James L. Lynch: Fleet Seeks Partnership with Nonprofits And Commits $2 Million to Venture Capital Fund

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Fleet Pennsylvania, created through the merger of FleetBoston Financial Corporation and Summit Bancorp, will be an active participant with nonprofit organizations in community economic development projects in the Third Federal Reserve District, explained James J. Lynch, Fleet Pennsylvania’s president and CEO.

Fleet plans to develop a closer relationship with individual community development corporations in the Philadelphia area, he said. The bank is also open to collaborating with other banks so they can share the risk, cost, and responsibility of joint efforts, such as lending pools, he added. In addition, Lynch said that he expected that the bank would become more active in home-mortgage lending and in neighborhood revitalization.

Fleet will tap the CRA lending expertise and experience of FleetBoston Financial Corporation, he said. “Fleet is the leader in New England and already knows that community development is good business.”

Lynch said that Fleet Pennsylvania would sometimes take a leadership role beyond its size as the fifth largest bank in the metropolitan Philadelphia market. The bank recently committed $2 million to TRF Urban Growth General Partners, L.P., a venture-capital subsidiary of The Reinvestment Fund (TRF). Martha C. Van Cleve, senior credit officer at Fleet Pennsylvania, serves as vice chairperson of TRF’s board of directors.

Stephen D. Steinour: Citizens Bank Seeks Multi-Year Community Partnerships, Adds Sabbatical Program

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Citizens Bank of Pennsylvania and Citizens Bank of Delaware plan to increase their home-mortgage and Small Business Administration (SBA) lending and have begun to provide paid leave to enable employees to serve with community-based nonprofits, Stephen D. Steinour, chairman and CEO of the two banks, said in an interview.

Steinour, vice chairman of Citizens Financial Group, Inc., said that Citizens “aims to be a very large mortgage originator in the Third District.” He added that Citizens Bank of Pennsylvania has significantly increased its SBA lending in the Philadelphia area in recent months.

Steinour, a native of Gettysburg and a graduate of Gettysburg College, said that Citizens has added more than 500 employees in Pennsylvania since the acquisition and...
Message from the Community Affairs Officer

Last year two new financial institutions, FleetBoston and Citizens Financial, entered the Third District when they acquired Summit and Mellon, respectively. I am pleased to note that both institutions have strong CRA reputations and that I expect they will bring new ideas, resources, and products to low- and moderate-income communities and borrowers. Keith Rolland’s interviews with Jim Lynch and Steve Steinour highlight each bank’s plans.

Late last year and early this year, the Federal Reserve Board of Governors approved the long-awaited changes to the Home Ownership Equity Protection Act (HOEPA) and reporting requirements for the Home Mortgage Disclosure Act (HMDA) statements. None of the changes are expected to eliminate the problem entirely, but the regulatory changes are intended to reduce some lending practices identified as predatory and to provide better information to understand subprime markets and lenders. Additional changes are proposed and detailed in Don James’s article.

With predatory lending still a topic of concern throughout this Federal Reserve District, we looked for other alternatives to the home-renovation needs that many community advocates consider an entry point for predatory lenders. Our results are mixed. Some organizations, such as Allentown Neighborhood Housing Services and Saint Joseph’s Carpenter Society, have respected track records meeting the financing needs of their communities. By designing programs that respond to the need but are carefully underwritten, they have attracted the support of the public and private sectors, both of which are critical to achieving long-term success. In another instance, a financial institution, Waypoint Bank, designed loan products to respond to credit needs when it felt a similar government-insured product involved too much paperwork. Waypoint is happy it made the change.

What we did not find, to my surprise, is any one entity that had designed a program for all types of borrowers and loans, i.e., a range of products from market rate to partially subsidized to a full grant, from prospective home owners to existing home owners. If we missed you, we’d certainly like to know. Finding a way to reach all borrowers is important if subprime borrowers are to have choices other than high-cost loans.

Fleet Strengthens Small-Business Products and Provides $750,000 Grant to Camden, NJ, Project


Cascade asked Fleet the following questions about the bank’s CRA-related activities in the Third Federal Reserve District. Keith Rolland of the Community and Consumer Affairs Department gathered responses from several individuals at the bank; he summarizes them here.

Q: What are Fleet’s CRA-related strengths?

A: Fleet’s primary presence in the Third District is in Philadelphia and southern New Jersey and in Allentown-Bethlehem-Easton and Scranton-Hazleton-Wilkes-Barre in Pennsylvania.

Fleet excels in small-business lending. Nationally, Fleet has $13 billion in small-business deposits and about $6.6 billion in total small-business commitments. Fleet was the leading Small Business Administration (SBA) lender in the country for the past two years (1999-00 and 2000-01). Approximately 80 percent of the SBA loans made by Fleet during the 2000-01 period were for less than $50,000.

Fleet has more than 60 relationship managers in New Jersey and Pennsylvania who focus on small businesses with annual revenues of $2 million to $10 million. In those two states, Fleet also has more than 500 full-service branches and 146 small-business centers that focus on the needs of small businesses with annual revenues of less than $2 million.
Fleet Strengthens Small-Business Products and Provides $750,000 Grant to Camden, NJ, Project ...continued from page 2

Fleet Pennsylvania is the limited-partner equity investor in this $1.5 million development that contains 15 rental-housing units in Bethlehem, PA, for residents with severe physical disabilities. Fleet continues a Summit Bank commitment that includes provision of construction financing converted into a permanent loan and sponsorship of an Affordable Housing Program application to the Federal Home Loan Bank of Pittsburgh. The impetus for the development comes from a woman with disabilities who has worked to create the project for more than 10 years and has formed a nonprofit that will provide advisory services to the project. The development — which has wide hallways and doorways, kitchens designed with input from tenants, and a computer alcove in each unit — will be ready for occupancy this April. Valley Housing Development Corporation, a nonprofit in Emmaus, PA, is the general partner, manager, and developer of the project.

Fleet has developed checking, savings, insurance, investment, credit card, credit card processing, loan, employee-benefit, cash-management, payroll, and insurance products specifically for small-business owners.

Fleet recently launched a Small Business Value Package that includes different financial services needed by small-business owners, such as a checking and money market account, overdraft protection, online banking with free bill-payment service, payroll services, and credit-card processing benefits. It also offers a variety of small-business cash-management services, as well as Small Business Credit ExpressSM, which allows owners to complete a one-page application for credit lines of $10,000 to $100,000.

Fleet also has a program that provides women-owned businesses with information on financing and other resources and networking opportunities. This program, called the Women Entrepreneurs’ Connection, provides financing for debt and equity, as well as advocacy.

Another strength is that Fleet’s staff in Pennsylvania and New Jersey can draw on FleetBoston Financial Corporation’s extensive experience in CRA lending and community development and its large lending and investment capacity. In New England, the corporation has developed First Community Bank (FCB), a “bank within a bank.” FCB offers personal banking services and has a specialized group of lenders that work with minority- and women-owned businesses in low- and moderate-income urban communities.

**Q:** How is Fleet structured for CRA purposes?

**A:** Fleet’s five community development officers (CDOs) based in the Third Federal Reserve District serve as the bank’s eyes and ears in local communities. As appropriate, they work with managers of branch, retail, small-business, middle-market commercial-lending, and commercial real estate lines of business.

Fleet officers’ and other employees’ involvement in nonprofit organizations supports the CDOs’ outreach. Fleet encourages employees to take two paid days off from work annually to undertake volunteer initiatives in their community.

Fleet’s Emerging Markets Group provides Affordable Advantage, an affordable-housing product, as well as home-ownership and budgeting seminars for low- and moderate-income families. Fleet’s Real Estate Community Finance Teams provide financing to nonprofit and for-profit developers for affordable-housing and community- and economic-development projects.

Fleet Development Ventures (FDV) invests equity capital in businesses and real-estate projects benefiting low- and moderate-income communities and residents. FDV invests in projects using low-income housing and historic-preservation tax credits and in commercial-rehabilitation projects.

Fleet’s Community Development Unit monitors the bank’s CRA performance and works with nonprofit organizations and developers and public funding sources to finance affordable-housing, small-business, and economic-development projects.

Fleet’s Technical Assistance Program (TAP) is a five-year $17.5 million research and development ...continued on page 4
Fleet Strengthens Small-Business Products and Provides $750,000 Grant to Camden, NJ, Project ...continued from page 3

effort to identify profitable CRA-related long-term business opportunities in the bank’s mainstream real estate, mortgage, and small-business lending, and other business lines. It provides grants to non-profit and for-profit organizations to create new approaches for low- and moderate-income business development, explore product development for underserved borrowers, and support financial-education initiatives. TAP’s areas of special interest are community development financial institutions; emerging markets, such as those involving ethnic minorities and women-owned businesses; financial literacy; pre-development grants that lead to community-development loans; rural areas; and small-business development.

FleetBoston Financial Foundation started a Community Renaissance Initiative, a three-year $4.5 million program that is funding public-private partnerships in seven northeastern cities. Other foundation priorities are grants that help create jobs, support small businesses, and provide technical assistance.

Q: Which key issues affect Fleet’s CRA program?

A: Fleet needs more name recognition in Pennsylvania so that nonprofits and government agencies will know about its products when they have financing needs.

The state of the national and regional economy is an overriding factor in Fleet’s CRA work.

Q: What are some highlights of Fleet’s CRA-related activity since its merger with Summit Bancorp?

A: Fleet has:

- Approved grants of $250,000 a year for three years through FleetBoston Financial Foundation’s Community Renaissance Initiative for the revitalization of a commercial district in the Cramer Hill neighborhood of Camden, NJ. The funds, which will also be used to clean up environmentally contaminated and other sites along Camden’s waterfront, are being provided to the Cramer Hill Neighborhood Advisory Council and Cooper’s Ferry Development Association.

- Joined with the SBA and National Community Reinvestment Council (NCRC) in a pilot program to provide SBA-guaranteed loans to early-stage businesses that would normally not qualify for such financing. NCRC and affiliated nonprofit organizations will identify the businesses and provide them with pre- and post-purchase technical assistance, while Fleet will underwrite the loans. The Trenton (NJ) Business Assistance Corporation is participating in this program.

- Begun an innovative affordable-mortgage effort with Rural Opportunities, Inc. (ROI) in which ROI will be the originator of loans and Fleet will provide technical assistance and loan packaging. At present, this program is available in the Rochester, NY, area.

- Launched a financial-literacy pilot program through which Fleet is providing computers and Internet access for one year, along with materials in English and Portuguese, in the Ironbound section of Newark, NJ.

- Worked with other banks in loan pools for the Bethlehem Economic Development Corporation, New Jersey Community Loan Fund, and The Reinvestment Fund. It is also one of four banks that support the North Camden Compact, which provides grants and loans to area nonprofits.

- Provided start-up funds to nonprofits implementing individual development account programs in New Jersey and Pennsylvania.

- Continued to be active in the Philadelphia Home-Improvement Loan program.

- Made a $250,000 grant to support a new technical-assistance center of the Housing and Community Development Network of New Jersey.

Q: In which CRA-related areas is Fleet looking to increase activity?

A: Fleet wants to provide nonprofits with loans for acquisition, construction, and rehabilitation of affordable and special-needs housing for rent or purchase. It is also looking for opportunities to make working-capital loans to nonprofits engaged in community-based child care, health care, or job training, or that manage neighborhood retail centers. It also wants to work with nonprofits to provide financial education on entrepreneurship, home ownership, and basic banking.

In addition, it is looking for opportunities to provide pre-development grants to nonprofits and government agencies.
# FLEETBOSTON FINANCIAL CORPORATION — THIRD DISTRICT CONTACTS

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Information can also be found on the following web site: www.fleet.com/about_inthecommunity_foundationguidelines.asp.
James L. Lynch: Fleet Seeks Partnership with Nonprofits and Commits $2 Million to Venture Capital Fund

Lynch noted that the $2 million commitment is an example of the greater capacity of the resulting bank to make CRA investments and loans. Other examples are access to Fleet’s Community Renaissance Initiative, which provides major multi-year funding for public-private partnerships, and Fleet’s Technical Assistance Program. The foundation has approved $750,000 for the revitalization of a commercial district in Camden, NJ.

Lynch is a member of the board of directors of TRF, chairs the board of trustees of La Salle University, and is immediate past chairman of the board of the Central Philadelphia Development Corporation. He is a member of the executive committee of Holy Redeemer Health System, the Greater Philadelphia Chamber of Commerce, and the Lehigh Valley Partnership.

Lynch was chairman and CEO of Summit Bank - Pennsylvania from 1999 to 2001 and in previous positions served as chairman, president, and CEO of Prime Bancorp and Prime Bank and as president of Continental Bank.

Stephen D. Steinour: Citizens Bank Seeks Multi-Year Community Partnerships, Adds Sabbatical Program

is centralizing back-office operations at 801 Market Street in Philadelphia. Steinour, who has overseen Citizens’ operations in Pennsylvania, New Jersey, and Delaware since mid-2001, said that Citizens Bank of Pennsylvania has dual headquarters in Philadelphia and Pittsburgh.

Citizens — which has core business in retail banking and small-business and middle-market lending — uses local credit decision-making and has a culture that emphasizes community support, leadership, and volunteerism, Steinour said. In its new sabbatical program, Citizens is providing paid leave each quarter for one employee to serve with a community-based nonprofit.

On a personal level, Steinour was corporate chair of a benefit luncheon of the Philadelphia Martin Luther King, Jr. Association for Nonviolence, Inc. and was the first bank CEO to address the African-American Chamber of Commerce of Philadelphia. He said that community-organization leaders have given him “a warm reception.”

Steinour serves on the executive committee of the Greater Philadelphia Chamber of Commerce and has joined the boards of the Greater Philadelphia Urban Affairs Coalition and Greater Philadelphia First. He also chairs the Specialized Lending Council of the national board of RMA, The Risk Management Association.

In addition to his responsibilities as chairman and CEO of Citizens’ Pennsylvania and Delaware banks, Steinour oversees cash management and international banking on a corporate-wide level and is one of the Citizens’ executives responsible for bank acquisitions and integrations.

Steinour said that the net result of Citizens Bank’s acquisition of Mellon’s retail, small business, and other operations is that Citizens “is doing much more” in CRA-related activities. He meets weekly with the bank’s community investment officers.

He said that Citizens’ banks in Pennsylvania and Delaware will engage in multi-year partnerships to bring “sustained change” in low- and moderate-income communities and added: “We’re going to be a leader in this District.”
Citizens Financial Group, Inc. received approval in November 2001 to acquire the retail, small-business, and some middle-market operations of Mellon Financial Corporation. The acquisition included 345 retail branches in Pennsylvania, New Jersey, and Delaware. Citizens Financial Group, Inc. — a $53 billion financial-services holding company with headquarters in Providence, Rhode Island — also operates in Rhode Island, Massachusetts, New Hampshire, and Connecticut. Citizens Financial Group, Inc. is a wholly owned subsidiary of The Royal Bank of Scotland Group. The acquisition resulted in the formation of Citizens Bank of Pennsylvania, which has assets of about $16 billion, and Citizens Bank of Delaware, which has assets of nearly $1 billion.

Cascade asked Citizens Bank of Pennsylvania the following questions about the bank’s CRA-related activities in the Third Federal Reserve District. Keith Rolland of the Community and Consumer Affairs Department gathered responses from several individuals at the bank; he summarizes them here.

Q: What are Citizens Bank’s CRA-related strengths?

A: Citizens Bank has been a leader in branch banking and small-business lending in New England — with an emphasis on low-, moderate-, and middle-income neighborhoods — and expects to be a leader in those areas of banking in comparable communities in the Third District.

Citizens’ main presence in the District is in Philadelphia and southern New Jersey; Harrisburg, State College, York, Lancaster, and Wilkes-Barre, PA; and Delaware.

Home-mortgage lending historically has been an area of particular strength at Citizens Bank, and Citizens has taken steps to increase its mortgage lending in Pennsylvania and Delaware. The bank is adding about 100 employees to enhance its mortgage-banking activities throughout the region. Products offered through Citizens Mortgage Company include Citizens Neighborhood Plus, which provides up to 100 percent home-purchase financing at reduced interest rates and fees with flexible underwriting.

In recent years, Citizens Bank has been the largest Small Business Administration (SBA) lender in New England and second largest SBA lender nationally. As a preferred SBA lender, Citizens Bank can offer its business customers expedited processing and approval.

Each of the member banks of Citizens Financial Group, Inc. received an outstanding rating in the banks’ latest CRA exams.

Q: How is Citizens Bank structured for CRA purposes?

A: Community investment officers (CIOs) located in Philadelphia, ...continued on page 8
Citizens Bank Increases Home-Mortgage and SBA Lending In Third District ...continued from page 7

Harrisburg, and Wilmington manage Citizens’ CRA responsibilities. The CIOs report to Pamela Browner-Crawley, senior vice president and director of public affairs. (Note: A Citizens Bank CIO in Pittsburgh covers western Pennsylvania.)

The CIOs work with five lending groups and the bank’s branch network, which are all responsible for generating CRA loans. The groups are —

- Citizens Mortgage Company, which makes residential-mortgage loans;
- Citizens Bank Commercial Real Estate Finance Group, which works with developers of affordable-housing and neighborhood retail projects, as well as nonprofit community facilities;
- Citizens Business Banking Group, which works with small businesses;
- Citizens Commercial Banking Group, which focuses on companies with sales of more than $10 million; and
- Citizens’ Bank Retail Lending Services Group, which makes consumer and home-equity loans. Each Citizens’ group has a manager who is located in Pennsylvania and who has responsibility for originating CRA-eligible loans.

Q: Which key issues affect the CRA program of Citizens Bank?

A: Citizens is undergoing considerable internal change as it adds staff and adjusts home-mortgage and home-improvement underwriting guidelines in response to area needs.

A smooth conversion of customer accounts from Mellon Bank to Citizens Bank, scheduled for completion this summer, is critically important to the success of the acquisition and to future expansion.

Q: What are some of the highlights of the CRA-related activity of Citizens Bank since its acquisition of certain operations of Mellon Financial Corporation?

A: Citizens Bank has:

- Created a new Citizens Bank of Pennsylvania Foundation with $35 million in assets to provide grants in affordable housing, community development, and other fields (Mellon Financial Corporation continues to operate the Mellon Financial Corporation Foundation).
- Provided a loan to The Enterprise Center in West Philadelphia.
- Sponsored six holiday events to enable the Whittaker Center in Harrisburg to provide its performing arts and science programs without charge to young people and their families.
- Aggressively sought out faith-based organizations for lending purposes.
- Sponsored the major fund-raising event of Philadelphia’s Chinatown Development Corporation.
- Joined and supported the African-American chambers of commerce in Philadelphia and Pittsburgh.
- Instituted a community-service sabbatical, in which Citizens Bank provides paid leave each quarter to enable employees to serve with a community-based nonprofit.
- Embarked on pilot programs with Fannie Mae in New England to provide financing for mixed-use retail-commercial properties and home-mortgage financing for immigrant groups. Within the next 120 days, Citizens Bank plans to build on the success of the pilot programs and develop creative, innovative programs in conjunction with its partners in the Third District.

Q: In which CRA-related areas is Citizens Bank looking to increase activity?

A: Citizens Bank plans to increase its retail-distribution network of branches and automated teller machines in the Third District. It also plans to increase its marketing in low- and moderate-income neighborhoods through advertising in mainstream and neighborhood media and sponsorships of major cultural and ethnic events.

Citizens Bank plans to significantly increase the level of its home-mortgage lending in the Third Dis-
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Note: Information on the bank’s CRA program can also be found on the following web site: www.citizensbank.com. ...continued on page 10
Citizens Bank Increases Home-Mortgage and SBA Lending In Third District ...continued from page 8

...continued from page 8

Pennsylvania Self-Determination Project Broadens Housing Options for People with Disabilities

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Individuals with developmental, physical, or sensory disabilities or mental illnesses normally have only a few housing options — group homes, supervised apartments, or living with their families. However, such individuals in Pennsylvania are increasingly able to pursue their own housing choices as a result of the work of the Self-Determination Housing Project of Pennsylvania (SDHP), which recently developed a homeownership training program for people with disabilities.

Diana T. Myers, executive director of SDHP and president of Diana T. Myers and Associates, Inc., said that SDHP has brought together participants from the housing, human-services, and disability sectors. “They understand the issues from the other’s perspective and work together at the local level,” she said.

A 501(c)(3) organization founded in 1994, SDHP has enabled about 400 individuals with disabilities to obtain their own housing, including more than 100 who have become home owners. “Disabled individuals want to choose the type of housing in which they live, where they live, with whom they live, the kinds of services they receive, and who provides those services,” Myers said. SDHP has conducted 11 demonstrations showing that individuals with disabilities can live independently by combining existing programs that provide housing counseling, down-payment assistance, home modifications, and attendant care, as well as assistance from family members and friends.

SDHP’s goal is the creation of housing for people with disabilities that is affordable, accessible, and integrated into the community. It now serves individuals with any
kind of permanent disability who need assistance in obtaining housing of their choice. SDHP works with a network of 19 local nonprofit affiliates, including several centers for independent living.

SDHP has started instructing trainers in nonprofit organizations who will present SDHP’s first-time homeownership training program for people with disabilities. The six-part curriculum, which may be incorporated into existing programs or presented on its own, will be used in Dauphin and Berks counties this summer.

Banks’ CRA homeownership products, in combination with government-funded down-payment and closing-cost assistance programs, have worked well for people with disabilities in the SDHP network, Myers said. Virtually all are low-income, primarily dependent on supplemental security income (SSI). Comprehensive homeownership counseling is an important prerequisite for prospective homeowners with disabilities, Myers noted.

SDHP works with banks, Myers explained, by providing loan documents for situations when two unrelated disabled individuals want to buy a house together, providing fair-lending training to avoid discrimination against people with disabilities, helping package loans with financing from different sources, and helping bankers understand the housing needs and issues of people with disabilities.

James A. Gutowski, vice president and CRA officer for National City Bank of Pennsylvania and SDHP board member for the past two years, said that SDHP’s work has been significant in educating people with disabilities about their housing choices and about financial assistance that is available to make needed home modifications. In the process, SDHP “has opened more windows to potential homeowners.”

SDHP is also working on an initiative to set aside funds for homeowners on SSI to use for major home repairs. To be eligible for SSI, an individual can have no more than $2,000 of liquid assets (couples are limited to $3,000). This regulation makes it difficult for homeowners to keep sufficient funds for such repairs in their bank accounts.

SDHP’s activities are focused on outreach and education, technical assistance, program development, and advocacy and policy development. It produces videos and a variety of publications, including a quarterly newsletter; provides speakers; and sponsors an annual conference.

Myers, a member of the Federal Home Loan Bank of Pittsburgh’s Affordable Housing Advisory Council, said that new housing should be accessible or “visitable” — a term that signifies a zero-step entrance, a doorway at least 32 inches wide, and a bathroom on the first floor. Newly constructed housing that is built on one level now sells very quickly because adults want to “age in place,” she observed.

For information, contact Diana T. Myers at (215) 576-7970 or dtmdtma@hotmail.com; www.sdhp.org.
Residential Living Options, Inc. Helps Those with Disabilities Realize Housing Goals

Residential Living Options, Inc. (RLO) — an initiative of the Self-Determination Housing Project of Pennsylvania that became an independent nonprofit agency — has assisted more than 150 people with disabilities in Chester and Delaware counties in finding housing of their choice, including about 25 who have become homeowners.

Based in Downingtown, PA, RLO has a staff of three and a budget of about $220,000.

Susan Crossley, executive director of RLO, said that individuals with disabilities have very limited housing choices. In Chester County, there is a waiting list of about 400 seeking an opening in a group home or institution. About 95 percent of RLO’s clients are low- to moderate-income individuals who typically have no credit history, Crossley said.

Banks can refer customers with disabilities to RLO for assistance, explained Crossley, and RLO can provide training for bank personnel to understand disabilities.

Joseph F. Murphy, vice president and regional CRA officer of M&T Bank in Horsham, PA, and a member of RLO’s board of directors, said that with extra effort by originators and counselors, people with disabilities can become eligible for mortgages and that M&T had used CRA products to make mortgage loans to several individuals with disabilities.

For information, contact Susan Crossley at (610) 518-6242 or scrossleyrloinc@aol.com.

DCED Provides Grants to People with Disabilities for House and Apartment Modifications

A new Pennsylvania Department of Community and Economic Development (DCED) program provides grants to enable income-eligible homeowners and renters with permanent disabilities to modify their residences.

Under the Pennsylvania Access Grant Program, DCED provides funds to government agencies and redevelopment authorities that work with housing and disability organizations to plan and administer local programs. Priority is given to individuals at risk of becoming institutionalized and to families with children. The 2001-02 state budget sets aside $5 million for the program.

For information, contact Aldona Kartorie of DCED at (717) 720-7409 or akartorie@state.pa.us.
The Pennsylvania Housing Finance Agency (PHFA) has programs to help people with disabilities acquire affordable home-mortgage loans and pay for modifications to make houses they are buying more accessible.

Features that make PHFA’s homeownership programs attractive include allowing applications by unrelated adults, especially when the applicants receive most or all their income from such sources as supplemental security income (SSI) or Social Security disability (SSD).

People with disabilities, and those with family members who have disabilities, can use a variety of PHFA special mortgage products to become homeowners. Besides low-interest home-mortgage loans, the products include closing-cost assistance of up to $2,000 and, in certain rural areas of the state, $15,000 of down-payment assistance for people earning no more than 80 percent of county median income.

In addition, the Access Home Modification Program and the PHFA/Fannie Mae Disability Access Modification Program were started, in 1999 and 2000 respectively, to finance accessibility modifications in homes purchased with PHFA loans.

The Access Home Modification Program provides qualifying borrowers with zero-interest, deferred-payment “soft” second-mortgage loans of $1,000 to $10,000 in conjunction with their first-mortgage loan. Repayment isn’t required until the house is sold or refinanced, or the first-mortgage loan is paid in full. To help borrowers meet eligibility standards for first mortgages, the amount of the Access loan is not considered in underwriting or loan-to-value ratio calculations.

The PHFA/Fannie Mae Disability Access Modification Program also offers conventional first-mortgage loans along with second-mortgage loans to retrofit homes. However, participants are not bound by the income and purchase price limits of the Access Home Modification Program, which is funded with mortgage-revenue bonds that restrict eligibility.

As in all PHFA single-family programs, mortgage loans for people with disabilities are originated by local lending institutions. PHFA also works with the Commonwealth’s Centers for Independent Living, which provide technical and promotional assistance.

Thus far, nearly 500 home buyers with disabilities have used PHFA financing options to acquire their own homes. For most, PHFA programs offer the only opportunity they have ever had to acquire wealth by building up equity in real property.

For information, contact Phil Friday at (717) 780-3915 or pfriday@phfa.org. A PHFA brochure, “Homeownership Opportunities for Persons with Disabilities,” is available on request.
Sovereign Bancorp, Inc. Active in Pennsylvania Educational Improvement Tax Credit Program

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Sovereign Bancorp, Inc. is among many corporations that have made grants and obtained Pennsylvania tax credits through the state’s Educational Improvement Tax Credit (EITC) program. Sovereign’s “main motivation for participation was our CRA mission,” explained John V. Killen, senior vice president and corporate CRA officer of Sovereign Bancorp, Inc.

Sovereign provided EITC-related grants totaling $161,000 in 2001 and expects to make grants totaling $110,000 this year.

The program — proposed by former Governor Tom Ridge after he did not obtain legislative approval of a school-voucher plan — provides tax credits for contributions to a nonprofit that is:

• An educational improvement organization (EIO), an organization that uses at least 80 percent of its annual receipts for grants to public schools for “innovative programs”; or

• A scholarship organization, which uses at least 80 percent of its annual receipts for a scholarship program that provides tuition to eligible students in private or public schools.

Both types of organizations must have a 501(c)(3) status and must be approved by the Pennsylvania Department of Community and Economic Development (DCED), which administers the two-year pilot program.

Corporations can obtain EITC tax credits equal to 75 percent of their contributions, up to a maximum of $100,000 per year. This amount increases to 90 percent of contributions if the corporation provides the same amount of contribution for two consecutive tax years. Contributions can be a donation of cash, personal property, or services.

The program authorizes annual tax credits of $10 million for contributions to EIOs and $20 million for contributions to scholarship organizations. Eligible students in the latter category are members of households that have an annual income of up to $50,000, with an additional income allowance of $10,000 for each student in a household, so they may not be low- and moderate-income.

Sovereign made grants to such EIOs as the Children’s Literacy Initiative, a Philadelphia-based nonprofit that provides training for new teachers of children in pre-kindergarten through third grades in urban schools; Community Charter School in Chester, PA, which is establishing a computer-training center; and the Girls’ Club of Allenstown, PA, which is starting an after-school program.

Killen said that the EITC is “a very positive value-added program that attracts business investments into much needed educational-improvement projects and programs in the Commonwealth.”

For information, contact Ted Knorr of DCED at (717) 787-7120 or tknor@state.pa.us; www.inventpa.com; or Jack Killen of Sovereign Bank at (610) 526-6226 or jkillen@sovereignbank.com.

Joseph E. Schupp, community development officer at Sovereign, explained that he reviewed the list of approved EIOs listed on DCED’s website and identified those located in low- and moderate-income geographies within Sovereign’s service area. Through telephone calls to the EIOs, he identified some other EIOs that served low- and moderate-income students.

John V. Killen, Senior Vice President and Corporate CRA Officer of Sovereign Bancorp
National Consumer Credit Counseling Service Agencies Face Growing Competition
By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

As Americans incur debt at a rapid rate — outstanding consumer credit rose from $349 billion in 1980 to $789 billion in 1990 and $1.6 trillion in 2000 — the need for credit counseling has given rise to a fast-growing industry. During the past decade, the number of credit-counseling agencies in the country rose from 200 to 1,000.

Up until about five years ago, credit counseling was provided primarily by nonprofit consumer credit counseling service (CCCS) agencies, which were established about 40 years ago by creditors largely to develop debt-management plans (DMPs). The creditors typically provided some reductions in interest rates and fees and gave “fair share” contributions to the CCCSs based on a percentage of the dollars recovered. The contributions were primarily for DMP work but also supported consumer-education programs. Some of the CCCS agencies were part of family-service associations while others were independent.

From the beginning, CCCS agencies have had a remarkable dual role, serving both consumers and creditors. They teach consumers to budget funds and help them pay their debts and assist creditors to recover money owed to them.

CCCS agencies provide three basic services: budget counseling, consumer education, and DMPs. About two-thirds of the agencies’ time is collectively devoted to the first two areas. In addition, three-fourths of the agencies also provide housing counseling.

The industry is in the "midst of deep changes."

Bill Cullinan, interim president and CEO of the National Foundation for Credit Counseling (NFCC), an educational foundation that has 155 member agencies — most of which include CCCS in their names — noted two critical issues facing the foundation’s members:

• The proliferation of competing credit-counseling agencies, from about 200 ten years ago to an estimated 1,000 today — including many new nonprofit entities;

• A reduction in creditors’ fair-share contributions from 15 percent of dollars recovered in the early 1990s to about 8 percent today.

The NFCC has agreements with major creditors concerning the percentage of fair-share contributions that its members will receive. The percentage in current agreements averages 8 percent.

The two issues are having a great impact on NFCC members, which are merging, cutting staff, reducing educational programs, and increasing fees to consumers. The industry is “in the midst of deep changes,” Cullinan said.

Creditors, for their part, have experienced rising costs for DMPs — in part because of the recent large increase of debt-management organizations that place the majority of their clients on DMPs — and have reduced their fair-share contributions to all types of credit-counseling agencies. Some have also been re-thinking their support of credit counseling agencies because of concerns about unevenness in the quality of counseling provided.

The new entrants in the field focus primarily on DMPs, reaching consumers through extensive advertising, and usually do not conduct educational seminars. The new entities offer the convenience of assisting consumers by telephone and the Internet, rather than emphasizing in-person meetings, as do the CCCS agencies.

Cullinan explained that the CCCS agencies try to get a good grasp of their clients’ finances and provide budget counseling before deciding whether to enroll them in DMPs. Of about 1.5 million households counseled by the agencies in 2000, one-third repaid their debts on their own, one-third began DMPs, and the balance were referred for counseling for underlying problems, such as drug and alcohol addiction, or for legal advice.

NFCC members counseled about 1.5 million households in 2000. The NFCC agencies charge an average of $26 for initial counseling sessions, which include a full budget review, and they charge average monthly DMP maintenance fees of $11, Cullinan said.

NFCC members returned about $2.4 billion to creditors through DMPs in 2000, a 9 percent increase...continued on page 16
National Consumer Credit Counseling Service Agencies Face Growing Competition  
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over 1998. However, the percentage of member agencies’ income from fair-share contributions has fallen steadily in recent years to about 65 percent in 2000, Cullinan said.

In 2000, NFCC members conducted 51,459 community-education presentations on budgeting and credit to 1.3 million adults and young people in elementary and high schools, church and civic groups, and employee-assistance programs. The presentations — which are free or low-cost and are funded primarily through fair-share contributions and government, nonprofit, and private grants — have some revenue-generating potential since some attendees sign up for budget-counseling sessions and become DMP clients.

Cullinan said that banks may work with the 11 NFCC-member agencies in the Third Federal Reserve District by referring their customers to the local member agency if they are experiencing financial difficulties. He added: “The goal for the agencies is financial literacy for all consumers. It would be more cost-effective for banks to fund NFCC agencies with Community Reinvestment Act-related grants to provide financial literacy to consumers, than to suffer losses from consumers who lack the education to make wise financial decisions.

“A goal for the agencies is financial literacy for all consumers.”

“Nonprofits can work with NFCC-member agencies by working hand-in-hand through partnerships to provide comprehensive services to the individuals they serve. Government agencies can work with NFCC members by consulting with them to develop industry legislation and regulations that require quality credit-counseling standards and practices that are in the best interests of all consumers.”

A study of counseling provided by NFCC-member agencies has been conducted by Georgetown University’s Credit Research Center; its findings were published recently. Little research has been conducted to date on the effectiveness of credit counseling.

For further information on NFCC, which is located in Silver Spring, MD, contact Lydia Sermons-Ward at (301) 589-5600, ext. 37 or nfcc@nfcc.org. NFCC members in different geographic areas can be identified by calling 800-388-2227 or visiting www.nfcc.org.

Delaware Valley Credit-Counseling Service Launches Financial-Literacy Initiatives

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

One of the oldest credit-counseling agencies in the Third Federal Reserve District, Consumer Credit Counseling Service of Delaware Valley, Inc. (CCCSDV), is launching four financial-literacy initiatives this year.

What Is CCCSDV?

CCCSDV, which has eight offices in the Philadelphia metropolitan area, has four core services: budget and credit counseling; debt-management plans (DMPs) for unsecured debt; credit education; and home-owner delinquency counseling. Founded in 1966, the nonprofit agency has a staff of 32 full-time employees and a budget of about $2 million.

CCCSDV provides budget and credit counseling in-person, by telephone, and online. The agency, a member of the National Foundation for Credit Counseling, also gives credit and money-management presentations at workplaces and educates laid-off workers on money management and credit repair.

CCCSDV’s 12 counselors had in-person or telephone sessions with about 12,000 individuals last year, and its educators gave present-...continued on page 18
Fed Takes Aim at Predatory Lending
By Don James, Manager, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

In December 2001 and January 2002, the Federal Reserve Board approved final rules on subprime lending and on data collection on home-purchase mortgages. This article will highlight the changes, explain, in some cases, the Board’s rationale, reveal what proposals were omitted from the final rules, and discuss reactions to the rules.

Regulation Z – HOEPA
On December 12, 2001, the Board approved a final rule that amends the Home Ownership and Equity Protection Act (HOEPA). In response to anecdotal evidence about abusive lending practices, Congress enacted HOEPA in 1994 as an amendment to the Truth in Lending Act (TILA). HOEPA applies to closed-end home-equity loans, excluding home-purchase loans, that bear rates or fees above a specific percentage or amount. Both the rate and fee “triggers” have been adjusted in the final rule to expand the universe of loans subject to HOEPA’s restrictions, and the final rule imposes additional restrictions on such loans as well.

Amendments
Extended Protection. The Board adjusted the “rate” trigger from 10 percentage points to 8 percentage points above the rate for comparable-term Treasury securities. With this change, based on recent rates for Treasury securities, home-equity loans with a term of 10 years would be subject to HOEPA if they had an annual percentage rate (APR) of approximately 13 percent or higher. The trigger for subordinate-lien loans remains at 10 percentage points.

The fee-based trigger applies to loans in which total points and fees payable by the borrower exceed the greater of 8 percent of the total loan amount or $480. The Board adjusted this trigger to include premiums paid at closing for optional credit life, accident, health, or loss-of-income insurance and other debt-protection products.

What percentage of loans was affected by the trigger adjustments? In a comment letter to the Board from a trade association representing nondepository lenders, the association provided data collected from mid-year 1995 through mid-year 2000. The data showed that lowering the APR trigger by 2 percentage points would have increased coverage from 9 percent of first-lien surveyed to 26 percent. The data further showed that including optional credit-insurance premiums in the points and fees test increased the percentage of first-lien loans covered by HOEPA from 26 to 38 percent.

Prohibited Practices. In addition to changing the triggers, the final rule prohibits certain acts and practices related to home-secured loans. First, refinancing a HOEPA loan into another HOEPA loan within the first 12-month period is prohibited unless it is in the borrower’s interest. This restriction also applies to assignees that are servicing a HOEPA loan, whether or not they own the obligation. Also, the Board narrowed the definition of “borrower’s interest” to conform to the test for right-of-rescission waivers under TILA: A refinancing would be in the borrower’s interest if needed for a “bona fide personal financial emergency.” A statement by the borrower that “this loan is in my interest” would not meet the standard.

Second, the final rule bars lenders from structuring loans as lines of credit to evade HOEPA’s requirements if the credit does not meet the definition of open-end credit, which says, in part, that the lender reasonably contemplates repeated transactions.

Third, the final rule prohibits the acceleration of HOEPA loans without cause. For example, it prohibits the creditor from exercising a “due-on-demand” provision unless the clause is exercised in connection with the consumer’s default.

Ability to Pay. HOEPA already prohibits a creditor from engaging in a pattern or practice of extending credit without regard to the consumer’s ability to repay. The final rule creates a presumption that a creditor has violated this prohibition if the creditor does not verify and document consumers’ repayment ability.

Disclosures. Special disclosures for HOEPA loans are already required to be given to consumers three days before the loan is closed. The final rule adds the requirement to include the total amount bor...continued on page 28
Delaware Valley Credit-Counseling Service Launches Financial-Literacy Initiatives

"We are very willing to provide education and counseling on money management and credit to other nonprofits, government agencies, and banks."

The Delaware Valley Credit-Counseling Service ( CCCSDV ) has launched financial-literacy initiatives, which have been attended by another 11,200 individuals. About 5,000 people are enrolled by CCCSDV in DMPs with creditors. CCCSDV works with 758 creditors, of which 18 percent are financial institutions that have referred delinquent consumer credit-card accounts or loans.

Financial-Literacy Initiatives

Three CCCSDV financial-literacy initiatives — Get Checking™, America Saves, and “How Chuck Taylor Got What He Wanted” — are based on programs that have been successful in other parts of the country. The first two efforts are targeted to low- and moderate-income adults, and the third is oriented to low-income teens and pre-teens.

Get Checking™ provides six hours of instruction on basic-banking skills and financial principles for consumers who have mismanaged checking accounts or do not have such accounts, while America Saves is a motivational program to encourage consumers to save for financial goals. These programs are being introduced in the Philadelphia area in cooperation with the Federal Reserve Bank of Philadelphia’s Community and Consumer Affairs Department.

“Chuck Taylor” — a four-hour financial-literacy program — will be piloted this fall at the Institute for the Development of African-American Youth, Inc., which provides educational enrichment, life-skills, and leadership-training programs to young people in Philadelphia. The pilot is being sponsored by the Mellon Financial Corporation Foundation.

In addition, CCCSDV staff will provide trainers for a Greater Philadelphia Urban Affairs Coalition financial-literacy program that is expected to be offered in low- and moderate-income areas of suburban Philadelphia locations such as Bristol, PA, and Chester, PA.

Funding

Creditor fees remain a critical part of CCCSDV’s funding. Of its total income last year, 81 percent came from creditors. The creditor share has declined steadily during the last four years as part of a national trend of reduced “fair-share” contributions to credit-counseling agencies. Such contributions are based on a percentage of dollars recovered for creditors by the agencies.

As a result, CCCSDV has begun to charge clients for services, and client fees currently represent about 10 percent of its income. Other sources include state and federal grants. Increasingly, CCCSDV is seeking grants from foundations and other sources to fund its work in financial-literacy education.

Roles for Banks and Non-profit Organizations

Patricia Hasson, who became executive director of CCCSDV in 1998 after serving as senior credit officer for CoreStates Bank of Delaware, said that banks could refer consumers who have been turned down for personal or home-equity loans, or who are delinquent on loan payments, to the agency for help. They can also include an insert about the agency with their adverse action or delinquency notices.

“We build a bridge between the creditor and the client,” she said.

Nonprofits, banks and other corporations, and government agencies can inform consumers, when appropriate, about CCCSDV’s services. On request, the
Delaware Valley Credit-Counseling Service Launches Financial-Literacy Initiatives  ...continued from page 18

agency gives on-site presentations to intake counselors and caseworkers in nonprofits and corporate human resource departments. “We are very willing to provide education and counseling on money management and credit to other nonprofits, government agencies, and banks,” Hasson said.

Banks and nonprofit organizations can work with Get Checking™ by referring clients who do not have checking accounts with banks or who have mismanaged such accounts. In addition, banks can offer basic checking and savings accounts to graduates of Get Checking™ and America Saves, while nonprofits can host educational events related to the two programs in the communities that they serve.

CCCSDV’s board of directors includes representatives of Citizens Bank of Pennsylvania, Commerce Bank, N.A., and the Federal Reserve Bank of Philadelphia. Donald W. James, manager of the Community and Consumer Affairs Department at the Philadelphia Fed, recently joined CCCSDV’s board. Phil Farley, who retired from the department last year, had been a member of the board for many years.

CCCSDV has its main office in center city Philadelphia and other offices in Northeast Philadelphia, Jenkintown, Media, Norristown, Warrington, and West Chester, PA, and Cherry Hill, NJ.

For information, contact Maureen Keown at (215) 563-5665, ext. 3338 or mkeown@cccsdv.org; www.cccsdv.org.

Women's Community Revitalization Project Plans Regional Pre-Development Facilities Fund

**By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia**

Women’s Community Revitalization Project (WCRP) — a Philadelphia-based nonprofit that began to develop housing and child-care facilities for very low-income women and their families in a section of North Philadelphia 15 years ago and expanded to other parts of the city and the five-county Philadelphia area — plans to create a regional pre-development fund for child-care and human-services facilities.

WCRP has developed 131 affordable-housing rental units with another 50 in pre-development, three child-care centers, and a charter school. It has also served as project manager for construction of a $6.7 million renovation project that provided new headquarters for Congreso de Latinos Unidos, the largest Hispanic social-service provider in Philadelphia. WCRP — which has a staff of 22 and a budget of $1.7 million — is one of 10 nonprofits around the country selected for U.S. Department of Health and Human Services grants to assist in child-care facility development.

Nora Lichtash, executive director of WCRP, said that her organization hopes to raise $350,000 during the next three years for a regional pre-development fund. WCRP has raised $70,000 thus far from the William Penn Foundation and the...continued on page 20
Women's Community Revitalization Project Plans Regional Pre-Development Facilities Fund ...continued from page 19

Prudential Foundation and is seeking grants and low-interest investments for the fund. It is also establishing a pre-development loan committee, which will meet quarterly.

Although some pre-development dollars are available in the Philadelphia area, Lichtash said that “WCRP’s money will go in earlier when there’s more risk, including whether the project will actually materialize.” She envisioned that the fund would make a half dozen loans a year, each for about $20,000, for such expenses as acquisition and environmental assessment.

Lichtash had the following recommendations for nonprofits, based on WCRP’s experience:

- Focus as much on the individuals being served as on the structures being built;
- Meaningful change in low-income communities is possible, and nonprofits have the capacity to be creative agents of that change;
- Social-service providers need to view their clients as individuals with talent, dignity, and strength — and avoid “one size fits all” program designs;
- Solid early planning is critical to the success of a project. Involve all the stakeholders and understand their “stakes” or particular interests, and try to bridge gaps in needed services; and
- Nonprofits should trust the expertise they have about their communities and avoid deferring decisions to the “experts.”

WCRP’s original service area is eastern North Philadelphia, an area bounded by Girard Avenue on the south, Allegheny Avenue on the north, Front Street on the east, and 10th Street on the west.

“Women Revitalizing Communities” — a 16-page report that describes WCRP’s involvement of tenants and residents in its decision-making processes — is available from WCRP on request. For information, contact Nora Lichtash at (215) 627-5550, ext. 215 or nlichtash@wcrpphila.com.
Saint Joseph’s Carpenter Society (SJCS), which has developed 285 low-income housing units in Camden, NJ, is beginning to offer its expertise in homeownership education and housing construction in the Delaware Valley region.

During the past year, SJCS — which has 18 full-time and two part-time staff members — added a chief financial officer, managing director, general manager, and project manager.

SJCS has focused on East Camden — with a three-part strategy of housing development, homeowner education, and community organizing — since it was started by Saint Joseph Pro-Cathedral in 1985. Community-organizing activities to combat drugs and crime have been conducted by the Camden Churches Organizing Project (CCOP).

SJCS has rehabilitated 247 units and constructed 38 new units, of which 242 were for sale and the balance were rental units. It is currently rehabilitating another 50 units. In addition, SJCS is working with Pennrose Partners to develop about 275 rental units and 225 for-sale units in a public-housing redevelopment that leverages a $35 million HOPE VI grant into $100 million of public and private financing.

In one measure of its success, housing prices in East Camden have risen. The average sales price in the neighborhood rose from $20,000 in 1990 to $47,000 last year. Demand for SJCS-developed units has increased and requires a waiting list; there was virtually no demand for its units a decade ago. SJCS sold 30 houses in 2000, 37 in 2001, and expects to sell 50 units this year. “It’s a much better neighborhood today with less crime and fewer vacancies,” said William F. Whelan, managing director of SJCS.

Prospective homeowners take a nine-hour home-buyer education program and a nine-hour financial-literacy program.

Prospective homeowners take a nine-hour home-buyer education program and a nine-hour financial-literacy program. The home-buyer program, which is funded by the Campbell Soup Company, is used by 10 nonprofits in Camden. After owners buy their homes, they take a 20-hour home-maintenance and repair program.

SJCS will contract with nonprofit and for-profit organizations to provide instruction in homeownership education, home maintenance, money management, and investments. SJCS is hiring part-time instructors for this purpose.

In addition, SJCS will provide construction-management services to nonprofit and for-profit developers. SJCS will assist developers in taking a housing or commercial project from concept to completion by writing a feasibility study; hiring planners, architects, and engineers; obtaining planning and zoning approvals; soliciting bids; and monitoring construction. These services will be provided through Saint Joseph’s Housing Corporation, a for-profit subsidiary of SJCS.

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Whelan said SJCS has learned that:

- Redevelopment occurs on a family-by-family basis. SJCS believes that spouses and their children must understand the commitment to buy a house, agree to share maintenance responsibilities, and increase their overall financial literacy.

- Community organizing is critical to the success of low-income housing-development activities conducted by nonprofit organizations. Organizing efforts must address problems related to crime and drugs and secure the cooperation of local government to make the surrounding neighborhood attractive to residents.

- Extensive, rather than moderate, rehabilitation is often necessary when working on older housing stock in low- and moderate-income areas. Otherwise, owners will probably face major repairs within a short time, jeopardizing their investment and the neighborhood’s stability.

- Nonprofits engaged in housing development should seek contractors who can provide quality as well as quantity.

- Nonprofits should be sure to work with neighborhood partners. SJCS’s allies have included Urban Promise (an ecumenical ministry effort), a hardware store, Saint John’s Baptist Church, the Hispanic Family Center, and CCOP.

- Nonprofits working in a targeted area should simultaneously work on housing development, homeowner education, and community organizing.

Nonprofits working in a targeted area should simultaneously work on housing development, homeowner education, and community organizing.

 opportunities for bank involvement, Whelan said, include lines of credit for housing acquisition and for SJCS’s operations; permanent-mortgage loans; investments in low-income housing tax credit projects; grants for project and neighborhood planning and SJCS’s financial-literacy program; and speakers for financial-literacy and homeownership classes.

homeowners need savings and checking accounts, home-improvement loans, and personal loans.

Whelan spent 28 years in bank retail operations, lending, community development, and government relations before he joined SJCS last year. In his last position, he worked at Fleet Bank as vice president and regional manager for southern New Jersey.

A 10-year plan for SJCS is being developed by Urban Design Associates, a consulting firm in Pittsburgh, with completion expected this fall. Commercial real-estate development is an area of future growth for the nonprofit, Whelan said. SJCS has received a President’s Service Award for outstanding service to the community, a New Jersey Governor’s housing award, as well as a HUD best-practices award.

For information, contact William F. Whelan at (856) 966-8117, ext. 233, or bwhelan@sjcscamden.org.
Waypoint Bank, based in Harrisburg, has become one of the largest bank third-party home-improvement lenders in the mid-Atlantic region. Initially offering only Title I federally insured loans, Waypoint has expanded its home-improvement loan program to 10 states during the past four years by relying primarily on its own uninsured secured and unsecured products.

Michael R. Yuhas, vice president of indirect consumer lending at Waypoint Bank, explained that only a few banks in the mid-Atlantic region are active in third-party home-improvement lending. In the "niche market" of third-party, or indirect lending, the bank provides financing to a home-improvement dealer, who signs a contract with the consumer that is assigned to the bank upon completion. In Title I financing, the bank usually sends the dealer a two-party check to be signed by both the dealer and consumer.

First Federal Savings and Loan Association of Harrisburg, a predecessor institution of Waypoint — a $5 billion-asset institution created through the merger of Harris Savings Bank and York Federal Savings and Loan Association in 2000 — began originating Title I loans in south-central Pennsylvania in 1974. Waypoint — which keeps its home-improvement loans in portfolio and services them — expanded its lending in the mid-1990s to Maryland, New Jersey, and Delaware. "We've had a disciplined business model," said Yuhas, who has headed Waypoint's home-improvement program for the past 17 years. "The bank had very reasonable expectations, and we grew the business incrementally."

In the 1990s, many finance companies and intermediaries entered the market and quickly became major originators of loans that were then packaged into asset-backed securities. Investors later discovered that some loans in the securities had excessive default and charge-off rates combined with high prepayment rates. The combination of greater-than-expected prepayment and loss rates on the loan pools created disinterest in the market from secondary-market investors.

Waypoint also has secured conventional products that allow for loan-to-value of 115 percent and debt-to-income ratios of up to 45 percent. Waypoint only charges fees for those processing costs that the bank incurs. No broker fees are paid, and Waypoint does not offer credit life insurance.

Waypoint Bank provided an $8,476 loan to the owner of this house in Tioga County, PA, as part of the bank's program to provide financing through home-improvement dealers. The loan, which was conventional and uninsured, was made by the Harrisburg-based bank earlier this year for the replacement of seven windows.

Waypoint's core product is an unsecured loan of up to $15,000 for borrowers with a credit score of at least 640. As in Title I loans, borrowers are not required to have equity built up in their house. Debt-to-income ratios can be up to 45 percent. Waypoint only charges fees for those processing costs that the bank incurs. No broker fees are paid, and Waypoint does not offer credit life insurance.

Waypoint Bank provided an $8,476 loan to the owner of this house in Tioga County, PA, as part of the bank’s program to provide financing through home-improvement dealers. The loan, which was conventional and uninsured, was made by the Harrisburg-based bank earlier this year for the replacement of seven windows.

On March 1, the annual percentage rate on Waypoint’s home-improvement loans was 11.5%.
Waypoint Bank Becomes Leader in Third-Party Home-Improvement Loans  ...continued from page 23

improvement loans ranged from 9.25 percent to 14.25 percent fixed, depending on credit risk and the size and term of the loan, Yuhas said. Waypoint does not make

higher-interest loans that trigger certain reporting requirements under Section 32 of the Home Ownership and Equity Protection Act, he said.

Waypoint has about $18 million in outstanding Title I loans, Yuhas said. Waypoint’s net charge-offs on Title I loans are about 1.2 percent of dollars outstanding, and the delinquency rate is about 5 percent, compared with no losses for the bank’s conventional loans and a delinquency rate of one-half of 1 percent, he added. Both Title I and conventional loans have an average loan amount of $10,000, an average life of three years, and comparable pricing.

Yuhas, a member of the board of directors of the Home Improvement Lenders Association, said that a critical part of the bank’s program is carefully selecting and overseeing its dealers. Waypoint works with about 70 dealers, who last year generated $12.7 million in financing, a 15 percent increase over the previous year.

Waypoint requires its dealers to have at least two years’ experience as a contractor or supplier, net worth of at least $25,000 (to be increased to $32,000 on May 1), and be members of Better Business Bureaus in good standing. Dealers that have staged-funding programs involving multiple advances are required to have a net worth of $100,000. Waypoint representatives visit dealers initially and every six months, verify with state agencies that dealers have required licenses, and check supplier references. Waypoint’s dealer policy states: “A history of honesty, integrity, and financial stability must be present.”

Waypoint’s dealers generally specialize in replacement windows, siding, doors, and patio additions. Waypoint does not provide third-party financing to general contractors.

Yuhas said that home-improvement lending offers great opportunities for profitable business but requires a specialized staff, diligent management, and automated technology. “Every home-improvement dealer is a small to mid-sized business entity,” he said. “A great challenge for Waypoint is to identify a need that the dealer has and provide a solution for its financing needs.”

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Many low- and moderate-income owners of older homes find that within a few years of buying their residences they need to undertake rehabilitation or improvement projects. Often, they don’t have enough equity in their homes to qualify for home-equity loans. The Title I home-improvement insurance program may be appropriate for owners in this situation.

Title I provides “easy access to credit for homeowners who have bought houses with low down payments and have little or no equity in their homes,” said Peter Bell, executive director of the Home Improvement Lenders Association (HILA). He encouraged banks to take another look at Title I, which he said enabled them to obtain a high-yielding asset backed by federal insurance. “It’s a product you can work with in all kinds of economic cycles, and there are good cross-selling opportunities,” he said. One of the oldest federal housing programs, Title I was established in 1934.

Mortgage companies and brokers had been major producers of Title I loans in the 1990s but stopped doing so after The Money Store, which had been the nation’s largest investor in the product, closed in 2000. Bell said that a dearth of investors in the Title I product is attributable to perceived abuses by contractors and lenders in the program as well as a general trend away from investments in the specialty-finance sector. The remaining Title I lenders are primarily financial institutions that originate Title I loans and keep them in portfolio.

Banks starting Title I programs must train staff in building loan files, servicing, and filing claims under the program. Bell added: “An alternative is for a bank to originate the loans as a correspondent and transfer them to a sponsoring lender immediately after closing. The sponsoring lender would then handle all aspects of servicing. A third option is to use a sub-servicer with Title I experience.”

Under Title I, loans up to $25,000 are made for alterations and repairs to improve the livability or utility of single-family homes, including structural additions and alterations, siding, roofing, insulation, and plumbing, heating, and cooling systems.

Lenders originate Title I through direct loans to homeowners or dealer loans in which lenders provide the financing but the loan is originated by a home-improvement contractor on behalf of the lender.

HUD amended the Title I dealer program in long-debated revisions effective last December. Lenders must make out checks to the borrower or jointly to the borrower and the dealer. Lenders are also required to conduct a telephone interview with the borrower prior to disbursing funds to confirm that the dealer has completed the home-improvement work in a manner satisfactory to the borrower.

In other changes, HUD required that all Title I loans of more than $7,500 be secured by first or second liens and increased the insurance premium from .50 percent to 1 percent of the loan amount. Effective May 7, 2002, participating Title I home-improvement dealers must have a net worth of $32,000, except for manufactured-home dealers, who must have a net worth of $63,000.

Bell said that a major issue facing the 98-member association is the shrinking pool of investors willing to purchase members’ loans — a trend that constrains members’ liquidity. On the other hand, Bell said, the potential market for home-improvement lending is huge. Only $26 billion, or less than 17 percent, of the $160 billion spent by consumers in 2000 was financed, according to U.S. Census data.
Title I Home-Improvement Insurance Program Useful Tool For Owners with Little Equity ...continued from page 25

HILA was formed in 1988 to represent Title I lenders and has been broadened to include lenders making other types of home-improvement loans and high loan-to-value subordinate-lien loans. HILA, which is based in Washington, DC, is developing a best-practices standard for its members and has begun to inform consumers through its web site about home-improvement financing sources and how to select contractors. HILA advocates for policy changes and provides educational programs for its members.

Lenders can obtain information on Title I from HUD at (800) 767-7468 or www.hudclips.org. For information on HILA, contact Peter Bell at (202) 939-1741 or pbell@dworbell.com; www.hila.com.

Nazareth National Bank & Trust Company Purchases Loans Made by Allentown NHS

By Keith Rolland, Community Development Advisor, Community and Consumer Affairs Department, Federal Reserve Bank of Philadelphia

Allentown Neighborhood Housing Services, Inc. (ANHS) developed its own rehabilitation-loan program in 2000 after it realized that homeowners it had helped finance were going to subprime lenders for costly rehabilitation loans. Since then, a community bank — Nazareth National Bank & Trust Company — purchased ANHS’s loans made for down-payment, closing costs, and rehabilitation and gave the nonprofit fresh capital with which to make new loans.

Janis E. Geist, executive director of ANHS, explained: “We started to get calls in 1999 from borrowers looking to pay off no-interest down-payment and closing-cost loans we had made. We then realized that a lot of our homeowners needed to make repairs about two or three years after they purchased their homes.” Repairs have been made for such purposes as new plumbing, carpeting, roofs, windows, doors, kitchens, baths, electrical and heating systems, and safety and adaptive modifications for older and handicapped people. At the time of purchase, owners obtained a property evaluation performed by ANHS staff or a home inspection.

ANHS funded its rehabilitation-loan pool with grants totaling $150,000 from the Neighborhood Reinvestment Corporation. ANHS makes 6 percent loans to home owners in Lehigh and Northampton counties who previously received down-payment and closing-cost loans from ANHS and 4 percent loans to owners in targeted areas of downtown Allentown. Since ANHS started its rehabilitation-loan program in 2000, it has closed 24 rehabilitation loans totaling $214,165, for an average amount of $8,924.

ANHS’s rehabilitation loans are made to borrowers who would not qualify for market-rate loans from financial institutions, largely because of high loan-to-value ratios. The amount financed includes a 10 percent contingency for any “unseen” repair needs, such as rotted wood, that might be uncovered in the course of rehabilitation, Geist said. The term ranges from two to 30 years. Total property indebtedness normally does not exceed 100 percent of appraised val-
Nazareth National Bank & Trust Company Purchases Loans Made by Allentown NHS

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Tomas Bamberger, executive vice president and senior loan and CRA officer of Nazareth National, recalled that the bank learned through its representation on ANHS’s board of directors that ANHS had lent out all of its available funds. He met with Geist, and the bank decided to extend a $500,000 line of credit to purchase CRA-qualified mortgages.

Nazareth National purchased 79 second-, third-, and fourth-mortgage loans totaling $611,519 at three intervals in July 2000, April 2001, and March 2002. Of the 79, 92 percent were down-payment and closing-cost loans, and 8 percent were rehabilitation loans, according to Geist.

“The arrangement has worked beautifully,” Bamberger said. “We have been impressed for a long time by what ANHS does in the community.” Since ANHS and the bank are located near each other, questions were answered easily through a phone call or visit, he noted. The loans purchased by Nazareth National have a below-market return.

ANHS continues to service the loans that it sells and remits funds monthly to the bank. It does not earn a servicing fee but does keep late fees. The repurchase agreement with Nazareth National provides that ANHS will substitute or purchase loans that are 90 days or more late. Substitution was necessary for two loans.

Nazareth’s only criterion was that the loans be CRA-qualified — made to low- and moderate-income borrowers in its trade area, Bamberger said. The bank reviewed the loans prior to purchase to verify that they were underwritten according to ANHS’s standards and then drafted a purchasing agreement.

Geist said that nonprofits interested in becoming active in rehabilitation lending should be aware of a federal lead-based paint regulation that applies to housing rehabilitated or constructed with federal assistance. The regulation — which became effective in 2000 and applies to properties constructed prior to 1978 — requires testing for lead-based paint on surfaces that will be disturbed during rehabilitation that is conducted with federal assistance of less than $5,000 per unit. More extensive measures are required for units rehabilitated with federal assistance of more than $5,000 per unit. Geist said that the regulation — which increases the cost of each ANHS rehabilitation project by $2,500 to $3,000 — applies to ANHS, since it receives federal funds from the Neighborhood Reinvestment Corporation.

Geist also recommended that nonprofits conducting rehabilitation lending retain an experienced rehabilitation specialist who knows how to solicit fair bids and cost estimates.

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rowed, whether that amount includes premiums for credit insurance or other debt-cancellation products paid at closing, and to disclose the amount of any balloon payment. The final rule also added the requirement that these disclosures be in a conspicuous type size.

Proposed Provisions Omitted
The final rule omitted two provisions from the proposals that were published in December 2000. First, under the proposal, creditors would have been prohibited, in the first five years of a zero-interest-rate or other low-rate loan, from replacing that loan with a higher rate loan unless the refinancing was in the interest of the borrower. As proposed, this prohibition would have applied to all mortgage-refinancing transactions, not just HOEPA creditors. While admitting that borrowers with low-rate mortgage loans could benefit from the rule, the Board decided that the potential compliance burden of identifying those loans for all home-equity lenders outweighed the benefits to those borrowers.

Second, the APR trigger was lowered 2 percentage points for first-lien loans but remained unchanged at 10 percentage points for subordinate-lien loans. The Board reasoned that most of the evidence of predatory lending brought to its attention involved abuses in connection with first-lien mortgage loans. In addition, the Board noted that subordinate-lien loans were already covered more frequently by HOEPA because the rates on those loans are normally higher than on first-lien loans.

Reactions
Some lenders felt that the changes, particularly adjusting the rate and fee triggers, may reduce the availability of credit because some subprime lenders avoid making HOEPA loans because of the stigma attached to them. With lower triggers, these lenders could either make themselves susceptible to HOEPA or decrease their lending.

The Board reasoned that other creditors might fill the void left by creditors that do not want to make HOEPA loans and that there is no evidence that credit availability will be adversely impacted with a lower rate trigger. In addition, the Board suggested that lowering the trigger to expand HOEPA’s protections is consistent with consumers’ need for credit and, therefore, warranted.

Consumer representatives, not surprisingly, said that the changes didn’t go far enough. Many of them wanted all prepayment penalties banned, a 3 percent cap on fees on high-cost loans, and financing of single-premium life insurance prohibited.

In response to the criticism, the Board indicated that it wanted to take a wait-and-see approach to predatory lending. Federal Reserve Board Governor Edward Gramlich said: “We will presumably hold another set of hearings at some point, and if new problems have cropped up, they will presumably be spoken about at those hearings and we will go from there.”

Regulation C – HMDA
In December 2000, the Federal Reserve Board published for public comment a proposal to amend Regulation C, which implements the Home Mortgage Disclosure Act (HMDA). Based on almost 300 comments received and on its own further analysis, the Board approved changes to the regulation on January 23, 2002. These amendments take effect for data collection beginning January 1, 2003.

The main reasons for the changes were to help with fair-lending analysis and to gather more information about the mortgage market in general and about subprime lending practices in particular. Amendments to the regulations are reviewed below, as are the proposals that were not adopted, three additional proposals on which the Board seeks public comment, and reactions to the approved amendments.

Amendments
Thresholds. Lenders will be required to report the spread between the APR and the yield on the comparable Treasury security when the spread equals or exceeds 3 percentage points for first-lien loans and 5 percentage points for junior-lien loans, which generally have a higher APR. The reasons for reporting thresholds instead of the APR charged on a loan, as was originally proposed, were that pricing data would be adjusted for changes in market conditions over time, the focus would be on higher cost loans, and the reporting burden would be limited because fewer loans would be subject to the reporting requirement. Board staff thought that these thresholds would capture about 98 percent of first-lien subprime mortgages while virtually excluding all prime loans from reporting requirements. Nevertheless, since there is
Fed Takes Aim at Predatory Lending  ...continued from page 28

no absolute cutoff between subprime and prime loans, the Board is seeking comment on whether the thresholds chosen are appropriate and expects to finalize the thresholds in mid-year 2002.

**Wider Coverage.** The final rule increases the number of finance companies subject to HMDA by mandating that any lender that originates at least $25 million in home-purchase loans, including refinancings, must report. This coverage is added to the current reporting requirement for lenders whose home-purchase originations make up at least 10 percent of their total loan-origination volume. The Board estimates that this change will capture lenders who close at least 200 loans per year and thus will provide more complete information from the mortgage market.

**Designation of HOEPA Loans.** The final rule requires lenders to report whether a loan is covered by HOEPA. A loan’s HOEPA status cannot be determined only by the rate charged but also by points and fees. In fact, the Board received information that roughly 30 percent of first-lien loans and 23 percent of subordinate-lien loans will be covered only because of the points and fees on the loans.

**Manufactured Housing.** Lenders will be required to identify loans for manufactured housing, a change that the Board said will “improve the utility” of the data, since these loans are underwritten differently from other types of housing loans and tend to have higher denial rates.

**Revising Definitions.** The final rule changes the definitions of “home-improvement loans” and “refinancing.” Currently, lenders must report only on those home-improvement loans that they classify as being for that purpose. In the final rule, the Board dropped the classification test for secured home-improvement loans to improve the usefulness of the data. The rule is unchanged for unsecured home-improvement loans. The definition of “refinancing” is simplified to include only transactions in which both the old and the new loans are secured by the dwelling. Currently, the lender may select from four scenarios in deciding which refinancings to report, which results in inconsistent data among HMDA reporters.

**Preapproval Programs.** Lenders will be required to identify originations and denials through certain preapproval loan programs, though reporting of these loans that are approved but not accepted will be optional. Preapprovals included are those in which a lender issues a written commitment to lend to creditworthy applicants up to a specific amount and for a specific time, subject to limited conditions such as locating a suitable property. The final rule requires that lenders distinguish preapproved requests from other applications in their data reporting.

**Government Monitoring Data.** The final rule makes the collection of data on race and ethnicity conform to standards established in 1997 by the Office of Management and Budget; these standards allow applicants to record more than one race and do not provide the option of designating “other.” The changes are reflected in the loan/application code sheet, and the sample data-collection form that requests information for government-monitoring purposes.

**Proposals Not Adopted**

The final rule varied in some key areas from what was originally proposed. First, the proposal to report the APR on all HMDA-reportable loans was not adopted. Lenders viewed this proposal as too costly and thought it would be subject to misinterpretation. Instead, price reporting is limited to loans with rates above an established threshold as discussed earlier.

Mandatory reporting for home-equity lines of credit was not adopted, and reporting remains optional. The Board decided that this change would result in increased burden and ranked it lower than other proposed changes that also resulted in a greater burden to the lender. Similarly, the requirement to report reasons for denial was not adopted but remains optional.

The proposed dollar-volume threshold for nondepository lenders of $50 million was changed to $25 million to increase the number covered.

Finally, a requirement to report the loan-to-value ratio or appraised value and a proposal to exclude from HMDA reporting loans that are purchased as part of a branch acquisition were not adopted.

**Three Proposals**

The Board proposed three further amendments to Regulation C and requested comments by April 12, 2002. First, as already dis-...continued on page 30
The second issue is whether lenders should be required to ask government-monitoring information (ethnicity, race, and sex) of telephone applicants. From 1993 to 2000, the proportion of home-loan applications with missing race or ethnicity data increased from about 8 percent to about 28 percent, and the Board believes that at least some of the decline in response rates is due to an apparent increase in lenders’ use of the telephone to take applications.

The third issue is whether the lien status of a loan should be reported. The Board believes that data on home-improvement lending would be more useful if lien status were reported, since the revised definition of a home-improvement loan turns on whether the loan is secured by a dwelling. In addition, lien status would be useful information on loan pricing, since rates on first-lien loans are generally lower than rates on junior-lien or unsecured loans, and institutions would report whether a loan was secured by a first lien, subordinate lien, or not secured by a lien on a dwelling.

Reactions

Many lenders were pleased that the Board chose not to require APR disclosure on all loans and that reporting of home-equity lines of credit remained optional. Banks, in particular, welcomed the provision that requires reporting by more nonbank lenders because the data will likely reveal that the latter make most of the subprime loans. They also hope the data will show that abusive or predatory loans make up a very small percentage of total originations.

Lenders were not pleased that they must disclose whether a loan is covered by HOEPA. They argue that bank examiners already have access to that information. But nondepository institutions aren’t examined by bank regulators, and according to the Board, such lenders made approximately 57 percent of the dollar volume of loan originations reported under HMDA in 2000. In addition, lenders said that the changes, such as pricing disclosures on subprime loans, would be costly to implement. They will need to update their systems and keep track of Treasury rates on an ongoing basis.

Consumer groups generally supported the original proposal. They favored disclosure of the APR rather than the threshold disclosure that was chosen, but they were pleased with the HOEPA-status disclosure and expansion of HMDA’s coverage of nondepository lenders.

Conclusion

The changes to Regulation Z’s HOEPA section and Regulation C are significant because they will provide more data on mortgage and home-equity loan financing in this country. The final rules seem to have struck a balance between burdensome implementation costs and the need to gather additional information.

To access the regulations in their entirety, including background information and copies of the new loan/application register, code sheet, and sample data-collection form, please go to the following sites:

HOEPA: www.phil.frb.org/publicaffairs/circulars/5557.html

Regulation C: www.phil.frb.org/publicaffairs/circulars/5558.html

Proposed Amendments to Regulation C: www.phil.frb.org/publicaffairs/circulars/5559.html.
**DISTRICT NEWS**

The New Jersey Neighborhood Revitalization Tax Credit was signed into law in January 2002. The law authorizes up to $10 million annually in New Jersey tax credits to businesses that invest in neighborhood revitalization plans led by community-based organizations. Under New Jersey’s law, a corporation could get a tax credit against its state corporate tax liability equal to 50 percent of the amount contributed. A tax credit program has not yet been implemented. The New Jersey Housing and Mortgage Finance Agency (NJHMFA) received three awards for program excellence from the National Council of State Housing agencies. One award was given for NJHMFA’s interactive software program that allows developers of rental housing to apply simultaneously to up to three housing finance programs to maximize a project’s affordability. A second award was given for the Home Sweet Home Rehabilitation Loan Program, a pilot program that provides low-interest rehabilitation financing to home owners or investors in older properties in neighborhoods surrounding houses financed through NJHMFA’s Urban Home Ownership Recovery Program. The third award was for a videotape produced for people with developmental disabilities.

**Calendar of Events**

- **Workshop on Selected Federal Banking Regulations**
  A workshop sponsored by the Pennsylvania Bankers Association
  May 30, 2002, Harrisburg, PA
  For information, contact Jackie Ametrano Catalano at 717-255-6939 or jametrano@pabanker.com

- **American Metropolitics: The New Suburban Reality**
  A forum sponsored by the Metropolitan Philadelphia Policy Center and The Brookings Institution
  For information, contact Erika Saunders at (215) 563-3643, ext. 11, or info@metropolicy.org; www.metropolicy.org

- **The 2002 National Community Development Lending School**
  A program sponsored by the Federal Reserve Bank of San Francisco and the University of Southern California
  July 21 - 25, 2002, Los Angeles, CA
  For program and registration information, visit www.frbsf.org/news/events/ncdls or contact Fred Mendez at 415-974-2722 (see back page)

- **Community Development Conference**
  A conference sponsored by the Community Affairs Department of the Federal Reserve Bank of St. Louis and the East St. Louis Action Research Project
  October 22-23, 2002, East St. Louis, IL
  For information, contact Matt Ashby at (314) 444-8891 or matthew.w.ashby@stls.frb.org

  A conference sponsored by the community affairs officers of the Federal Reserve System
  March 27 - 28, 2003, Capitol Hilton Hotel, Washington, DC
for five days of intensive training on the key issues and current industry trends relevant to community development lending in today’s business environment. Training in five core areas—single-family and multi-family housing, small business, commercial real estate and community-based facilities lending—stresses the day-to-day mechanics of underwriting community development loans and ensuring their long-term profitability.

A redesigned and challenging curriculum has been developed by an advisory committee of community development bankers, training professionals and representatives of bank regulatory agencies to focus on structuring and underwriting community development loans. Each course is developed to ensure that students receive the most current, relevant, challenging and applicable instruction available. In addition, students will have the opportunity to participate in evening roundtables and seminars that focus specifically on issues that have been raised during the day’s courses.

Watch your mail . . .
A brochure and registration application will arrive soon.

For program and registration information
Check our website at http://www.frbfs.org/news/events/index.html

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