

# 2010 Census Data: What it means for HMDA, CRA, and Fair Lending Compliance?

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**Glenn Canner, Senior Adviser**  
*Board of Governors*

**Rachel Webster, Director of Examinations**  
*Federal Reserve Bank of Atlanta*

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# Central to CRA, HMDA & Fair Lending

- Census data used to evaluate lending, services, and investment activity for regulated institutions, their regulators and the public at large
  - Income data used to categorize census tracts and borrowers by relative median family income (MFI)
    - Regulated entities can qualify lending across income groups and compare to peers or broader market
    - Regulators can evaluate institution performance
    - Public can track performance and respond
  - Race data used in fair lending and redlining analysis
  - Population and housing data provide context

# Key Census Sources

- Census 2010 (decennial census) is complete population count and source for:
  - Race and ethnicity data
- American Community Survey (ACS)
  - Replaces “long form” of decennial census
  - Source of income and population and housing data
  - Conducted **annually**; but relatively small sample size
    - About 2.9 million households nationwide
    - Insufficient size for annual census tract estimates
  - Combined **2006-2010 ACS** provides income estimates for:
    - Census tract income classification
    - Borrower income classification

# Timeline for Key Census & FFIEC Releases

- **Summer 2011:** Census Bureau released 2010 decennial census, uses 2010 tract boundaries
- **December 2011:** Census Bureau released 2006-2010 ACS data
- **January 2012**
  - Reporters started geocoding 2012 CRA and HMDA reportable loans using 2010 census tract identifiers
  - FFIEC updated on-line geocoding system using 2010 street address/census tract correspondence
  - FFIEC released updated MFI estimates for census tracts

# Timeline for Key Census & FFIEC Releases

*(continued)*

- **March 2012:** Reporters submit 2011 HMDA and CRA data using *2000 census tract geographies and income*
- **June 2012:** FFIEC releases updated Census demographic file including population and housing characteristics (e.g., age of housing stock) and list of distressed census tracts

# Changes Affect CRA, Fair Lending & HMDA Data Assessments

- Three key changes affect census tract relative income classifications:
  - Income updates
  - Revised geographic dimensions of census tracts
  - Revisions to MSA designations by Office of Management and Budget (OMB)

# Income Updates from ACS

- Income updates lead to revised classifications of census tracts by relative median family income
  - Revised classifications arise from:
    1. New MFI estimates from each census tract
      - The numerator
      - The FFIEC will use 2006-2010 ACS estimates for 5 years and then update again for 5 years
        - » For 2010, income estimates are not available for about 1,000 census tracts or .72% of total
    2. New MFI estimates for each broader area (MSA or non-MSA portion of state)
      - The denominator
      - The denominator is included in the 2006-2010 ACS Data
  - Comparing **2000 Classifications** with **2006-2010 classifications**:
    - Find increased share of LMI tracts and fewer middle income

# Census Tract Income Comparison

Census tract income profile, 2000 census compared with the 2006-2010 ACS

Census tract income group	MSA		Non-MSA		National	
	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS
Low	7.3%	9.1%	0.8%	1.6%	<b>6.1%</b>	<b>7.8%</b>
Moderate	23.7%	23.5%	13.8%	16.2%	<b>21.9%</b>	<b>22.2%</b>
Middle	43.8%	39.6%	73.2%	65.8%	<b>49.4%</b>	<b>44.3%</b>
Upper	25.1%	27.8%	12.2%	16.5%	22.7%	25.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

# Population Updates from 2010 Census

- Population updates from 2010 Census lead to revised classifications of census tracts by race and ethnicity
  - Revised classifications arise from both changes in the composition of the population but also revised geographic boundaries of census tracts
  - Most notable change is the smaller share of predominately non-Hispanic White census tracts

# Population Comparison

Census tract racial profile, 2000 census compared with the 2006-2010 ACS

Census tract race composition	MSA		Non-MSA		National	
	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS	2000 census	2006-2010 ACS
Less than 10%	28.3%	19.9%	57.9%	50.9%	<b>33.8%</b>	<b>25.5%</b>
10%-49%	43.0%	47.7%	32.1%	37.9%	40.9%	46.0%
50%-79%	12.9%	16.4%	6.8%	8.1%	11.8%	14.9%
80% or greater	15.8%	16.0%	3.3%	3.1%	13.4%	13.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

# Revised Census Tract Boundaries

Reflecting population changes due to births, deaths and in- or out-migration and changing infrastructure (for example, new highways) the 2000 census tract boundaries have been revised

- These changes alter the count and composition of the population and housing in an area and lead to changes in area characteristics (income, population and housing)
- These physical boundary changes can lead to changes in census tract income classifications

# Revised Census Tract Boundaries *(continued)*

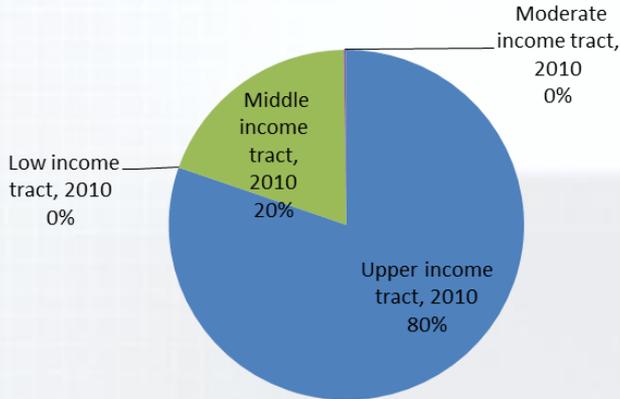
- In 2000, there were 66,309 census tracts
- In 2010, there are 74,002 census tracts
  - 46.5% of 2010 tracts have the **same** land area as in 2000
  - 72.1% of 2010 tracts were 95% or more similar based on land area in 2000
  - Remaining tracts were either split, merged, or some other combination that was substantially different from 2000

# Measuring Possible Effects of Revised Income Estimates

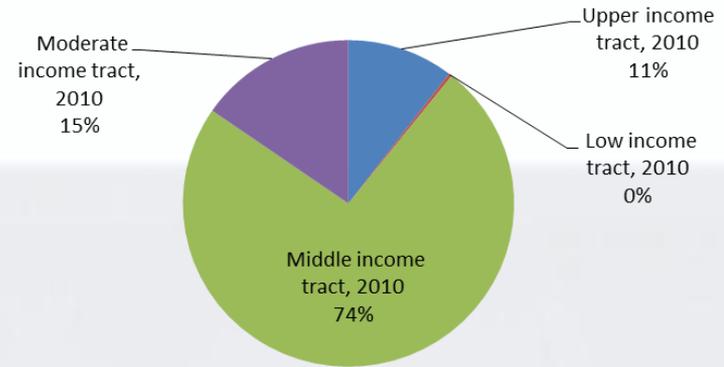
- To measure effects of revised census tract income classifications took the 2006-2010 MFI estimates for each tract and its broader area (MSA or non-MSA) and compared to income classification based on 2000 census
  - Tracts first sorted based on 2000 MFI grouping (low, moderate, middle or upper) and then revised 2006-2010 income classification
    - **ONLY used tracts with little or no boundary change**
      - Excludes about 30% of tracts
  - Transition matrix is the resulting outcome
    - Use three measures:
      - Number of census tracts
      - Number of loans (used 2010 lending)
      - Number of branch offices

# Transition Effects of the Revised 2010 Census Data on Census Tracts

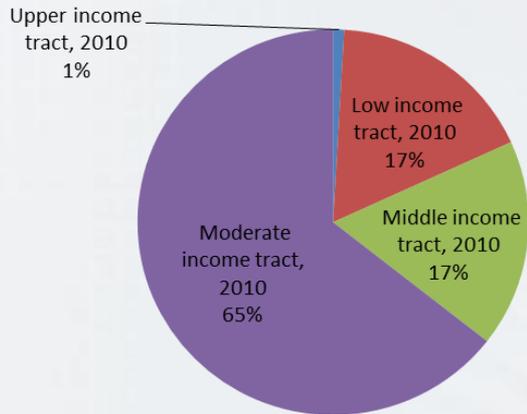
**Upper-income tracts, 2000**



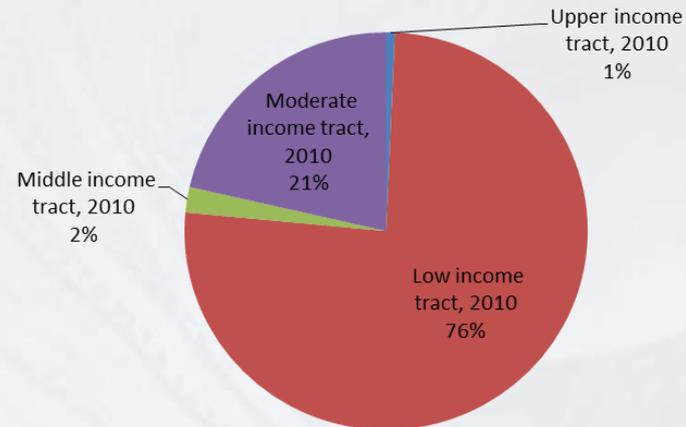
**Middle-income tracts, 2000**



**Moderate-income tracts, 2000**

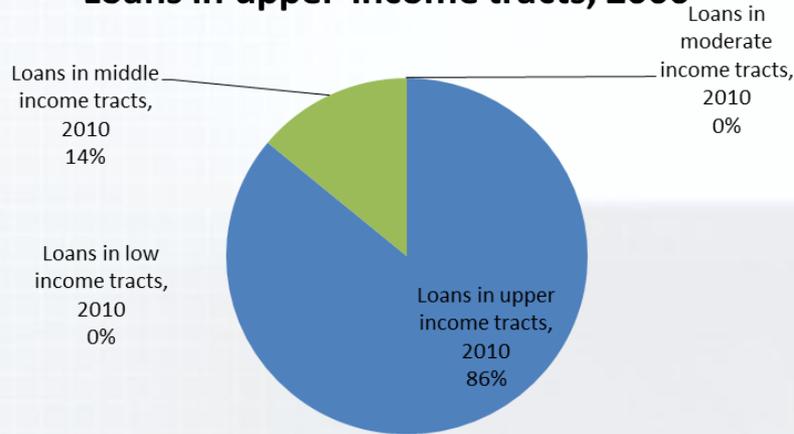


**Low-income tracts, 2000**

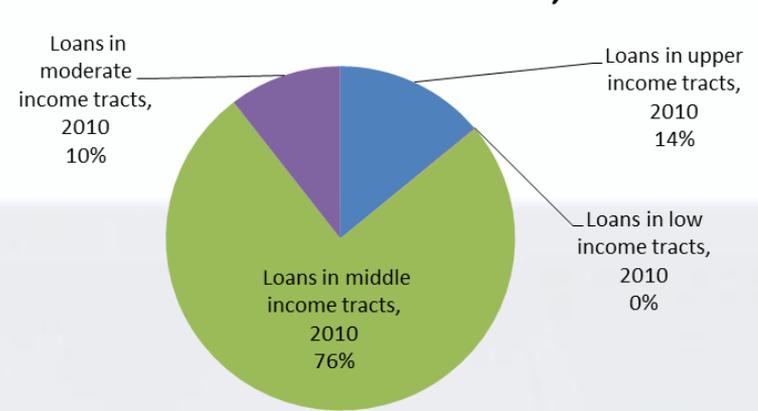


# Transition Effects of the Revised 2010 Census Data on Lending

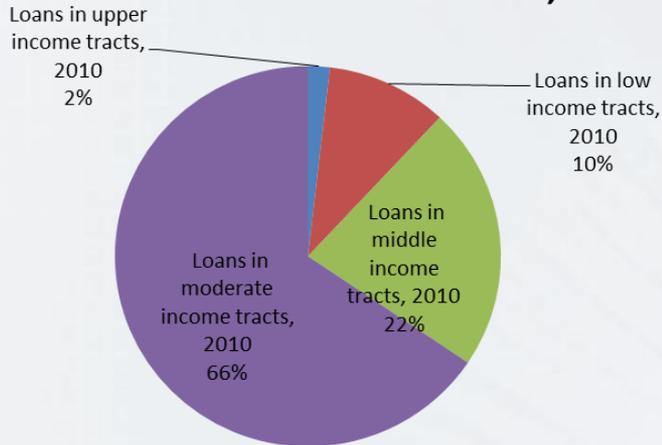
## Loans in upper-income tracts, 2000



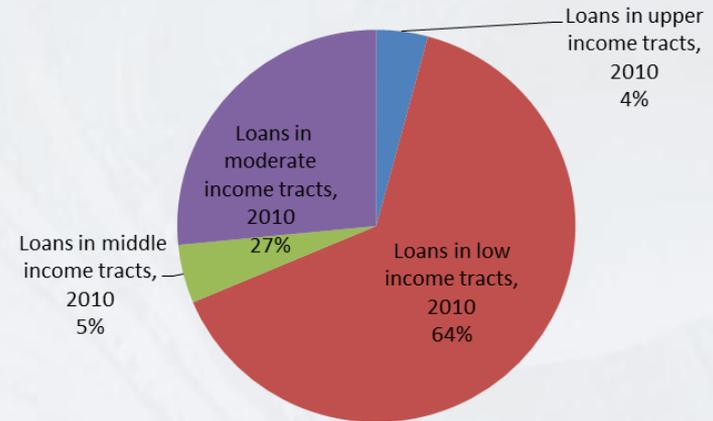
## Loans in middle-income tracts, 2000



## Loans in moderate-income tracts, 2000

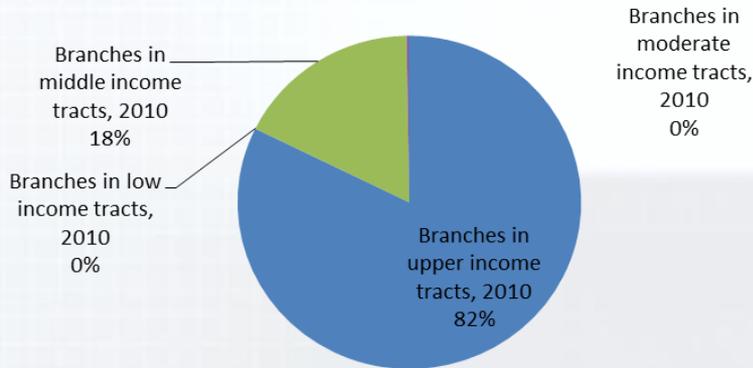


## Loans in low-income tracts, 2000

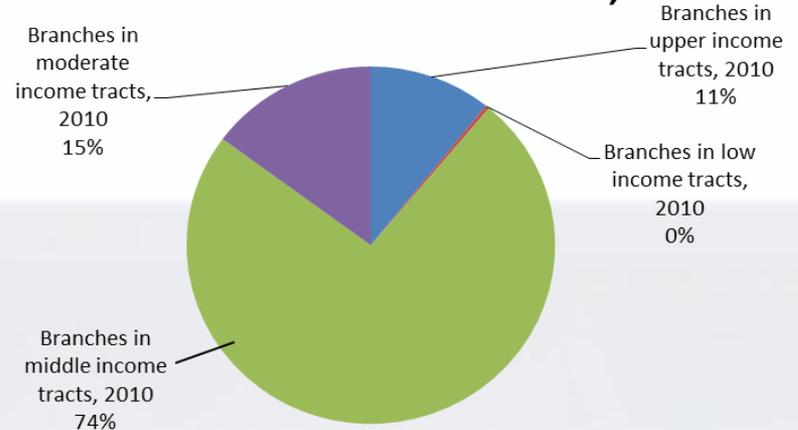


# Transition Effects of the Revised 2010 Census Data on Branches

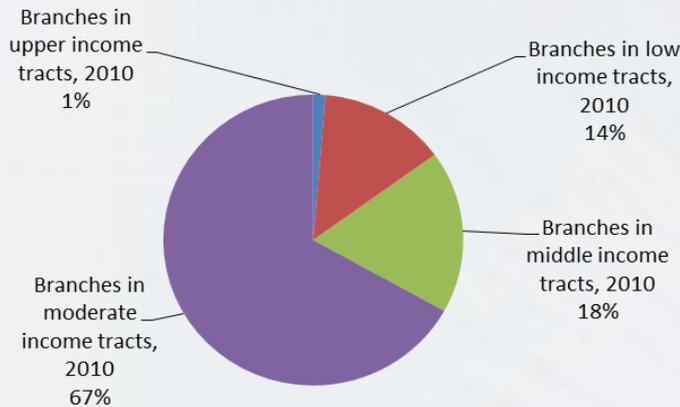
## Branches in upper-income tracts, 2000



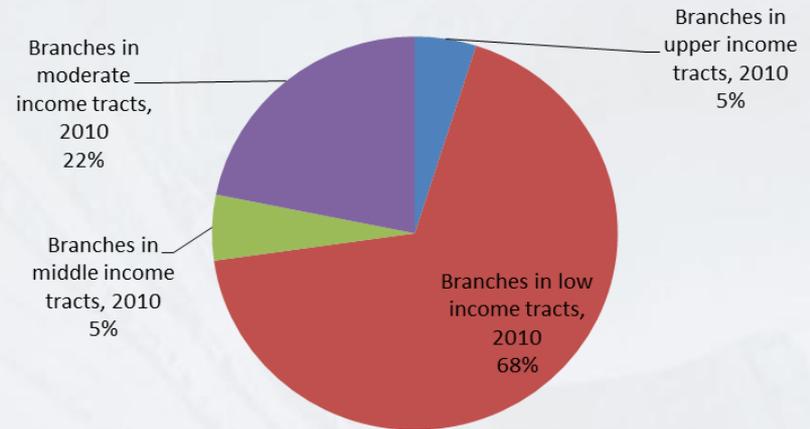
## Branches in middle-income tracts, 2000



## Branches in moderate-income tracts, 2000



## Branches in low-income tracts, 2000

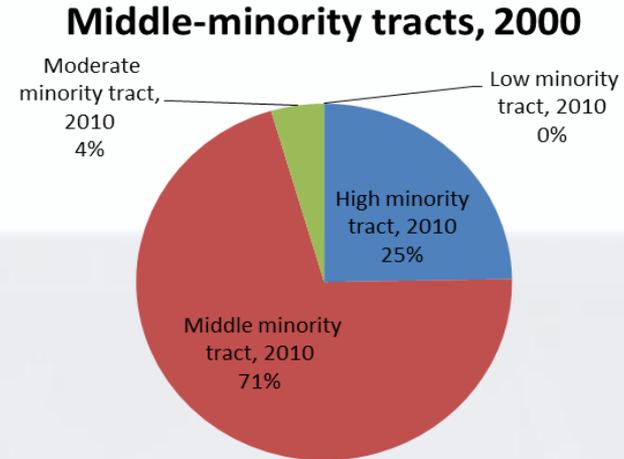
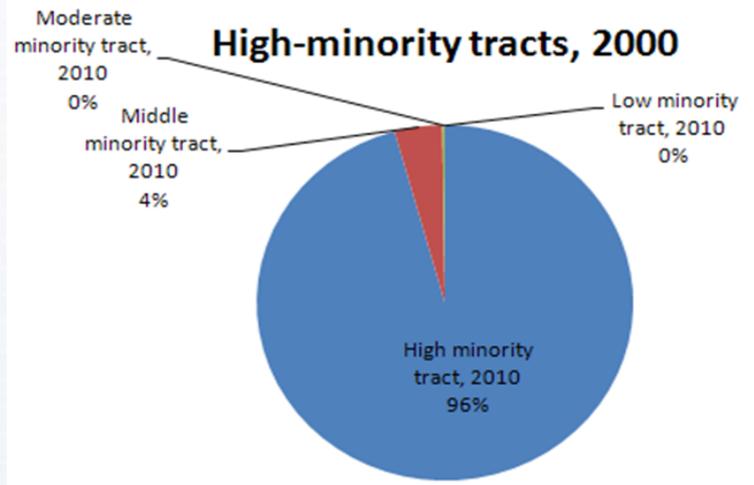


# Measuring Possible Effects of Revised Racial & Ethnic Population Counts

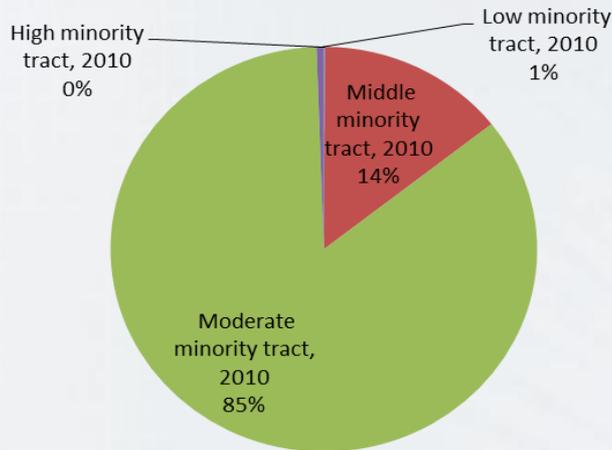
- The 2010 Census updates race and ethnicity population counts for each census tract using the 2010 census tract boundaries
- To estimate the potential effects, we again use the 72% of tracts that had little or no change in boundaries
- Created four minority population share groups:
  - Low minority – Less than 10%
  - Moderate minority– 10% - 49%
  - Middle minority – 50% - 79%
  - High (or predominately) minority – 80% or more

Transition analysis is based on **count of census tracts**

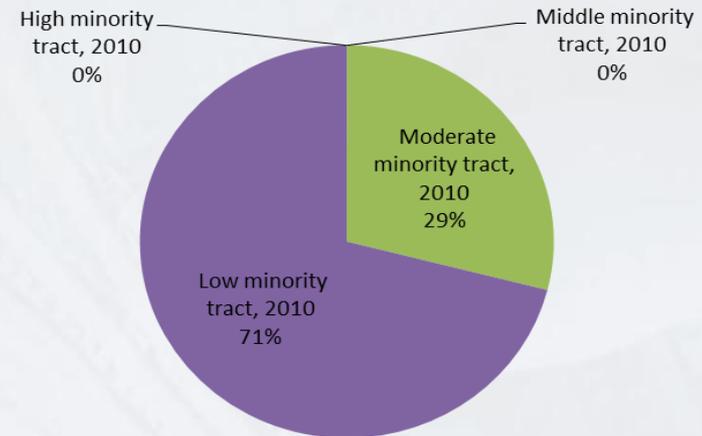
# Transition Effects of the Revised Data on Census Tracts



### Moderate-minority tracts, 2000



### Low-minority tracts, 2000



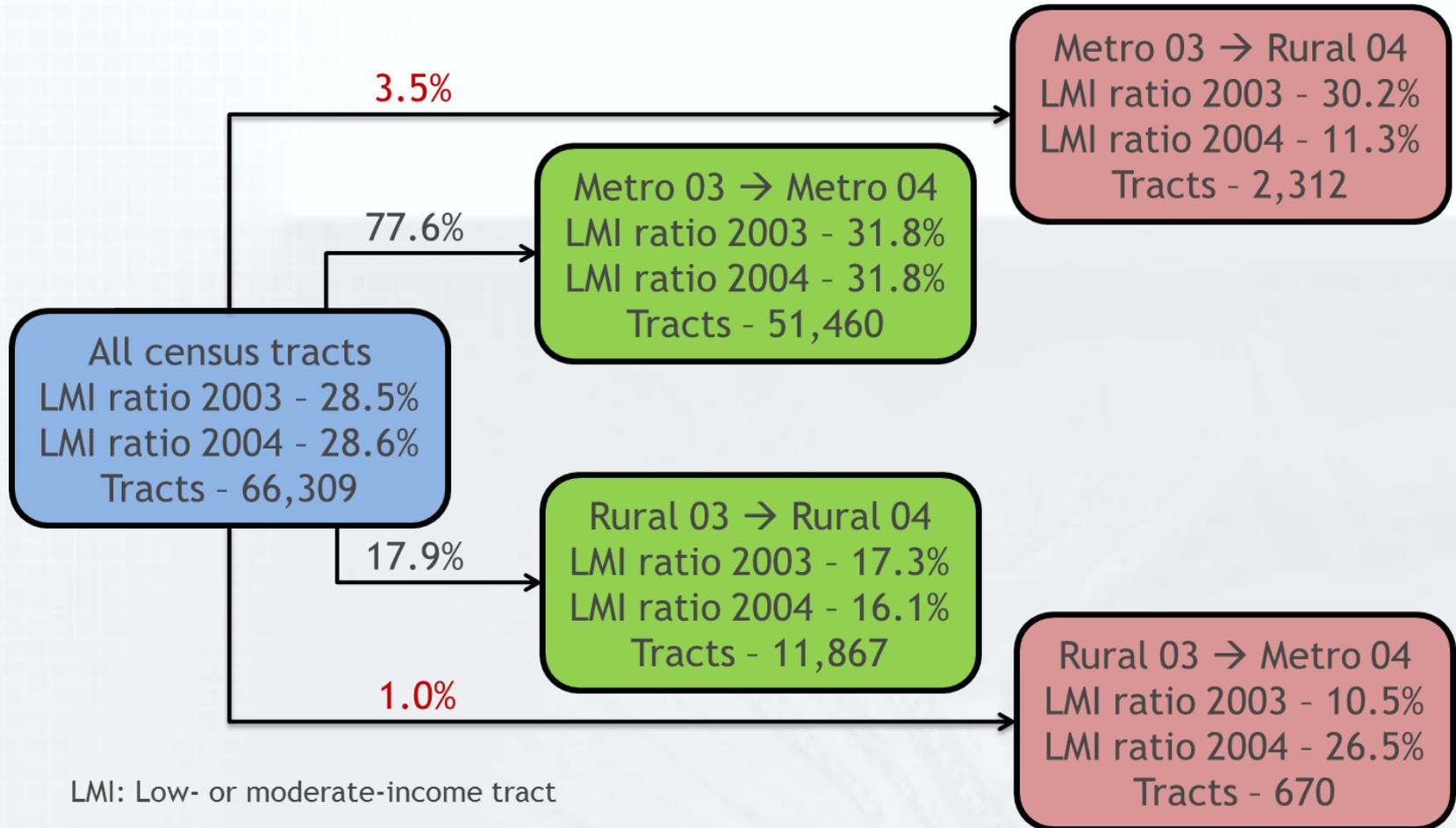
# OMB MSA Designations

- Revised MFI classifications will occur when OMB designates a revised list of MSAs
  - OMB plans to announce delineations of areas based on the 2010 census in 2013
  - New MSA designations will alter the geographic boundaries of the “broader” areas used in the denominator of MFI relative income classifications
    - These changes can lead to significant changes in classifications, particular in census tracts that were
      - Rural and become MSA
      - MSA and become rural

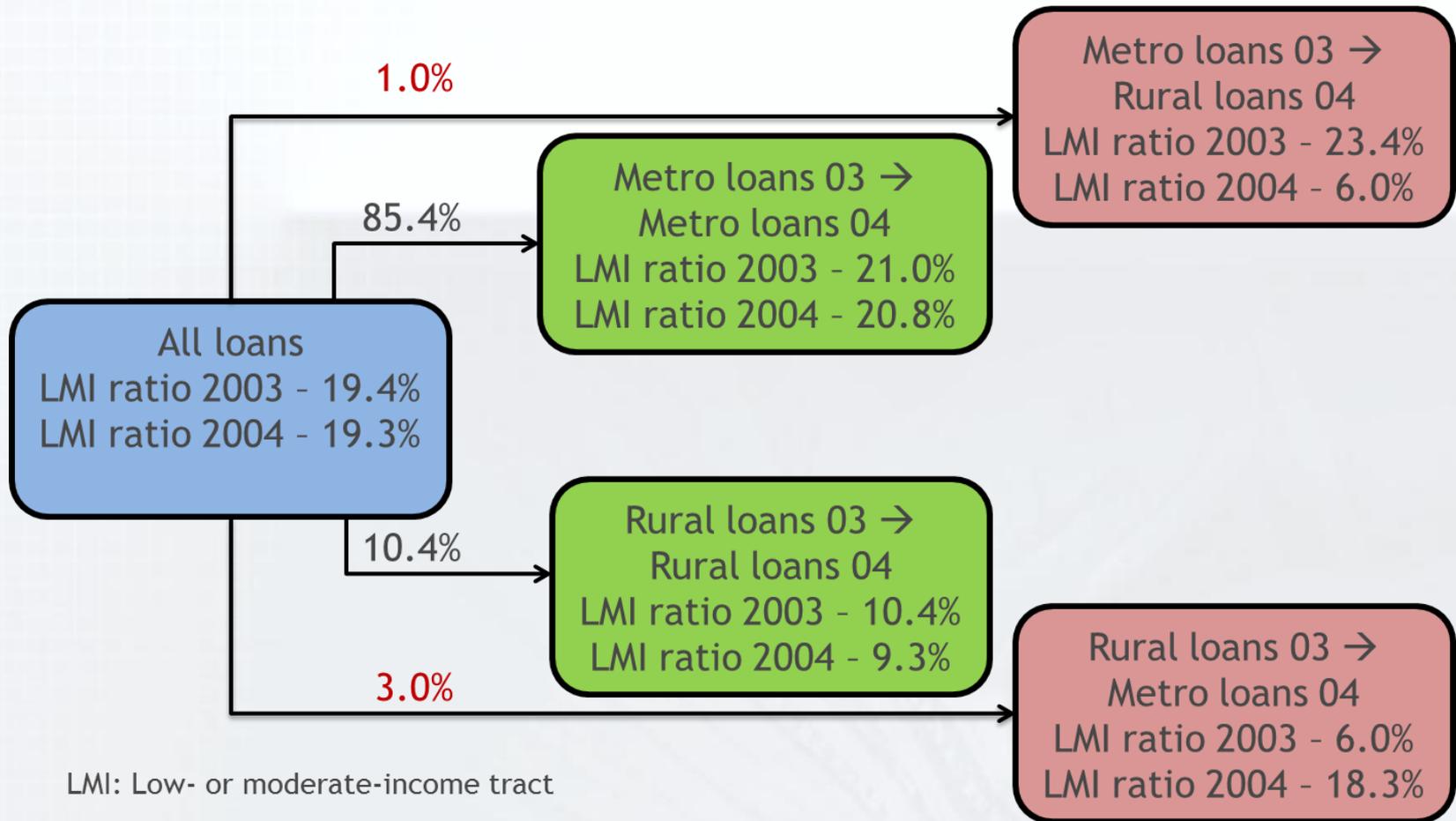
# Effects of MSA Redesignation in 2003

- 49 entirely new MSAs were added in 2003
- Large number of old MSAs were modified
  - Counties added to or dropped from old boundaries
- 98% of all census tracts were affected in some fashion
  - Most effects slight
  - Vast majority had no change in MFI CRA classification
    - About 6% of tracts experienced a shift in relative tract income
      - Most shifts were to or from middle-income category
        - » About 1.2% lost CRA eligibility
        - » About 1.4% gained CRA eligibility

# MSA Redesignation on Census Tract Income Classification, by 2004 Census Tracts

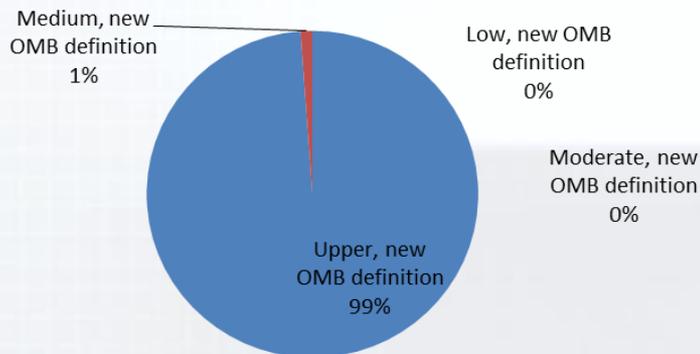


# MSA Redesignation on Census Tract Income Classification, by 2004 Loans

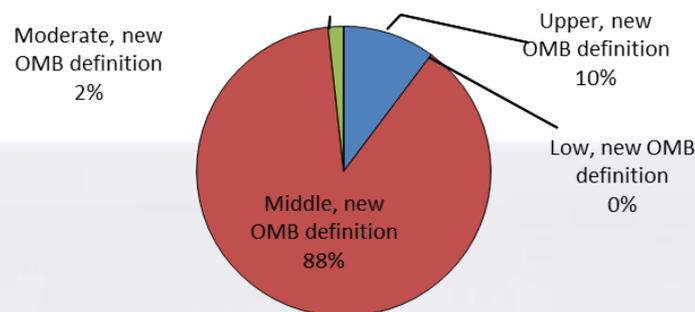


# Effects of MSA Redesignation on Borrower Income Classification, by 2004 Loans

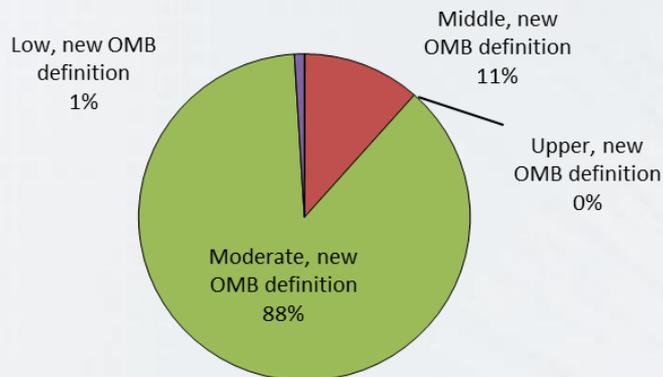
## Upper, Old OMB Definition



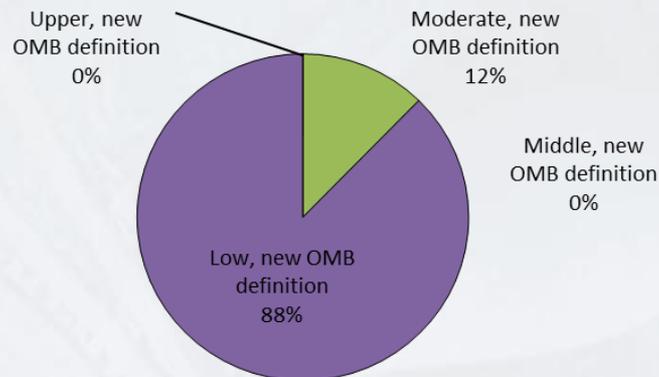
## Middle, Old OMB Definition



## Moderate, Old OMB Definition



## Low, Old OMB Definition



# Data and Timeline Recap

- June 2012 – FFIEC scheduled to release 2010 census tract demographic information (including population and housing characteristics)
- Third Quarter 2012 – Federal Reserve System to begin using updated 2010 census information for supervisory activities
- January 2013 – OMB to release new 2010 MSA delineation standards

# Data and Timeline Recap *(continued)*

- FFIEC will use the 2010 ACS five year data to recreate a new base file
  - Tract Income data
  - Race and Ethnicity data
- HUD Estimated Metropolitan Family Income (MFI) will be replaced by the ACS Estimated Metropolitan Median Family Income Listing (ACS MFI)

# ACS Data Review

- ACS Data is updated annually
  - Population, housing and income
    - Race and Hispanic origin
    - Age, sex, disability
    - Housing characteristics
    - Other data
  - Provides performance context to help evaluate CRA performance
- Different data sets available
  - 1-year, 3-year, and 5-year estimates
  - May select a longer or shorter time period of data depending on need
    - Time period under review
    - Need for more or less “precision”
  - Helpful for establishing performance context for a CRA evaluation
  - Can provide more current demographic information for a fair lending review

# CRA Examinations

- Which census data should I use for my CRA assessment?
  - CRA performance assessment using HMDA and small business loan data from 2011 or earlier should be analyzed using 2000 Census data
  - CRA performance using HMDA and small business loan data from 2012 (going forward) should be analyzed using 2010 Census data
    - Remember – the next demographic data update will occur in 2015
  - If an assessment or examination include HMDA and small business loan data from both 2011 and 2012
    - Analyze 2011 loan data using 2000 Census data
    - Analyze 2012 loan data using 2010 Census data

# Community Development Activities

- The eligibility of a loan, investment, or service as a community development activity is based on the demographic information available at the time the activity is undertaken
  - Loans, investments, or services performed before or during 2011 are assessed using 2000 Census data
  - Loans, Investments, or services performed during 2012 (or beyond) are assessed using 2010 Census data

# Assessment Area Review

- Review your designated assessment areas to determine if changes to the designation are warranted
- Did Geographic changes affect your assessment area?
  - Some MSA changes
  - Tract boundaries have changed
    - Increase in low-, mod, and upper-income tracts nationally
    - About 28% of census tracts are substantially different in 2010 than they were in 2000

# Assessment Area Review *(continued)*

- Did Geographic changes affect your assessment area? *(continued)*
  - Reevaluate your bank's lending distribution using updated census data
    - Loans that qualified as LMI previously may not qualify with new tract income categories
  - Branch distribution considerations
    - Will changes affect where certain activities take place?
  - Additional LMI tracts may open more opportunities for community development activities

# Fair Lending Examination Considerations

- Changes to demographic make-up of the bank's market
- Revised classifications of census tracts by race and ethnicity based on 2010 Census data
  - Changes in the population composition
  - Revised geographic boundaries
- Notable decline in non-Hispanic White census tracts

# Fair Lending Examination Considerations

*(continued)*

- Changes to population by race
  - Large percentage increase in minority populations
  - Relatively small percentage increase in white population overall
- Changes to population by ethnicity
  - Large increase in Hispanic or Latino Ethnicities

# Fair Lending Self Assessments

- Review lending in your market in light of new census data (including demographic data available through ACS)
  - How have the demographics changed in the bank's lending territory (assessment area)?
    - Percentage of minority loan applications comparable to the demographic make-up of the lending territory (assessment area)?
    - Percentage of lending to minority borrowers comparable to the demographic make-up of the lending territory (assessment area)?
  - How does the bank's lending compare to the new demographic make-up?
    - Should marketing strategies be reassessed?
  - Are minority tracts being penetrated?
  - Considering new demographic data, do lending patterns create any redlining concerns?

# Summary

- Census changes and forthcoming OMB MSA designations will affect CRA and fair lending evaluations and enforcement
- Regulated entities need to prepare for CRA reviews
  - Review 2010 and 2011 lending in light of new census changes to CRA to see if CRA eligible shares change
  - Review initial 2012 lending in the context of the new MFI census tract income changes and boundary changes
  - Review branch distributions in light of new census changes
- Regulated entities need to prepare for fair lending reviews
  - Review lending in light of new census racial and ethnic composition
  - Review lending in light of new housing stock characteristics

# Useful Links and Resources

- American Community Survey (ACS)
  - <http://www.census.gov/acs/www/>
- Census 2010 for race and ethnicity data
  - <http://2010.census.gov/2010census/>
- FFIEC release of MFI estimates
  - <http://www.ffiec.gov/hmda/default.htm>
- FFIEC publications, including:
  - A Guide to CRA Data Collection and Reporting
  - A Guide to HMDA Reporting (Getting it Right!)
  - CRA/HMDA Reporter Newsletter
  - Distressed and Underserved Tract List
  - <http://www.ffiec.gov>

# Useful Links and Resources *(Continued)*

- CA 12-4 – Guidance on Usage of 2010 Data in Community Reinvestment Act Examinations
  - <http://www.federalreserve.gov/bankinforeg/caletters/caltr1204.htm>
- A Banker's Quick Reference Guide to CRA
  - Federal Reserve Bank of Dallas (as amended effective Sept. 1, 2005)
  - <http://www.dallasfed.org/assets/documents/cd/pubs/quickref.pdf>
- CRA Loan Data Collection Grid
  - Federal Reserve Bank of Dallas (revised September 2006)
  - <http://www.dallasfed.org/assets/documents/cd/pubs/craloan.pdf>