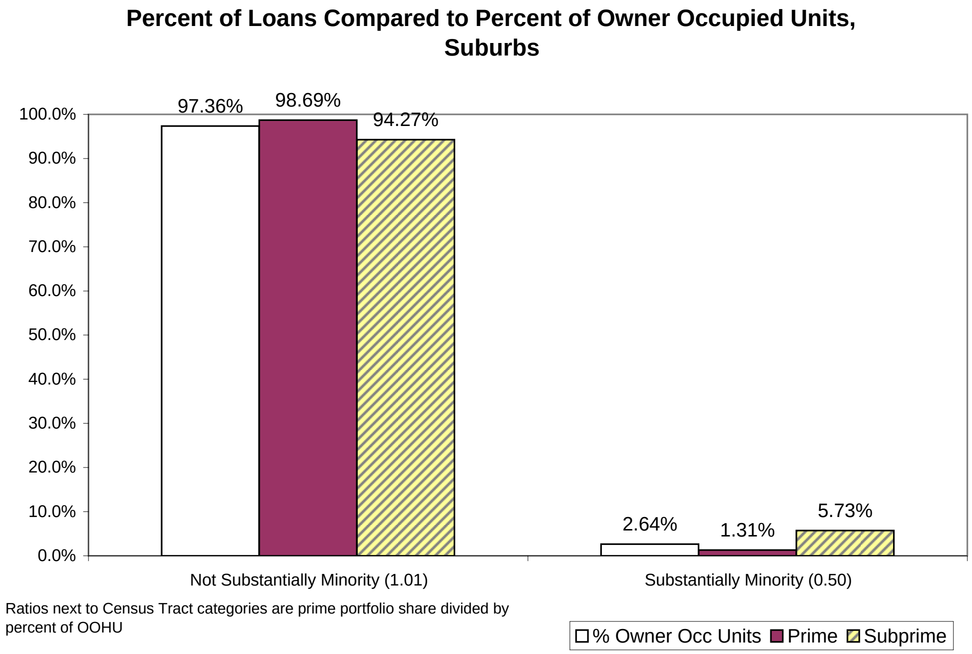


Disparity Ratio is denial rate for loans to LMI borrowers divided by denial rate for loans to MUI borrowers

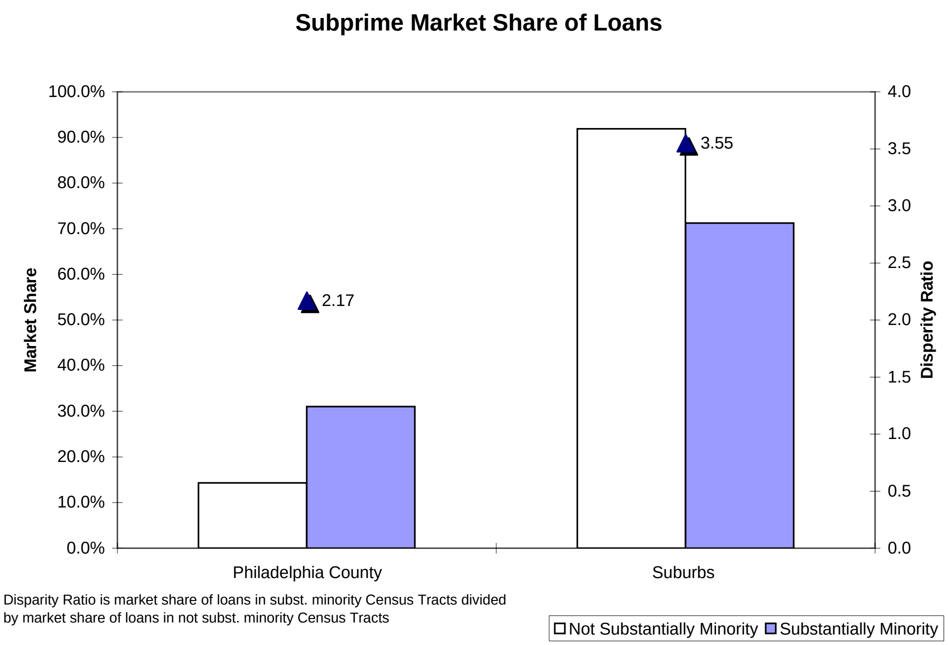
Chart 4: All Single Family Lending to Owner-Occupants by Minority Level of Census Tract, City of Philadelphia and Suburbs



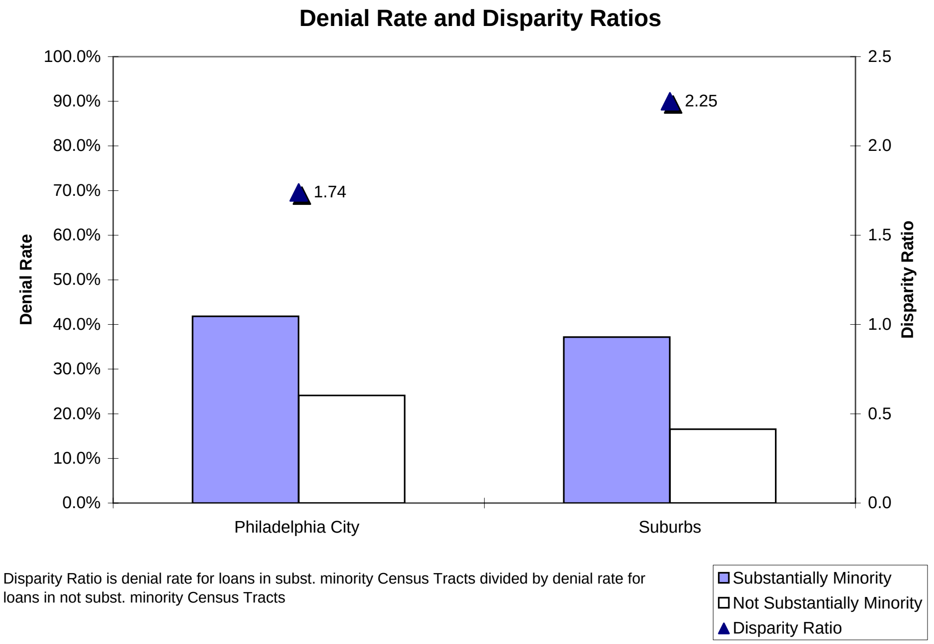
Ratios next to Census Tract categories are prime portfolio share divided by percent of OOHU



Ratios next to Census Tract categories are prime portfolio share divided by percent of OOHU



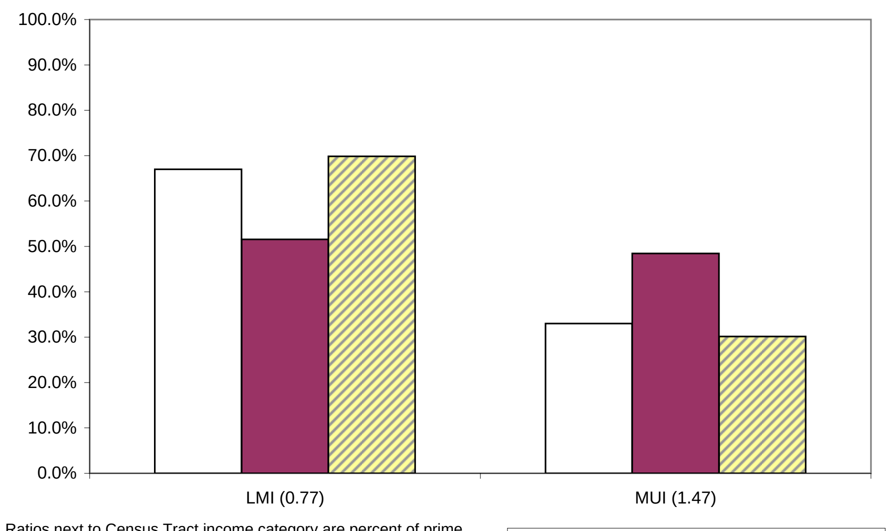
Disparity Ratio is market share of loans in subst. minority Census Tracts divided by market share of loans in not subst. minority Census Tracts



Disparity Ratio is denial rate for loans in subst. minority Census Tracts divided by denial rate for loans in not subst. minority Census Tracts

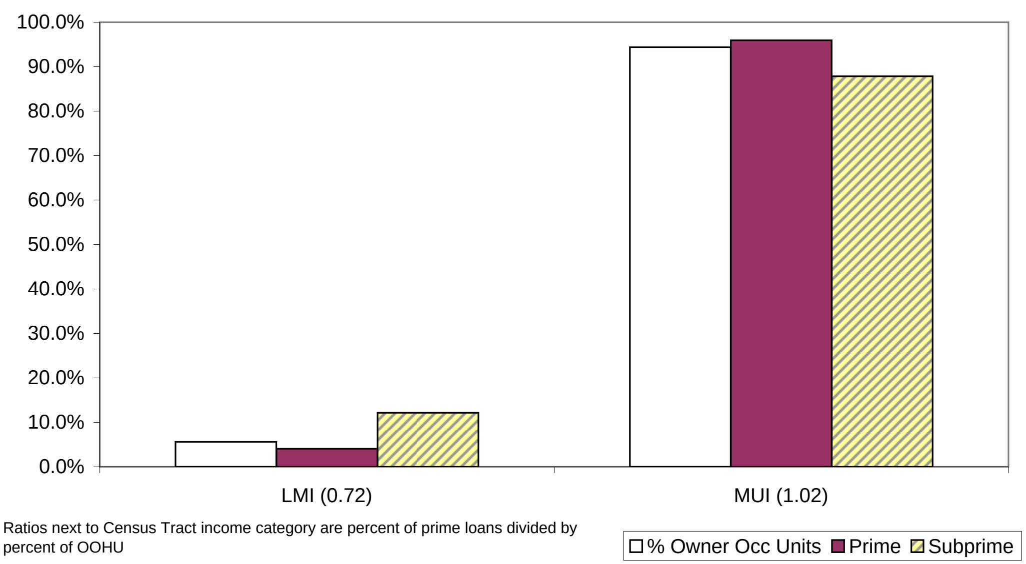
Chart 5: All Single Family Lending to Owner-Occupants by Income Level of Census Tract, City of Philadelphia and Suburbs

Percent of Loans Compared to Percent of Owner Occupied Units, Philadelphia County



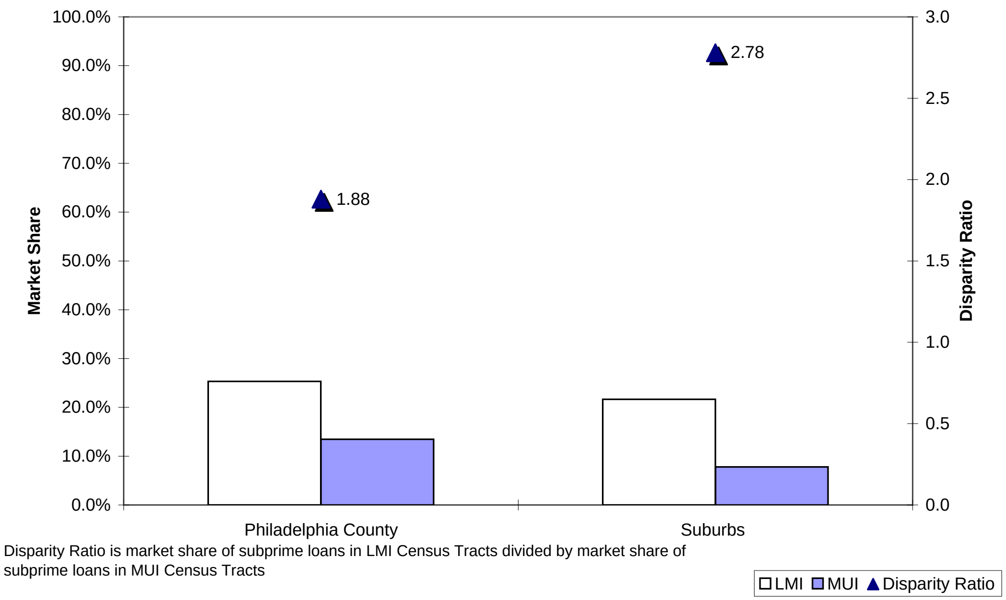
Ratios next to Census Tract income category are percent of prime loans divided by percent of OOHU

Percent of Loans Compared to Percent of Owner Occupied Units, Suburbs



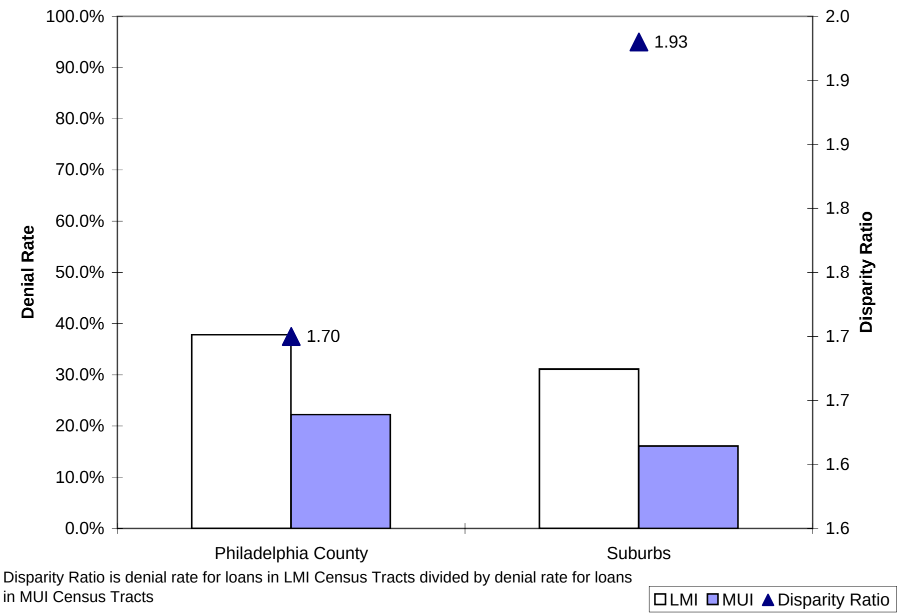
Ratios next to Census Tract income category are percent of prime loans divided by percent of OOHU

Subprime Market Share of Loans



Disparity Ratio is market share of subprime loans in LMI Census Tracts divided by market share of subprime loans in MUI Census Tracts

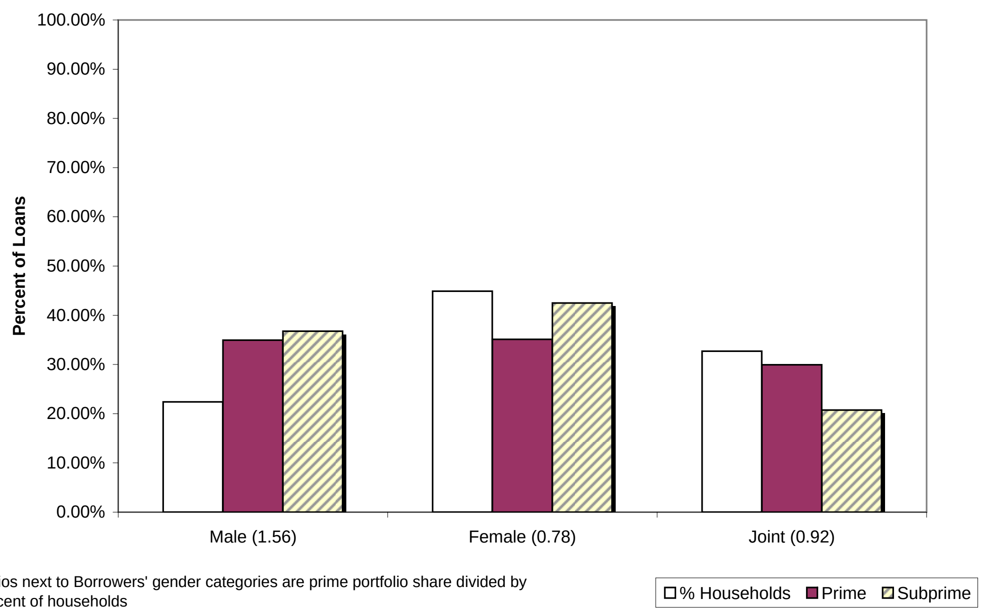
Denial Rate and Disparity Ratios



Disparity Ratio is denial rate for loans in LMI Census Tracts divided by denial rate for loans in MUI Census Tracts

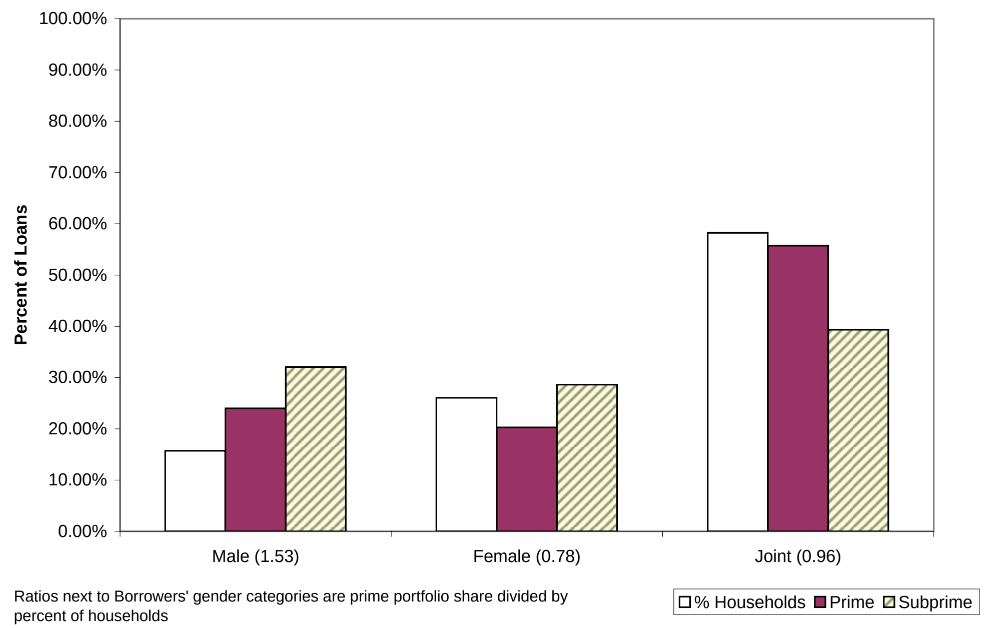
Chart 6: All Single Family Lending to Owner-Occupants by Gender, City of Philadelphia and Suburbs

Percent of Loans Compared to Percent of Households, Philadelphia County



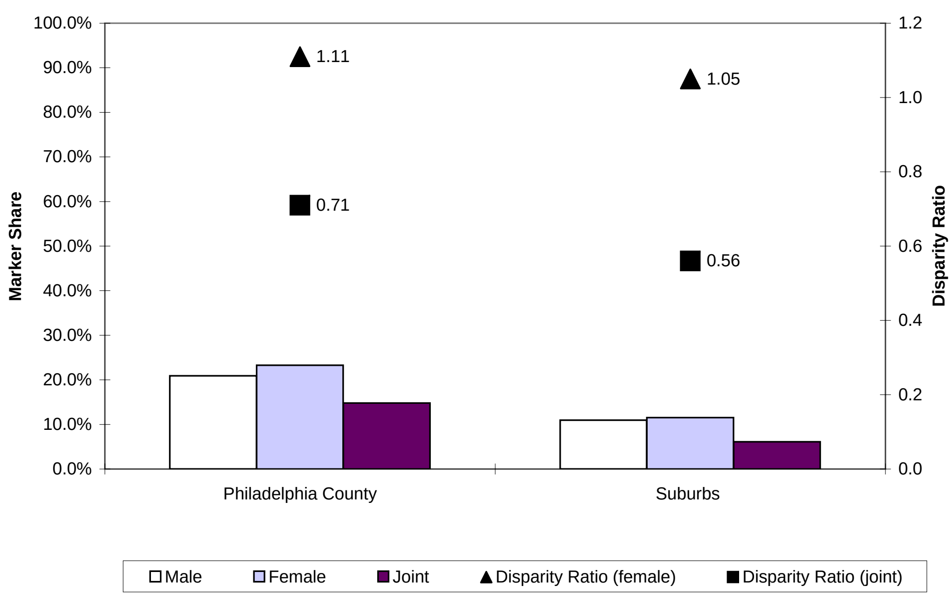
Ratios next to Borrowers' gender categories are prime portfolio share divided by percent of households

Percent of Loans Compared to Percent of Households, Suburbs

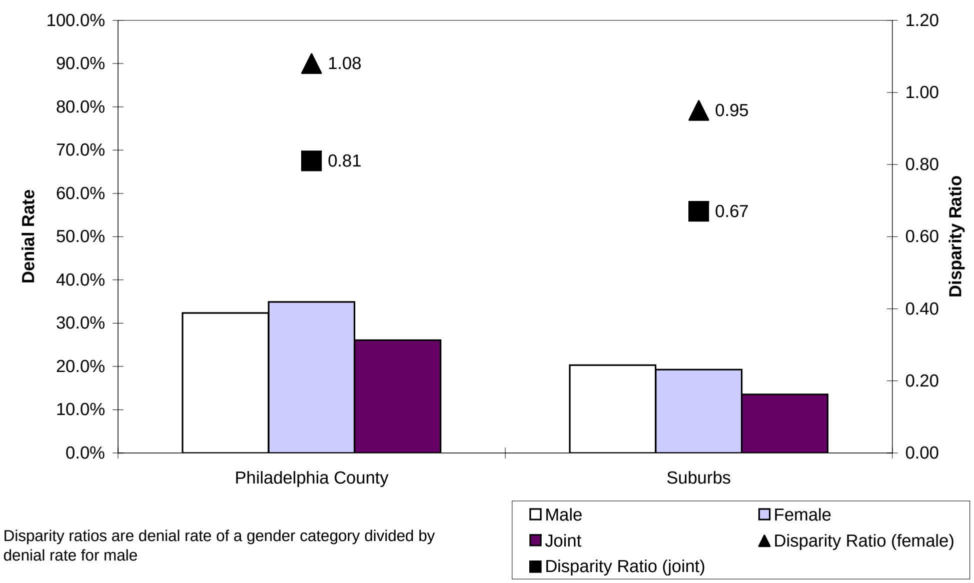


Ratios next to Borrowers' gender categories are prime portfolio share divided by percent of households

Subprime Market Share of Loans

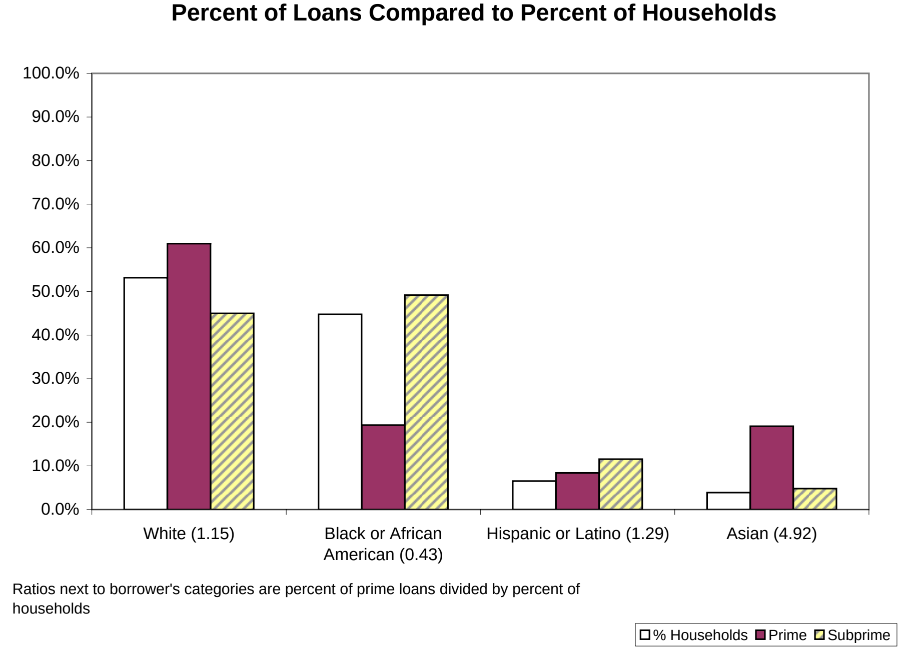


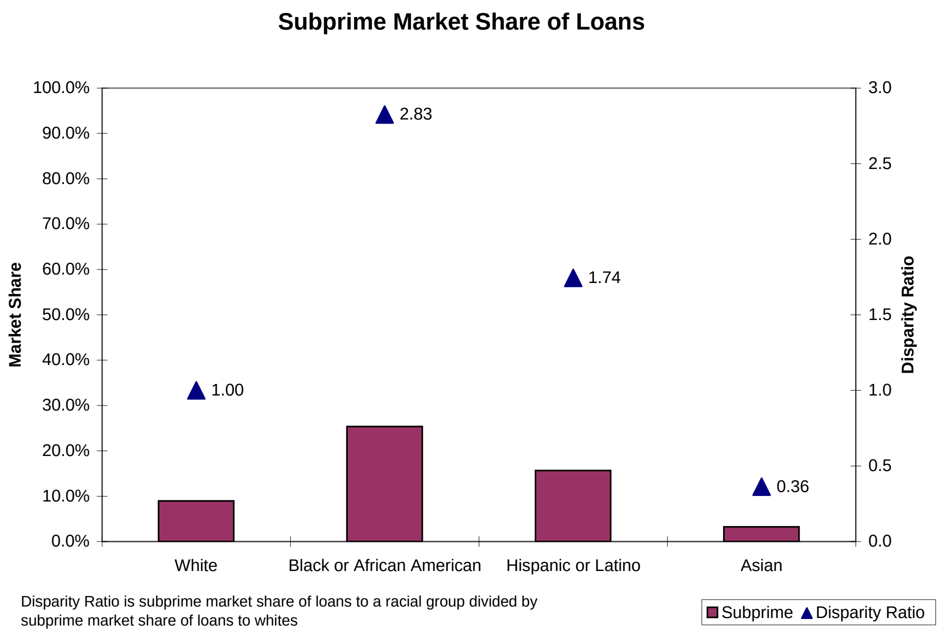
Denial Rates and Disparity Ratios



Disparity ratios are denial rate of a gender category divided by denial rate for male

Chart 7: Home Purchase Lending to Owner-occupants by Race of Borrower, City of Philadelphia





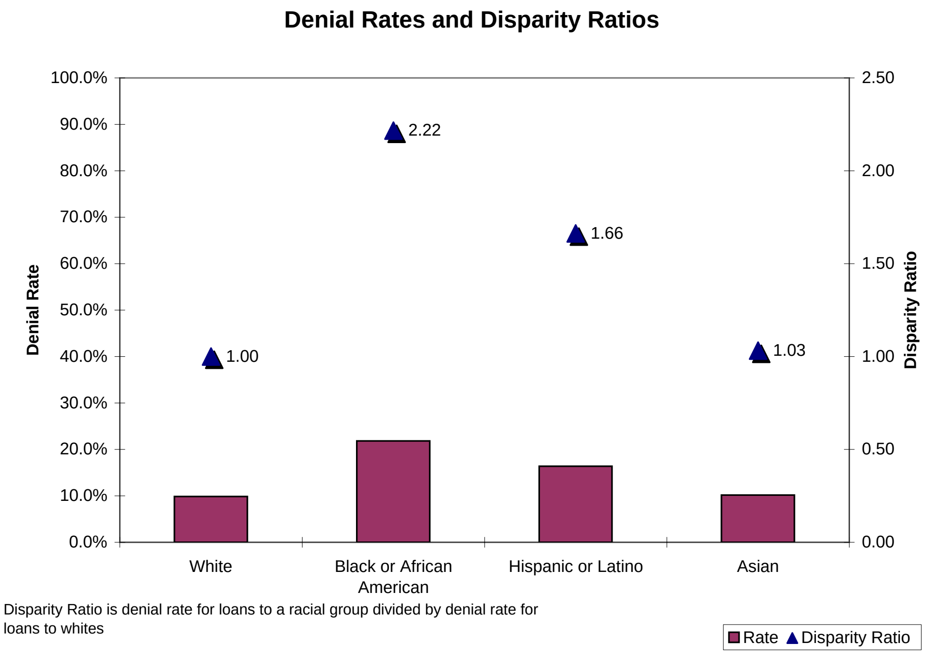
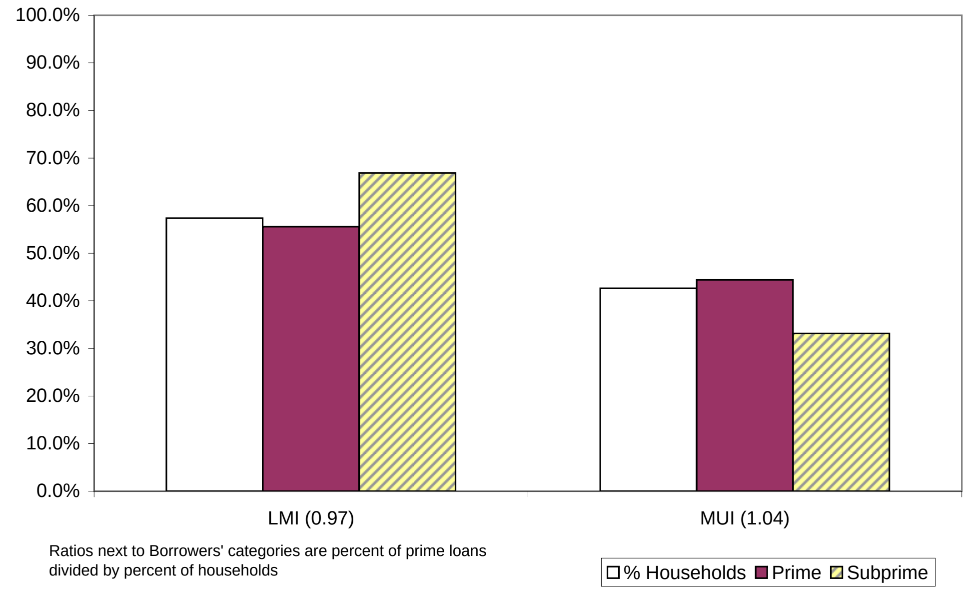


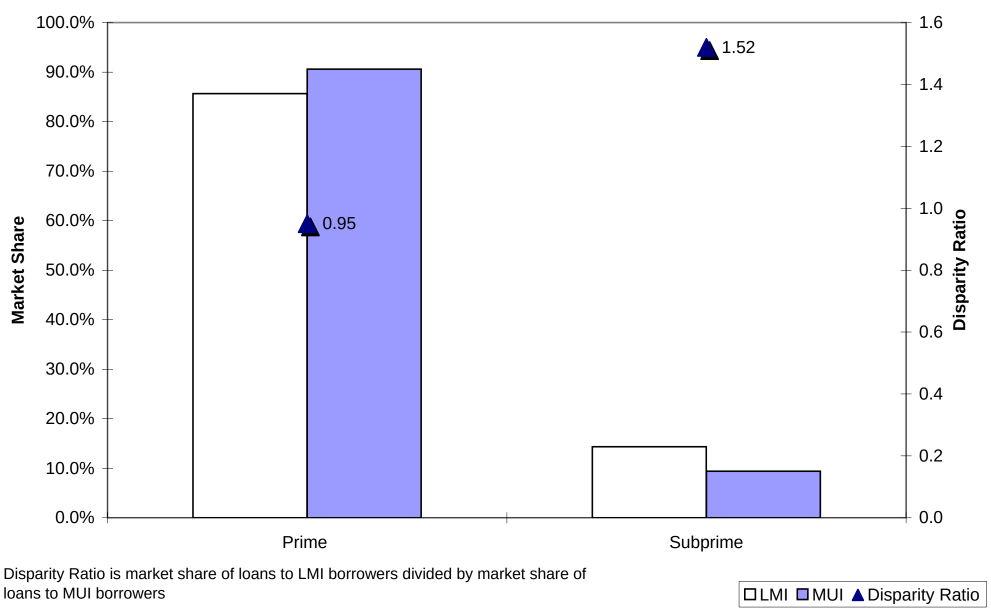
Chart 8: Home Purchase Lending to Owner-occupants by Income of Borrower, City of Philadelphia

Percent of Loans Compared to Percent of Households



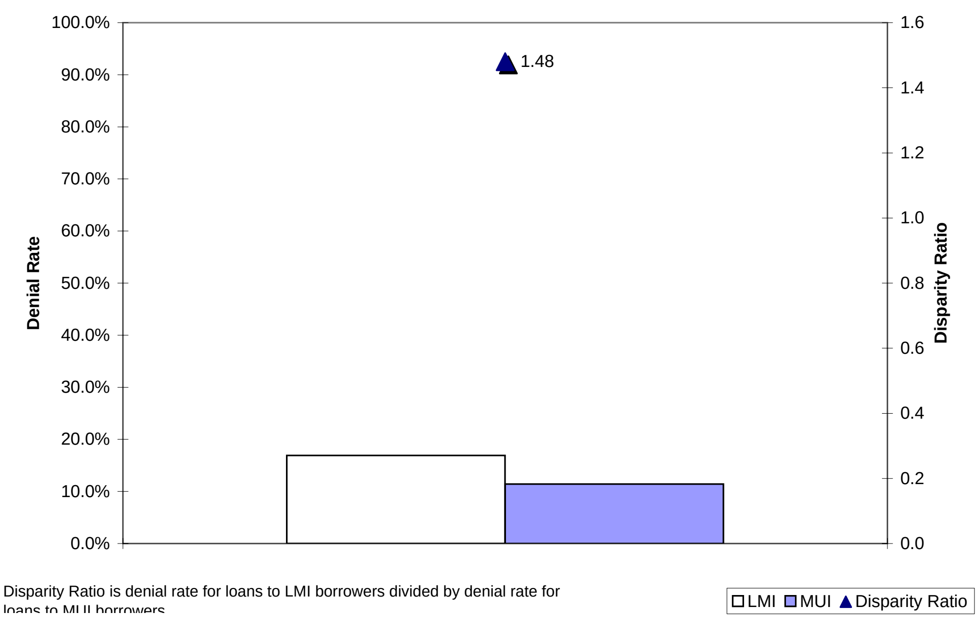
Ratios next to Borrowers' categories are percent of prime loans divided by percent of households

Market Share of Loans



Disparity Ratio is market share of loans to LMI borrowers divided by market share of loans to MUI borrowers

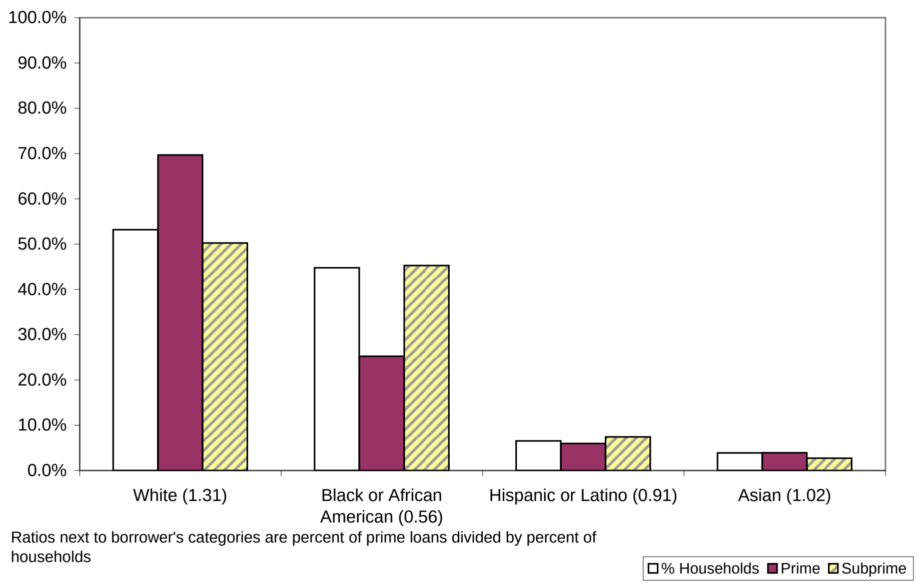
Denial Rate and Disparity Ratio



Disparity Ratio is denial rate for loans to LMI borrowers divided by denial rate for loans to MUI borrowers

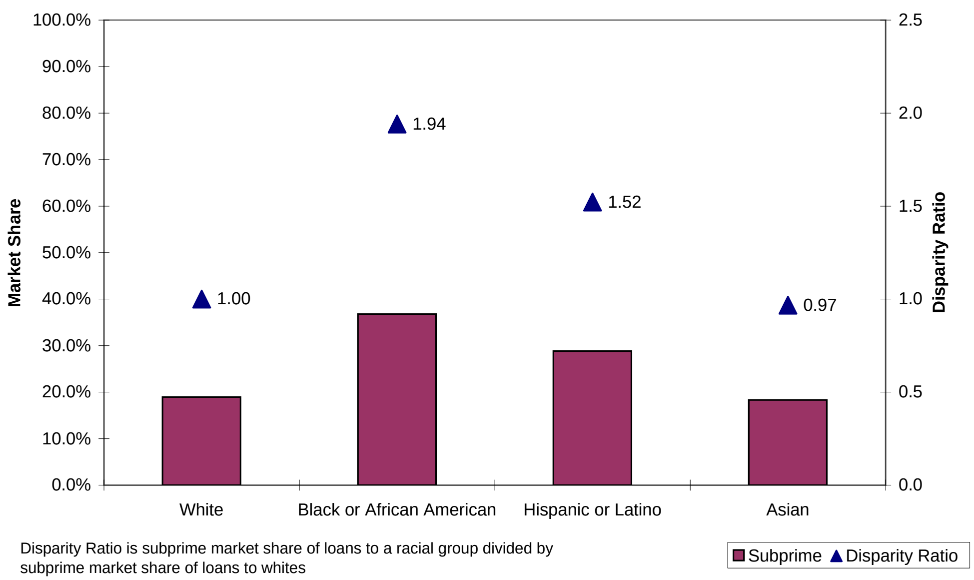
Chart 9: Refinance Lending to Owner-occupants by Race of Borrower, City of Philadelphia

Percent of Loans Compared to Percent of Households



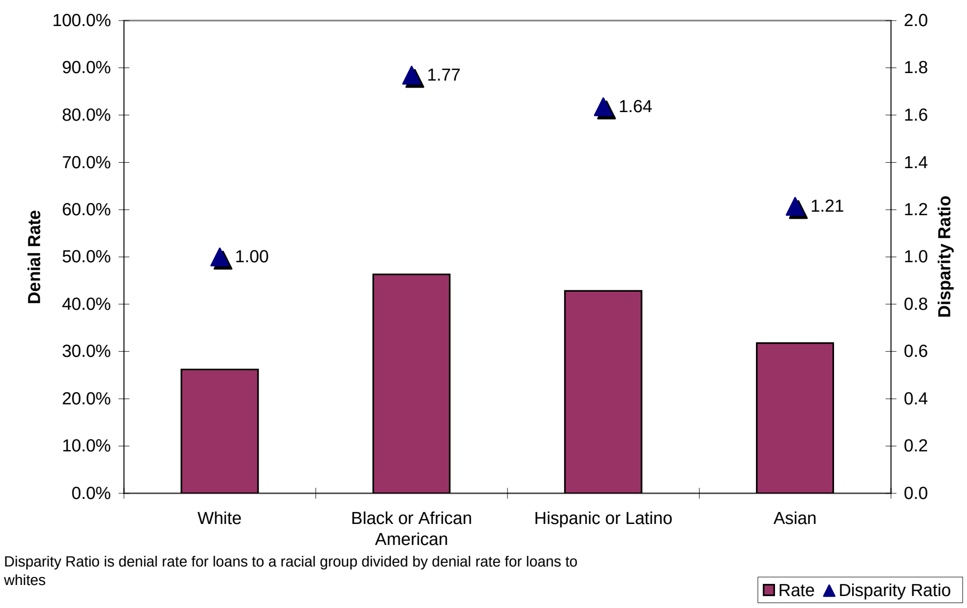
Ratios next to borrower's categories are percent of prime loans divided by percent of households

Subprime Market Share of Loans



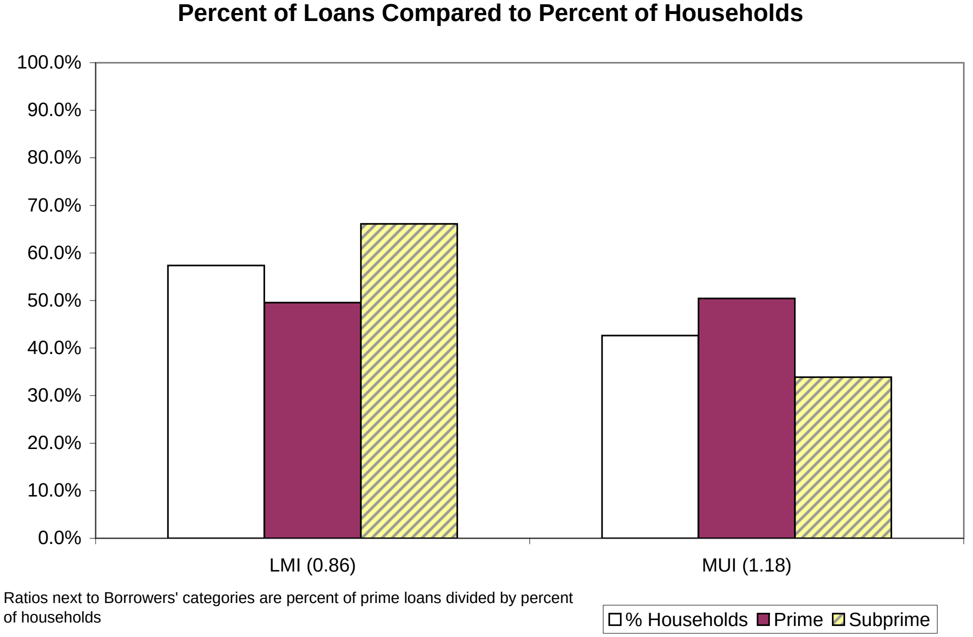
Disparity Ratio is subprime market share of loans to a racial group divided by subprime market share of loans to whites

Denial Rates and Disparity Ratios

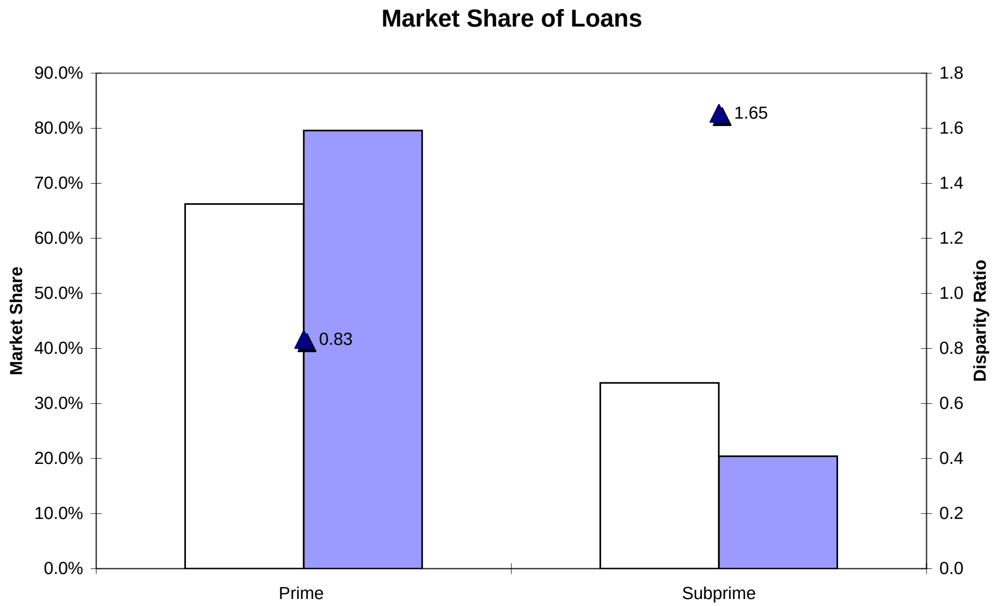


Disparity Ratio is denial rate for loans to a racial group divided by denial rate for loans to whites

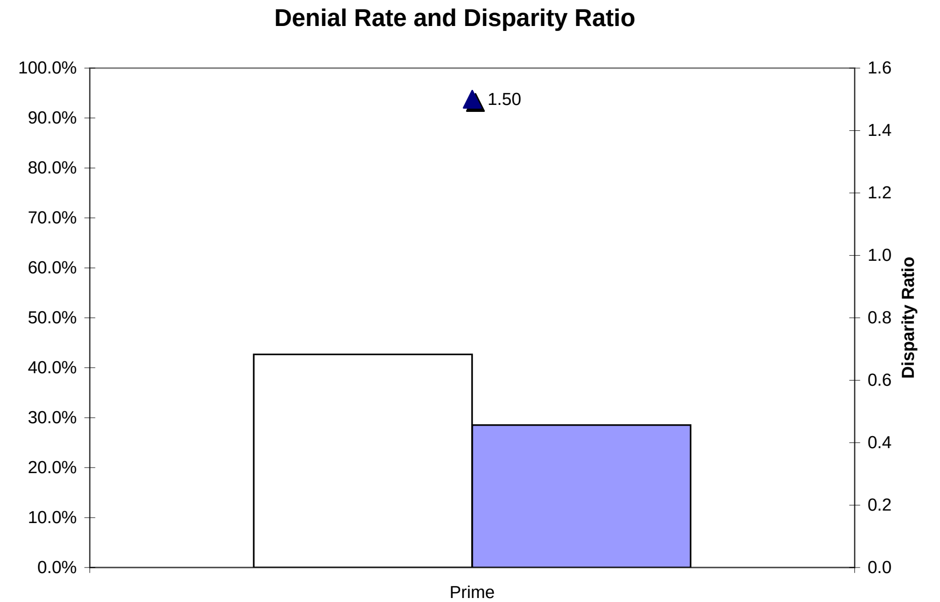
Chart 10: Refinance Lending to Owner-occupants by Income of Borrower, City of Philadelphia



Ratios next to Borrowers' categories are percent of prime loans divided by percent of households



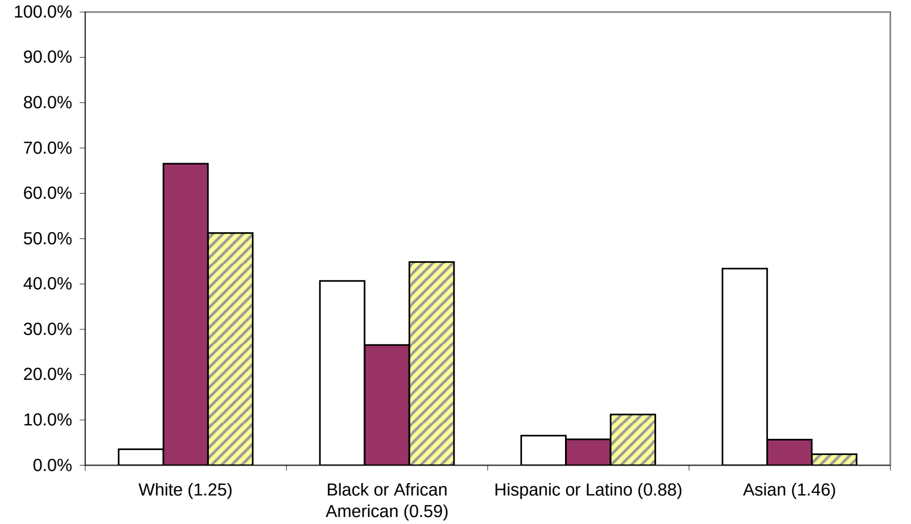
Disparity Ratio is market share of loans to LMI borrowers divided by market share of loans to MUI borrowers



Disparity Ratio is denial rate for loans to LMI borrowers divided by denial rate for loans to MUI borrowers

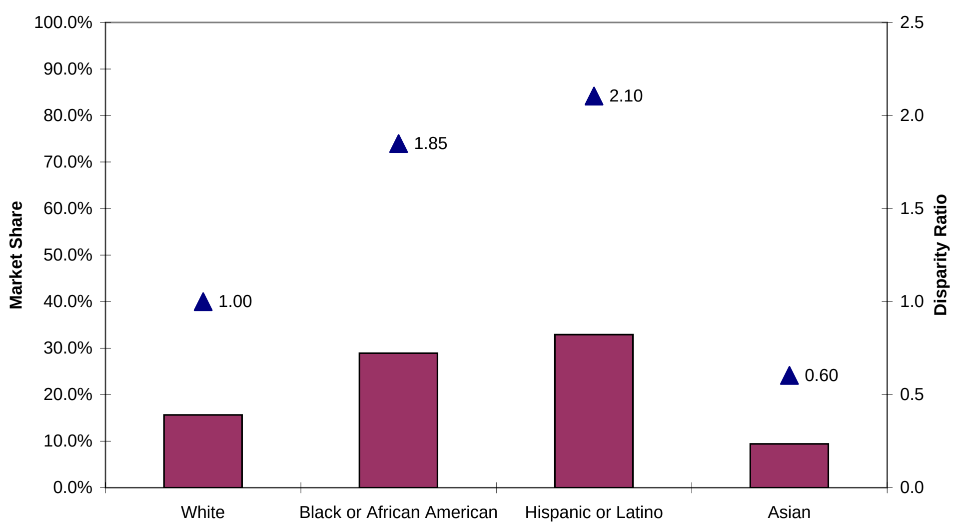
Chart 11: Home Improvement Lending to Owner-occupants by Race of Borrower, City of Philadelphia

Percent of Loans Compared to Percent of Households



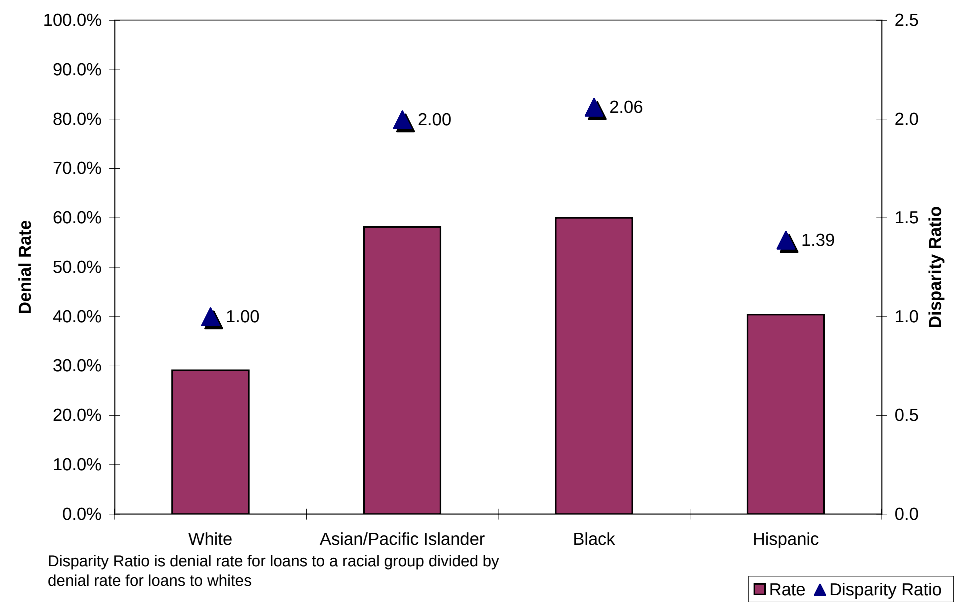
Ratios next to borrower's categories are prime percent of loans divided by percent of households

Subprime Market Share of Loans



Disparity Ratio is subprime market share of loans to a racial group divided by subprime market share of loans to whites

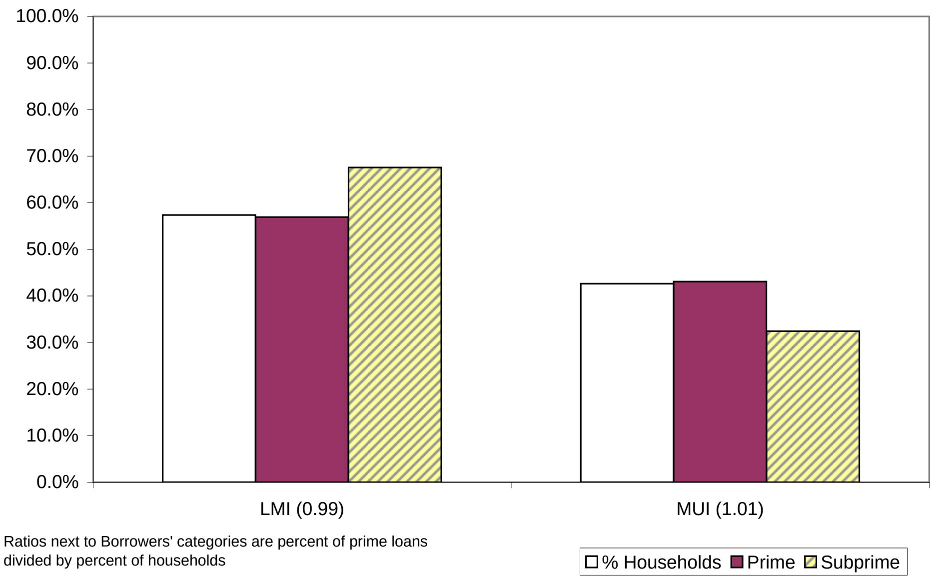
Denial Rates and Disparity Ratios



Disparity Ratio is denial rate for loans to a racial group divided by denial rate for loans to whites

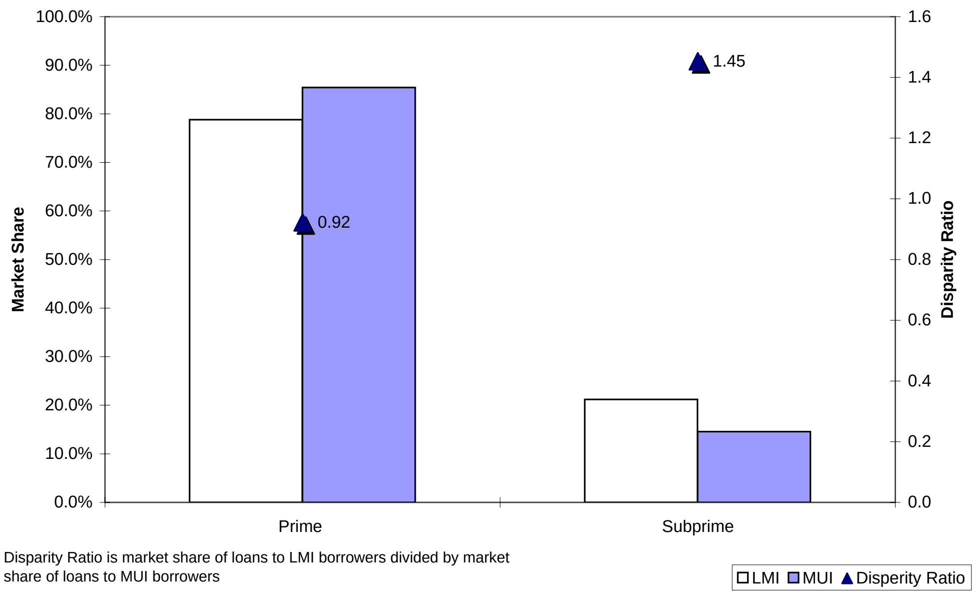
Chart 12: Home Improvement Lending to Owner-occupants by Income of Borrower, City of Philadelphia

Percent of Loans Compared to Percent of Households



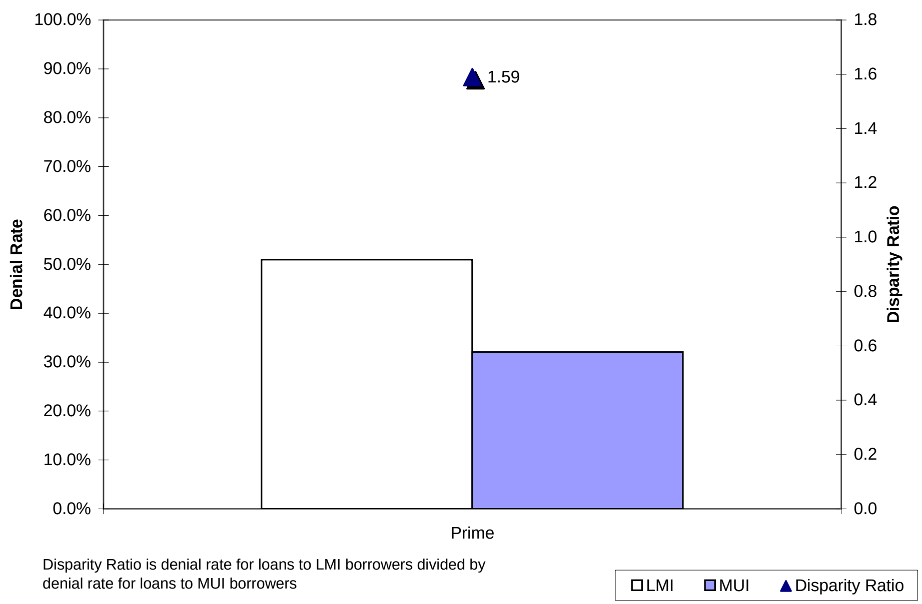
Ratios next to Borrowers' categories are percent of prime loans divided by percent of households

Market Share of Loans



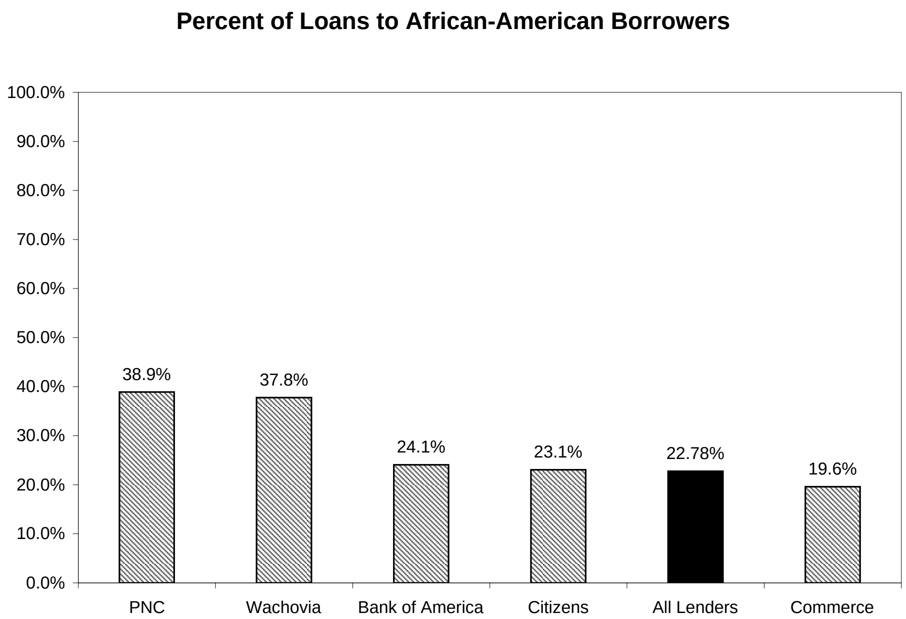
Disparity Ratio is market share of loans to LMI borrowers divided by market share of loans to MUI borrowers

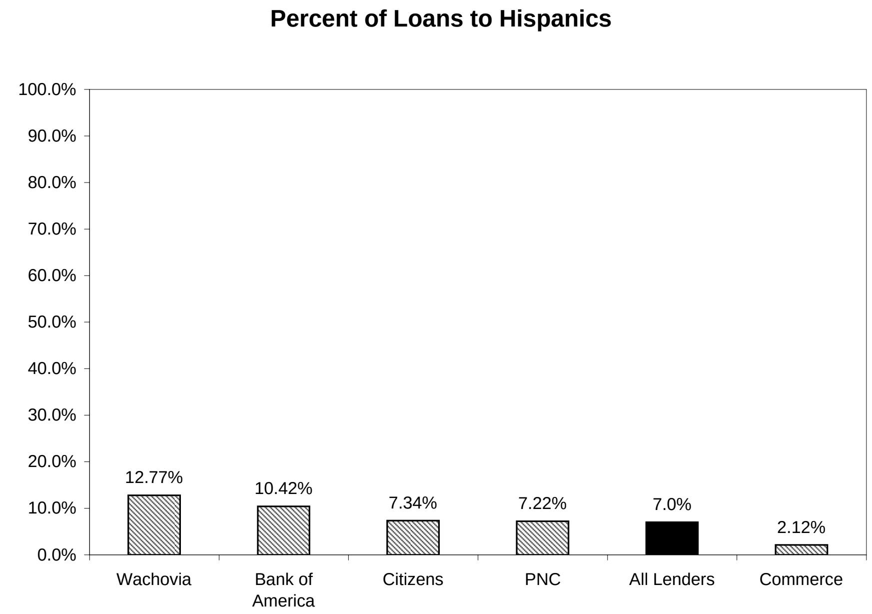
Denial Rate and Disparity Ratio

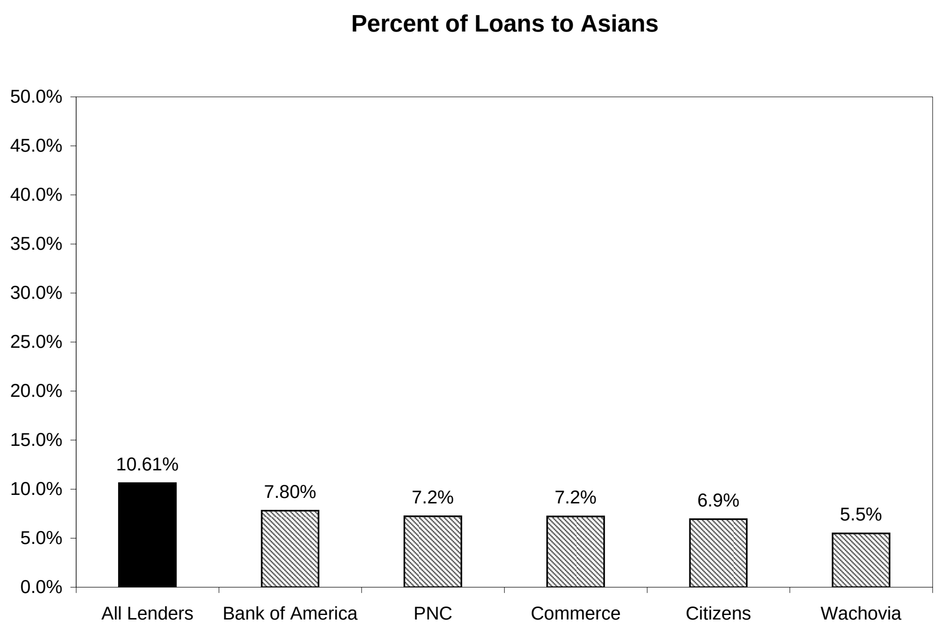


Disparity Ratio is denial rate for loans to LMI borrowers divided by denial rate for loans to MUI borrowers

Chart 13: All Single Family Lending Ranking Analysis, City of Philadelphia







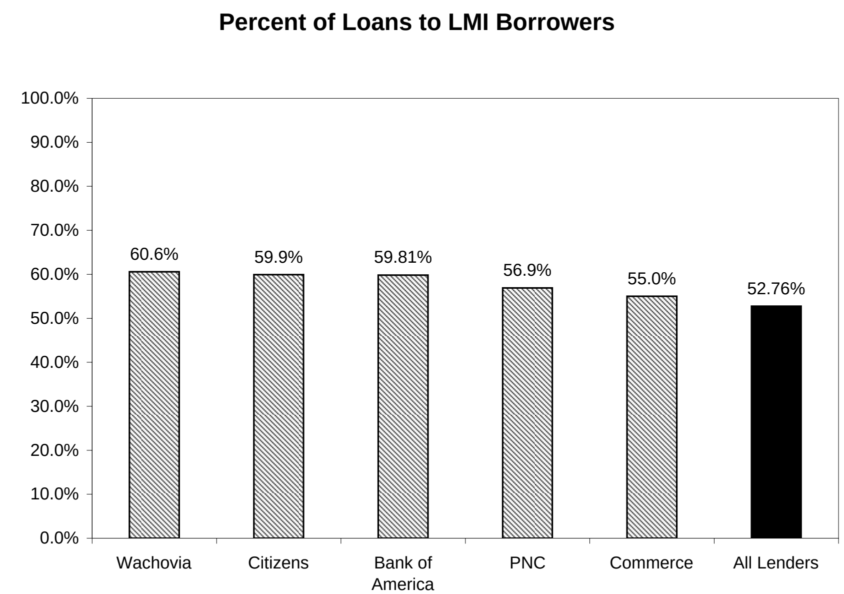
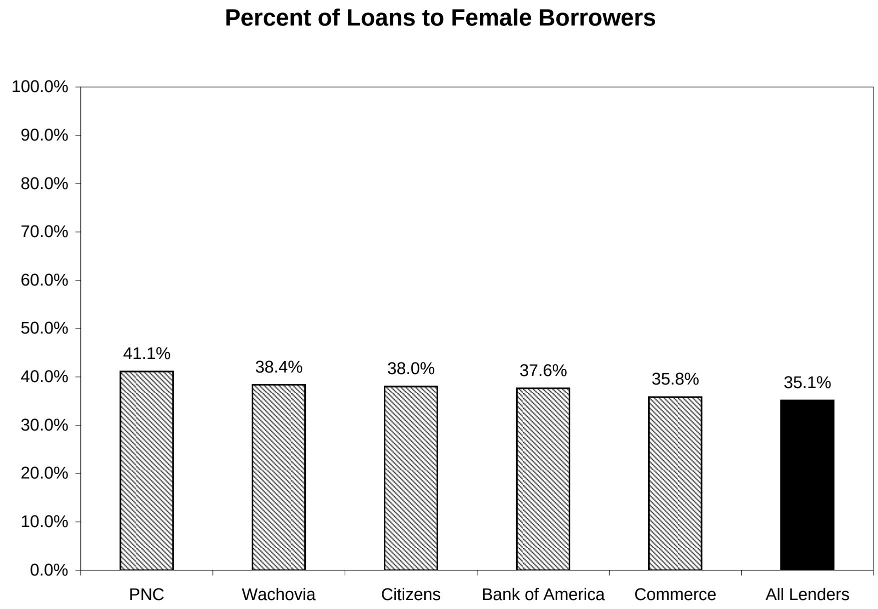
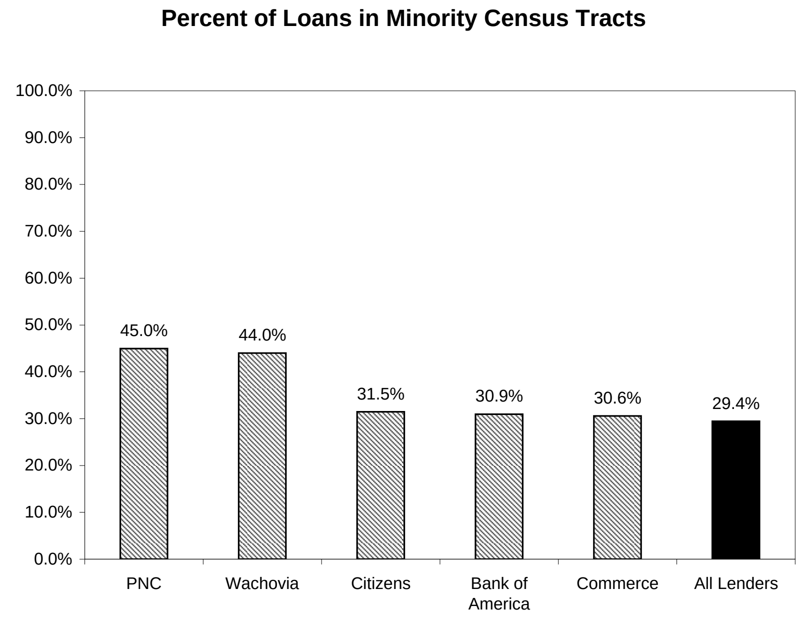
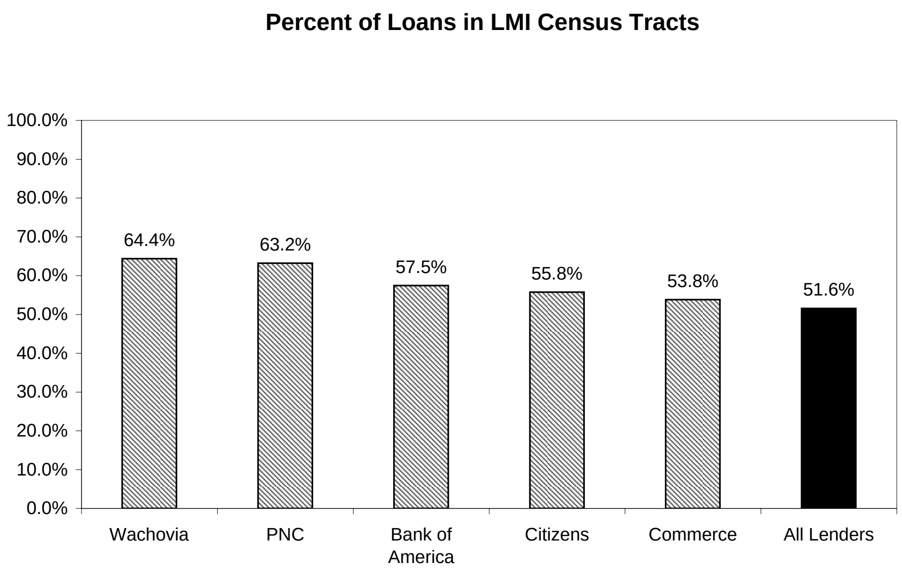


Chart 13: All Single Family Lending Ranking Analysis, City of Philadelphia







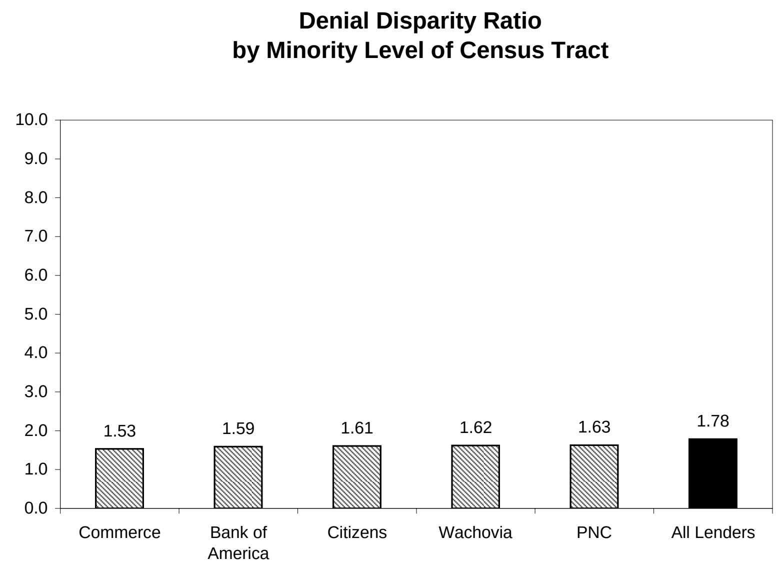
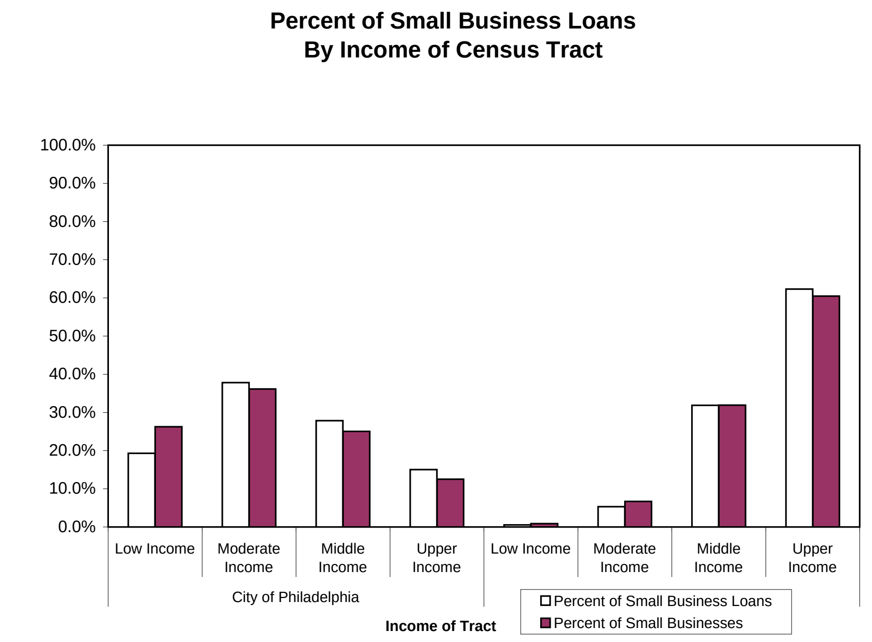
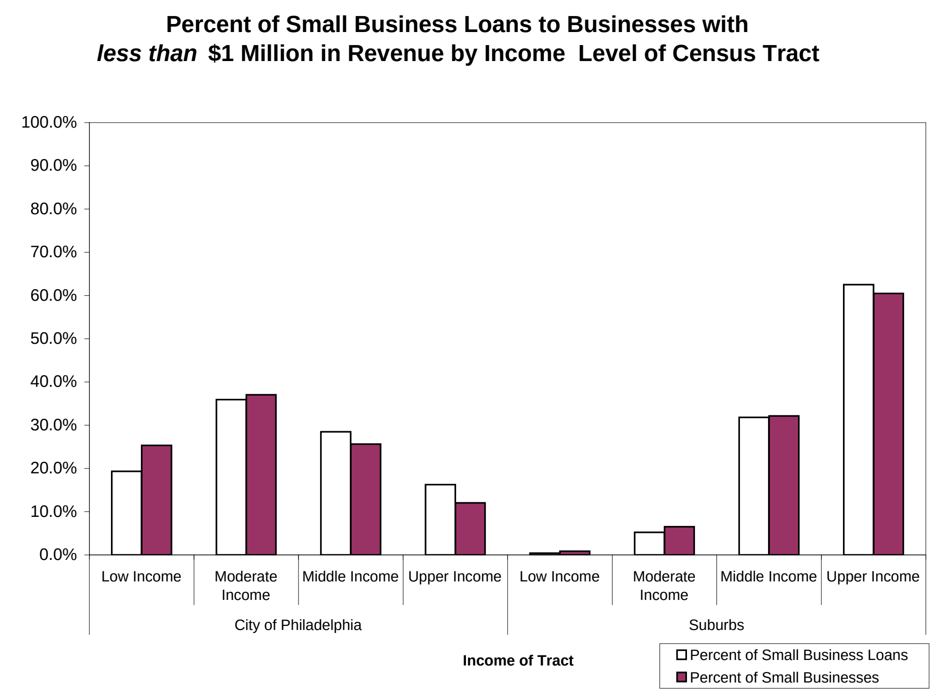
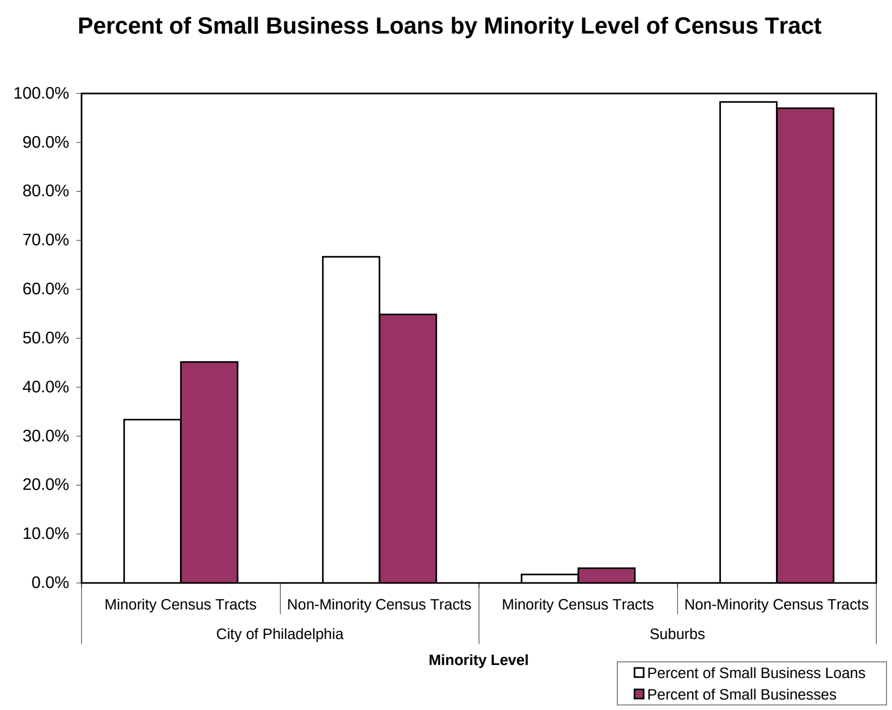


Chart 14: Small Business Lending by Income and Minority Level of Census Tract, City of Philadelphia and Suburbs







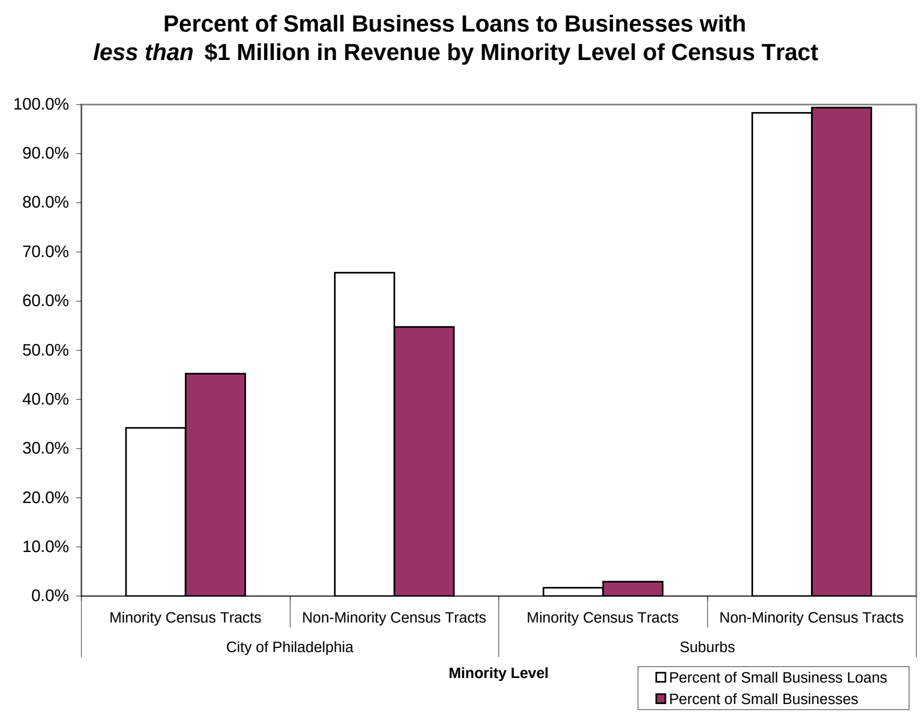


Chart 15: Analysis of Small Business Lending by Size of Small Business

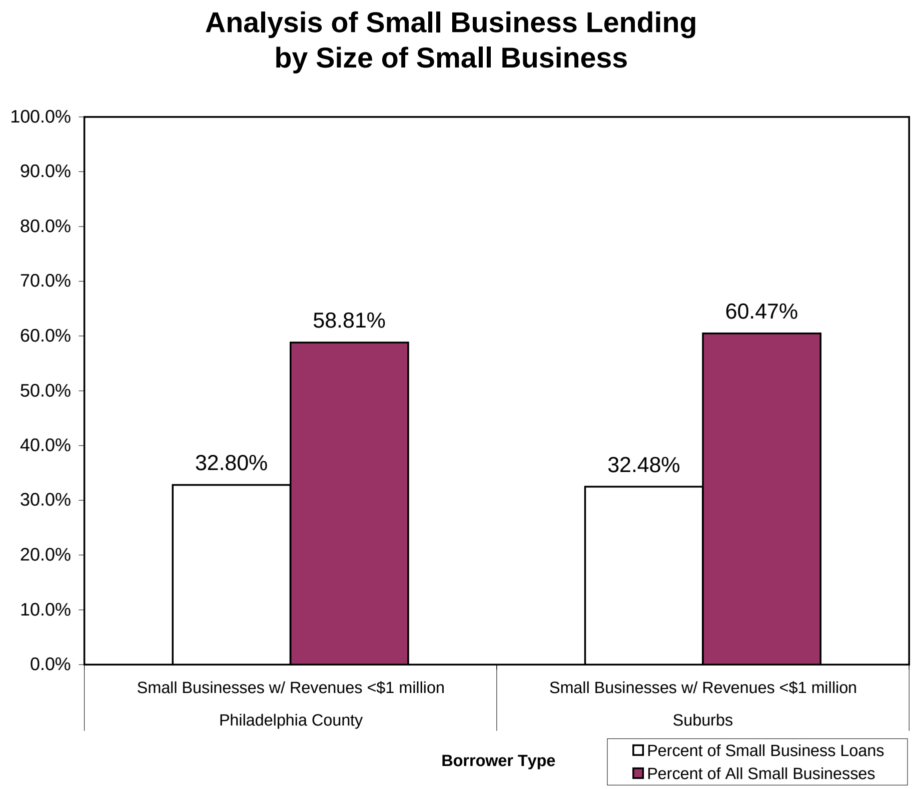
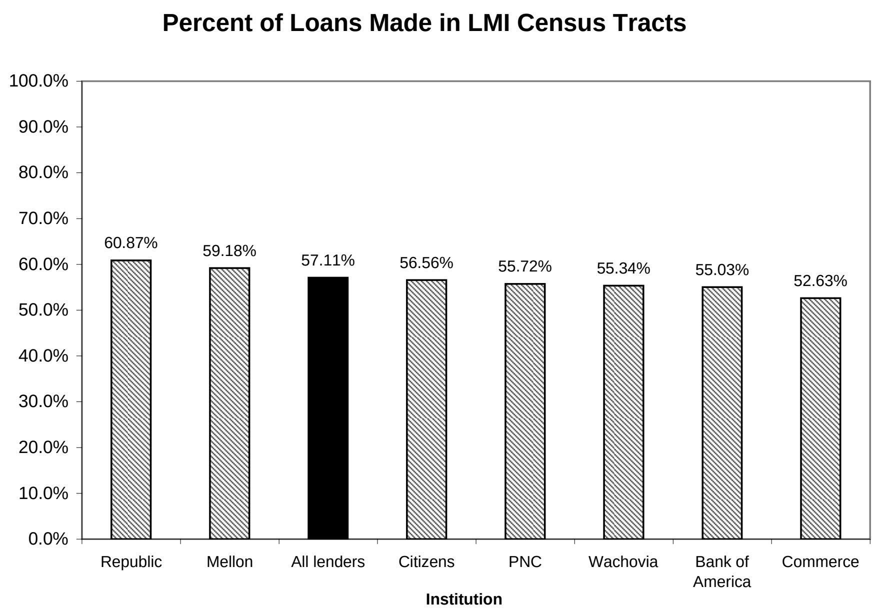
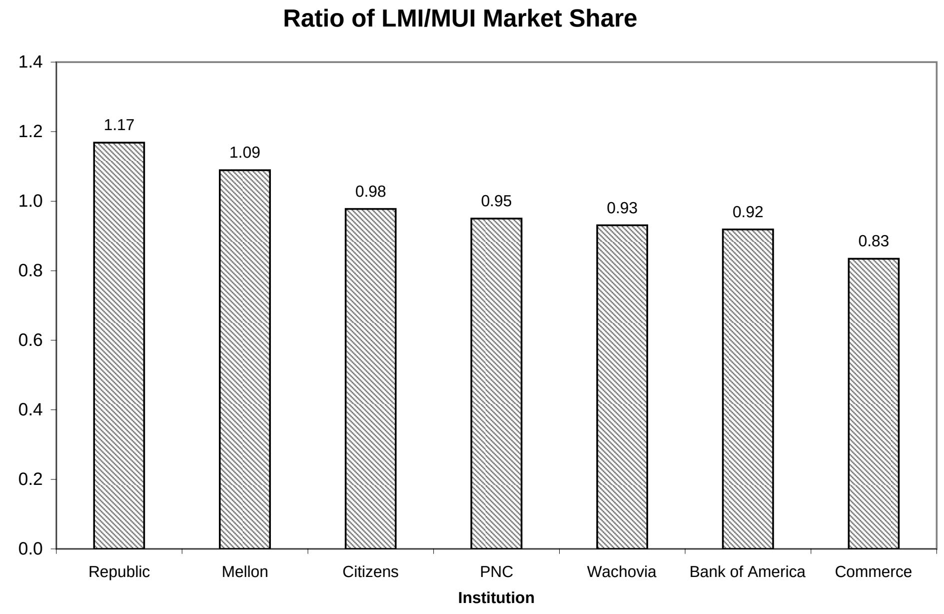


Chart 16: Analysis of Small Business Lending of Banks Receiving City Deposits, City of Philadelphia





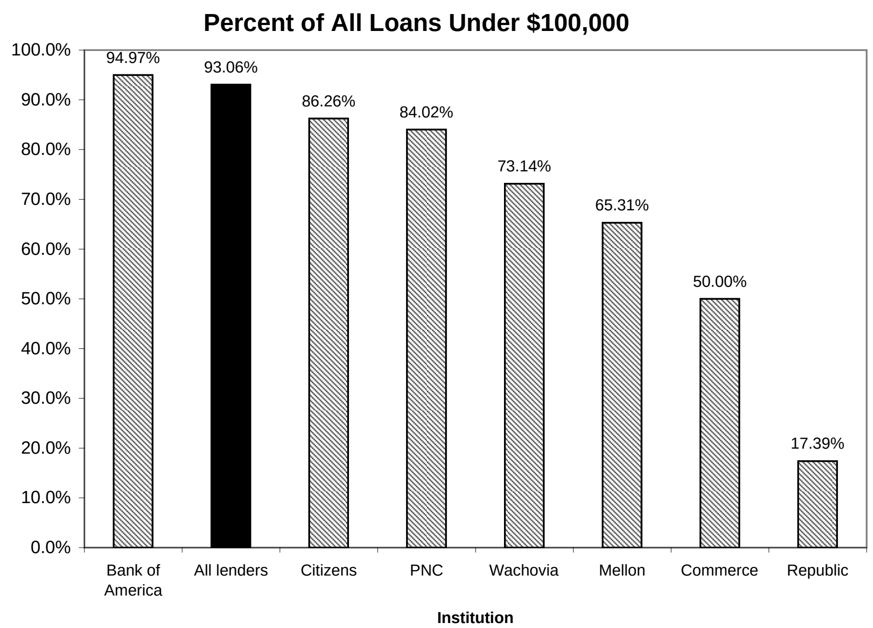
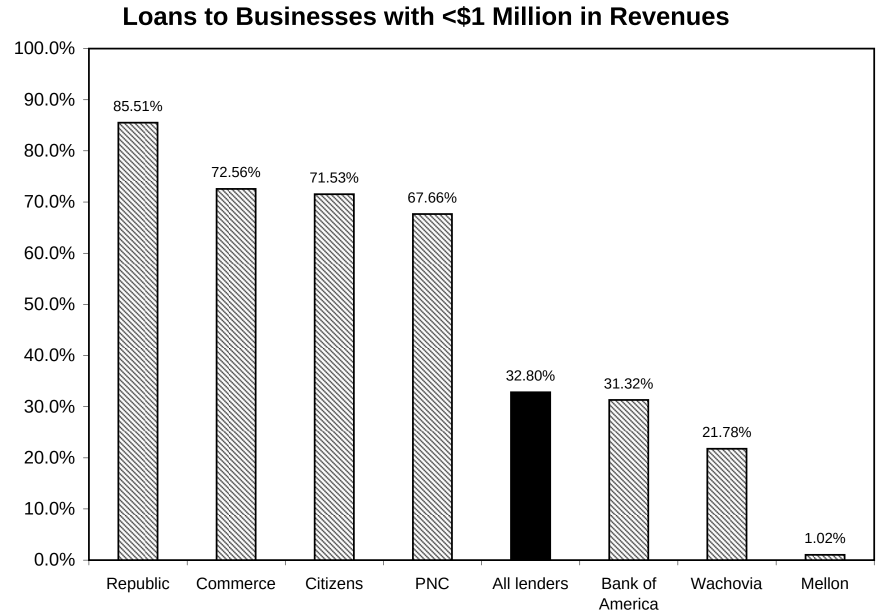


Chart 16: Analysis of Small Business Lending of Banks Receiving City Deposits, City of Philadelphia



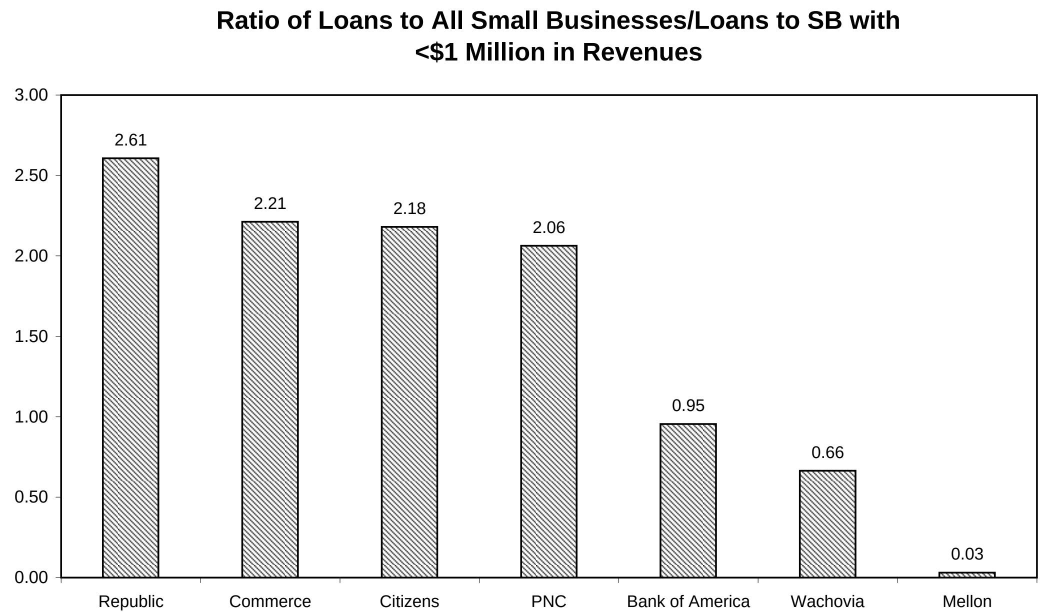
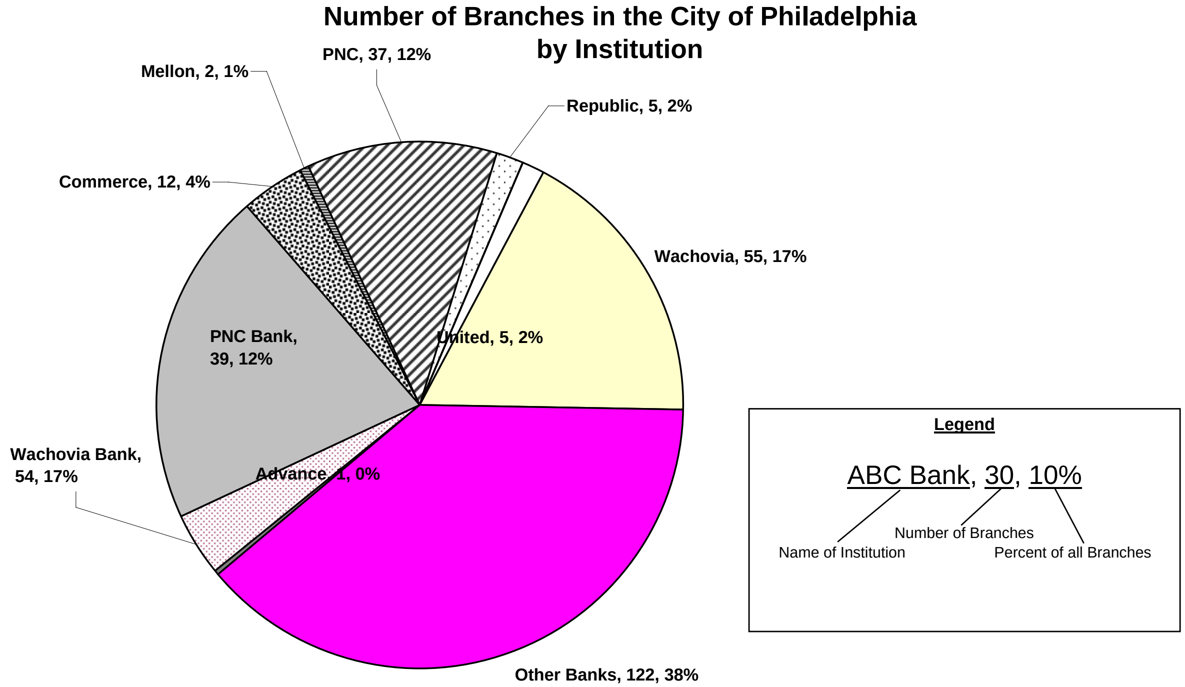
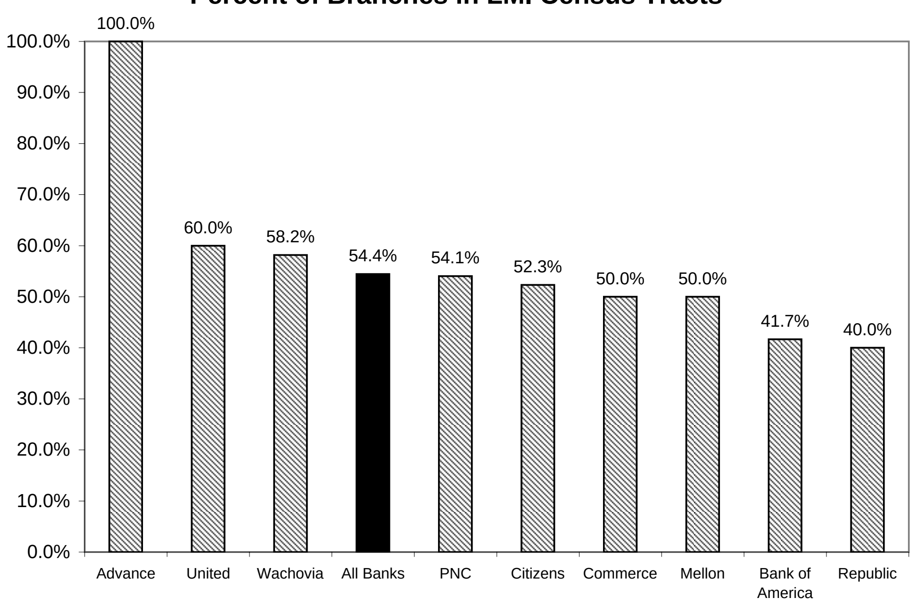


Chart 17. Analysis of Bank Branching by Banks with City Deposits





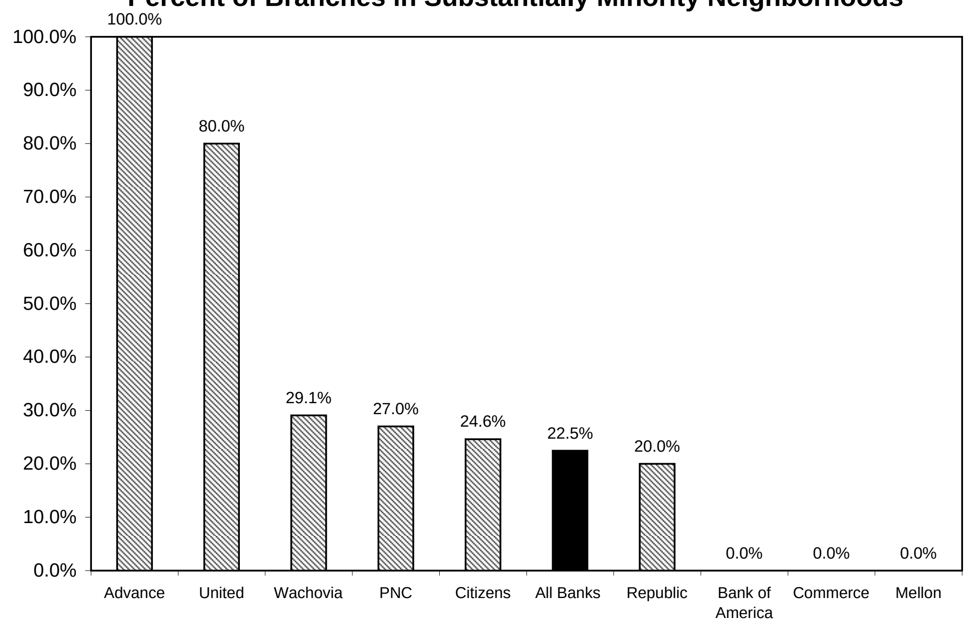
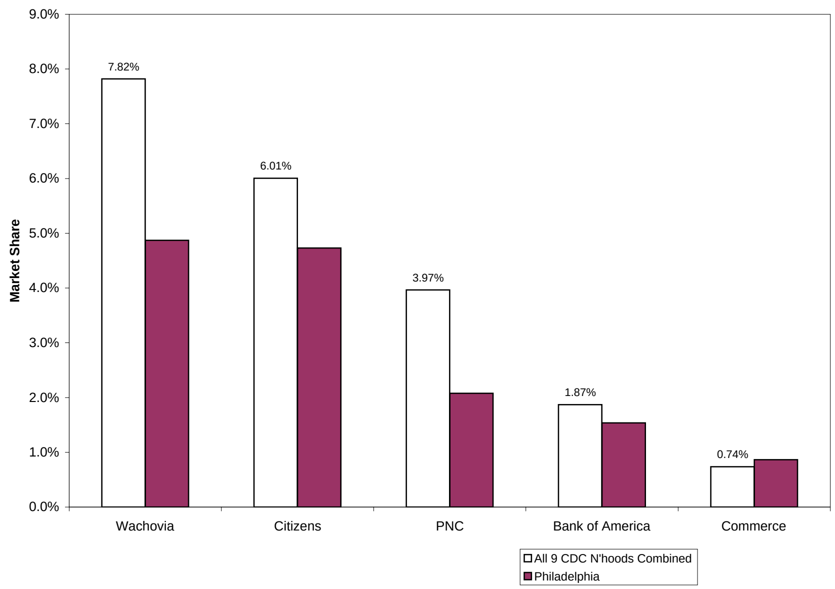
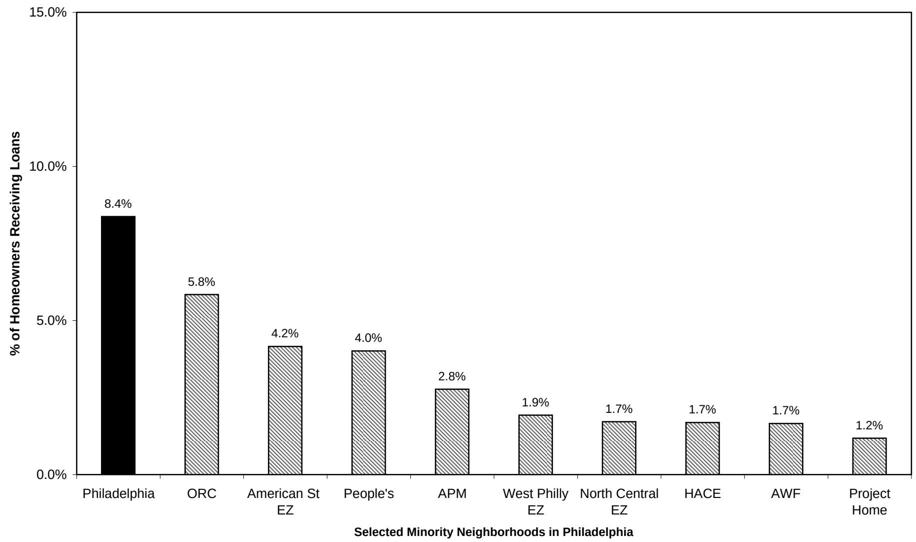


Chart 18: Neighborhood Analysis

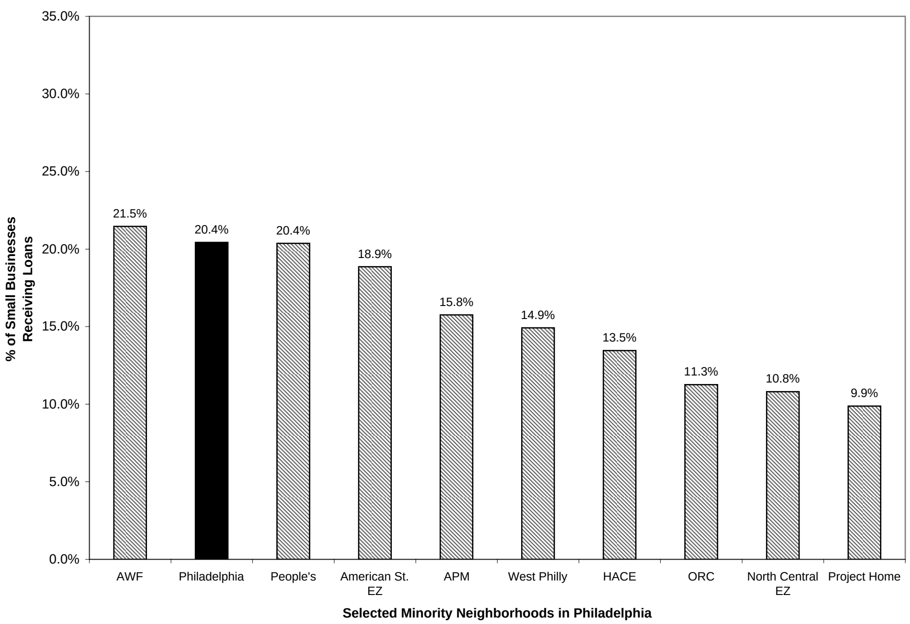
Lender Market Share for All Single-Family Lending in target Neighborhoods vs. City of Philadelphia



Are Loans Reaching Owner-Occupied Housing Units?



Are Loans Reaching Small Businesses in these Neighborhoods?



Are Loans Reaching Small Businesses with < $1 Million in Revenues in these Neighborhoods?