



Miami Valley Fair Housing Center, Inc.

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Jim McCarthy, President/CEO

## COMMUNITY REINVESTMENT ACT MEMORANDUM

**To:** City of Dayton

**From:** Miami Valley Fair Housing Center, Inc.

**Date:** March 13, 2015

A handwritten signature in blue ink, appearing to read "Jim McCarthy".

### ISSUE:

**Whether local large banks are promoting services to all members of the Dayton community as required by the Community Reinvestment Act?**

### SHORT ANSWER:

**No. Overwhelmingly the local large banks are disproportionately promoting services to white consumers and at the same time excluding racial minority consumers. Specifically, a low or moderate income white consumer is more likely to be provided a loan or easy access to a banking location than a low or moderate income racial minority consumer, especially if that consumer is African American.**

The purpose of this report is to address how well the large banks are complying with the Community Reinvestment Act, looking specifically at general banking services, mortgage lending, and small business lending in the City of Dayton. The Banks included in this report are: KeyBank, N.A.; Fifth Third Bank; U.S. Bank, N.A.; J.P. Morgan Chase Bank; Huntington National Bank; Union Savings Bank; PNC Bank; and First Financial Bank.

I. Community Reinvestment Act

The Community Reinvestment Act (“CRA”) provides a framework for financial institutions, state and local governments, and community organizations to jointly promote banking services to all members of the community.<sup>1</sup> At its core, the CRA prohibits denying or increasing the cost of banking to residents of racially defined neighborhoods, and encourages efforts to meet the credit needs of all community members, including residents of low-and moderate-income neighborhoods.<sup>2</sup>

Here, the City of Dayton is exploring how best to jointly promote banking services in its community under the CRA by first determining how well the above enumerated eight large banks are complying with the mandates of the CRA. The City of Dayton’s end goal is to ensure that financial resources are circulating in the community in order to foster stability and future growth. Fair lending compliance and attention to the CRA requirements is, therefore, a necessity.

II. City of Dayton Demographics

Unlike most Ohio cities the City of Dayton has the distinction and honor of containing a populace that is almost 50% white and 50% minority, a majority of the minority being African American.<sup>3</sup> A majority of the Dayton populace falls into the category of being low or moderate income.<sup>4</sup> These statistics make Dayton a prime statistical model on how well large banks are complying with the CRA.

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<sup>1</sup> See <http://www.occ.gov/topics/compliance-bsa/cra/index-cra.html>

<sup>2</sup> *Id.*

<sup>3</sup> See <http://quickfacts.census.gov/qfd/states/39/3921000.html>

<sup>4</sup> *Id.*

III. Bank Services Cater to White Consumers

Mapping the bank branch locations of each of the eight above enumerated banks shows that a majority, if not all the banks, place their bank branches in majority white neighborhoods.<sup>5</sup> Additionally, a National Community Reinvestment Coalition (“NCRC”) report analyzing mortgage loans for the City of Dayton found that only 18% of mortgage loans in 2013 were provided to racial minority borrowers despite Dayton’s racial demographic of about 50% white residents and 50% racial minority residents.<sup>6</sup> NCRC also found that small business lending to racial minority businesses in the Midwest region plummeted between 2007 and 2012 with the most severe impact on African-American-owned businesses.<sup>7</sup>

1. Bank Branch Locations: Banking Services Generally

Ninety-three million Americans live in households that are unbanked or rely on check cashers, payday lenders and other high-cost financial outlets. For African Americans and Latinos, roughly half of all households fall into these categories. And with income and wealth gaps widening and the nation growing more diverse, the need for solutions grows more urgent every day.

Thanks in large part to public investments and supportive policies, bank profits have rebounded to record levels since the recession. At the same time banks are closing branches in, and otherwise failing to serve, many low-income, and minority communities.

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<sup>5</sup> See Map Exhibits 1-9a-9b.

<sup>6</sup> See NCRC Report, attached as Exhibit 10.

<sup>7</sup> See <http://www.ncrc.org/images/PDFs/ncrc-analysis-small-business-lending-deserts.pdf>, pg. 60.

PNC Bank, Huntington National Bank, First Financial Bank, and Union Saving Bank branches are all located in white majority neighborhoods.<sup>8</sup> Fifth Third Bank, KeyBank, N.A., U.S Bank, N.A., and J.P. Morgan Chase Bank locate a majority of their branches in white majority neighborhoods.<sup>9</sup> This leaves residents of minority neighborhoods wanting for essential banking services during one of the toughest economic climates in recent history, with stagnant wages and job growth and credit available to only those borrowers with perfect credit. Also, due to distance and the need for transportation, residents of minority neighborhoods suffer the additional burden of higher costs for the opportunity to access credit and banking services.

The goals of the CRA begin with the physical presence of a bank. Financial products and services must be found in the branches first, and they must align with a community's needs. The original intent of the CRA was to ensure that the needs for access to credit, financial services, and financial services education were met. With full-service branches located in white majority neighborhoods, these banks cannot sufficiently meet these needs for the City of Dayton minority neighborhood residents.

2. NCRC Findings: Mortgage Lending

NCRC found that in 2013 the large banks originated home loans at the following percentages to racial minority borrowers in the City of Dayton: U.S Bank, N.A. 11.9%; Union Savings Bank 8.4%; KeyBank, N.A. 21.4%; PNC Bank 27.8%; Huntington National Bank 11.1%; J.P. Morgan Chase Bank 41.9%; Fifth Third Bank 20.6%; and First Financial

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<sup>8</sup> See Map Exhibits 1-4, 9a-9b.

<sup>9</sup> See Map Exhibits 5-9a-9b.

0%.<sup>10</sup> NCRC concluded that the lending levels in the City of Dayton overall are low, but lending is particularly low to African-American borrowers.<sup>11</sup> Therefore, the banks' lending performance in relation to half of Dayton's population is dismal at best.

3. *NCRC Findings: Small Business Lending*

In 2007, racial minority-owned businesses made up 24.2% of Dayton businesses.<sup>12</sup> Of this figure, 22.9% were African-American-owned businesses.<sup>13</sup> But based on a 2014 NCRC small business lending report, small business lending plummeted between 2007 and 2012 in counties in the Midwest, with African-American-owned small businesses suffering the lion's share of this decline.<sup>14</sup> Specifically in Montgomery County, the percentage of lending to racial minority-owned small businesses in 2012, including African-American-owned small businesses was only between 10.68% and 17.61%.<sup>15</sup> As a result, it is fair to conclude that small business growth in the City of Dayton has stagnated or even plummeted.

Additional evidence of the lack of small business lending is evident when the experiences of minority entrepreneurs are examined. One such story was recounted in a January 2015 article in the Dayton Business Journal wherein Juanita Darden-Jones recounted the difficulties she encountered during two years of work to secure the money necessary to open a coffee and wine shop on West Fifth Street in downtown Dayton. In the

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<sup>10</sup> See NCRC Report, attached as Exhibit 10.

<sup>11</sup> See NCRC Report Summary Email, attached as Exhibit 11.

<sup>12</sup> See <http://quickfacts.census.gov/qfd/states/39/3921000.html>

<sup>13</sup> *Id.*

<sup>14</sup> See <http://www.ncrc.org/images/PDFs/ncrc-analysis-small-business-lending-deserts.pdf>, pg.60.

<sup>15</sup> See Map Exhibits 12-14 and See <http://www.ncrc.org/images/PDFs/ncrc-analysis-small-business-lending-deserts.pdf>, pgs. 28, 30.

article, Darden-Jones is quoted as saying “Small businesses are almost impossible to finance,” and “Banks are not very kind to us.”<sup>16</sup>

The article goes on to discuss the fact that small business lending in Ohio is becoming dominated by institutional investors as approval rates at big banks remain rather slim, and small bank approval rates are decreasing.<sup>17</sup> While the article discussed the fact that big banks improved their small business lending rate by 2.6% (18.5 percent in December 2014, up from 15.9 percent in January 2014), according to the Biz2Credit Small Business Lending Index, the new rate is still well below the national rate of 21.1 percent.<sup>18</sup>

#### *IV. Conclusion.*

The large banks’ lending practices and placement of branch locations in the City of Dayton show that the banks are overwhelming catering to only half of Dayton’s population and these practices shockingly run on racial lines. Furthermore, with the downturn in small business lending, credit availability is a significant barrier to community development, especially for Dayton’s racial minorities.

In sum, the large banks are not meeting the credit needs of Dayton’s residents. The banks’ practices appear to go against the purpose of the CRA and are exactly opposite of what the CRA promotes. Mainstream banks must do more to support all segments of the population.

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<sup>16</sup> See <http://www.bizjournals.com/dayton/news/2015/01/20/small-business-lending-in-ohio-shifts-toward.html?page=all>

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*