



What About Redlining?

350

371

350

344



I. Presentation Overview

- Introduction
- What is Redlining?
- Redlining Components
- Conclusions
- Statistical Appendix

II. What is Redlining?

- “Redlining is a form of illegal disparate treatment in which a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin or other prohibited characteristic(s) of the residents of the area in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located.”
- Not Just Mortgages: Brokers, Auto Dealers, Credit Cards, Other Credit Products

III. Redlining Elements

- Qualitative Elements
 - Policy of Not Lending in High Minority/Low-Mod Income Neighborhoods
 - Employees Indicating Lending in High Minority/Low-Mod Income Neighborhoods is Undesirable
 - No or Limited Marketing in High Minority/Low-Mod Income Neighborhoods

III. Redlining Elements

- Quantitative Elements
 - Products sold in High Minority/Low-Mod Income Census Tracts
 - Discriminating Pricing Terms in High Minority/Low-Mod Income Census Tracts
 - Branch/LPO/Desk Rentals Locations in/near High Minority/Low-Mod Income Census Tracts

III. Redlining Elements

- Analysis Considerations
 - Segmentation
 - Applications and Originations
 - Geography (MSA)
 - Loan Product (Conventional versus Government)
 - Priority: Interbank Comparison
 - Intrabank
 - Focus on Statistically Significant Differences
 - T-Tests for Differences in Percentages

III. Redlining Elements

- Interbank Example

Table 1
MSA 12465
(Conventional Purchase Originations)

Minority Category	BANK A		PEERS		TOTAL	
	Count	Percent	Count	Percent	Count	Percent
0-9%	0	0.00%	0	0.00%	0	0.00%
10-19%	7	3.14%	1,717	3.97%	1,724	3.97%
20-50%	122	54.71%	19,322	44.73%	19,444	44.78%
51-79%	74	33.18%	14,927	34.56%	15,001	34.55%
80-100%	20	8.97%	7,230	16.74%	7,250	16.70%
Total	223	100.00%	43,196	100.00%	43,419	100.00%

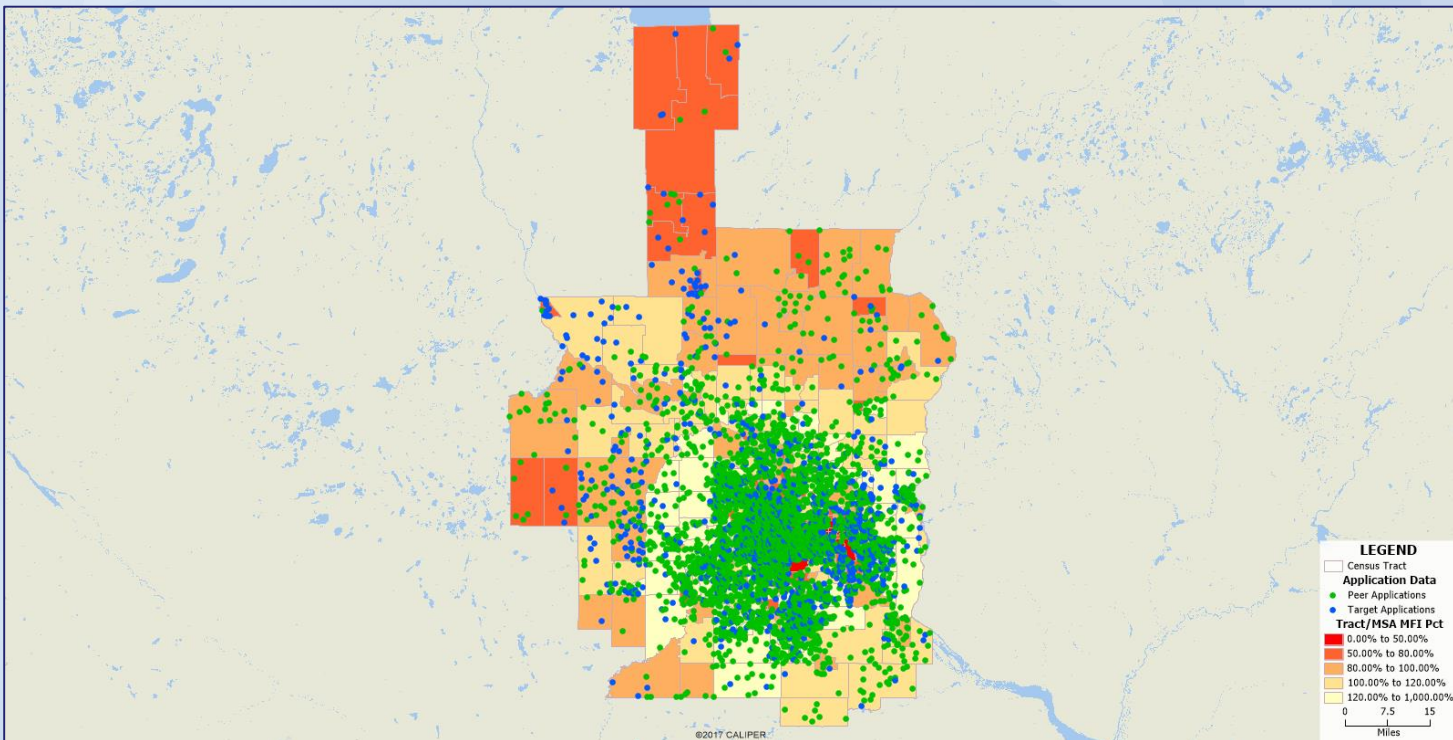
- Not Statistically Significant (See Statistical Appendix)

III. Redlining Elements

- Maps
 - In Addition to Peer Lists, Mapping is Key in Redlining
 - Banks Should Map at Census Tract Level
 - Applications and Originations
 - Locations (Branches, LPOs, ATMs, Desk Rentals)
 - Minority and Income Level Tracts by Category
 - Majority Minority or Black, Hispanic Separately

III. Redlining Elements

- Example: Map



III. Redlining Elements

- REMAs
 - Reasonably Expected Market Area
 - Where an Institution Actually Marketed and Provided Credit or Where It Could Reasonably be Expected to Have Expected and Provided Credit
 - REMAs May Be Larger or Otherwise Different Than a Bank's CRA Assessment Area
 - Banks Should be Providing Equal Access to Credit in Its REMAs

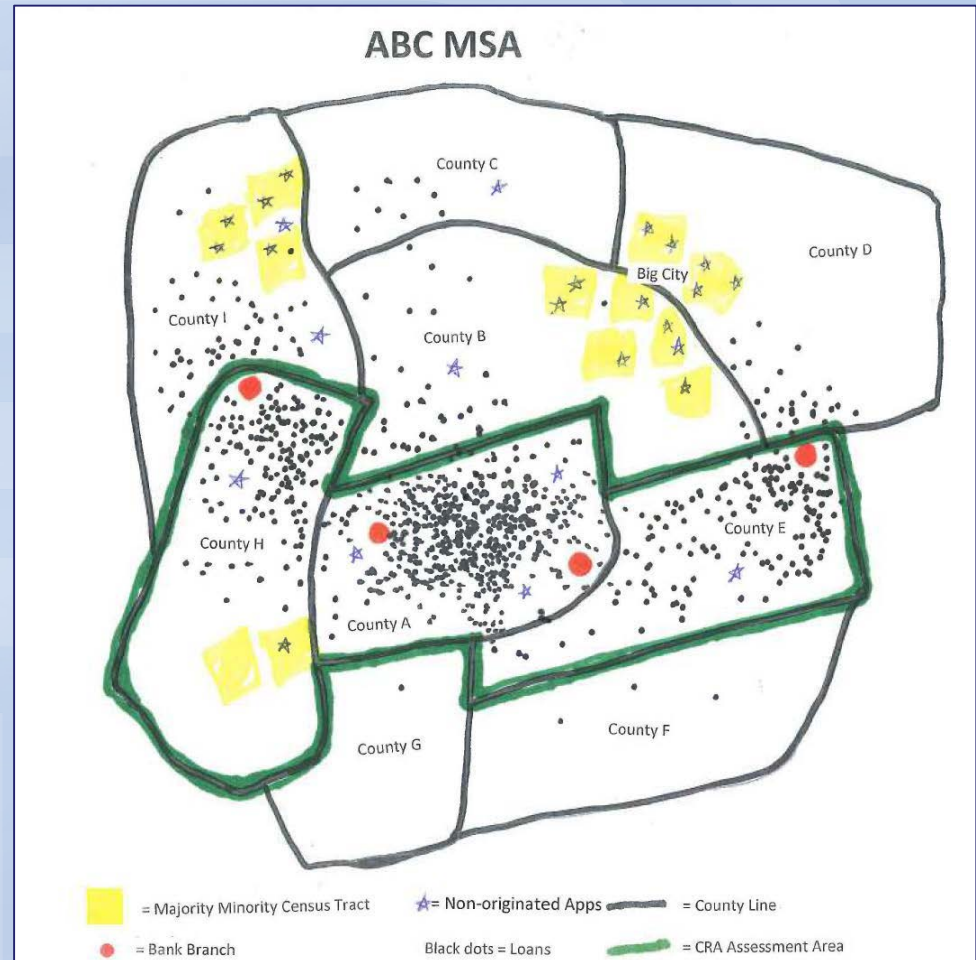
III. Redlining Elements

- Determining a REMA
 - Discussion with Bank
 - Branching
 - Marketing Efforts (e.g. Print, Direct Marketing, Calling)
 - Broker, ATM, LPO Locations
 - Maps of Bank's Applications and Originations
- REMA Strategy
 - Develop Suggested REMA Using Business Knowledge
 - Avoid Letting Regulator Tell You Your REMAs If Possible

III. Redlining Elements

- REMA: FDIC Example
 - “CRA Assessment Area: Counties A, E, and H “
 - “REMA: Counties A, B, C, D, E, H and I”
 - “Basis for REMA: Lending in County C and Non-originated Applications in Counties D, B, and I “

https://www.fdic.gov/news/conferences/other_events/2016-10-27-banker-call.pdf



III. Redlining Elements

- Peers
 - Basis for Interbank Redlining Analysis
 - These Will Impact Your Institution's Redlining Analysis Results
 - Regulators May Use Several Peer Lists
 - Definitions
 - All Banks in MSA
 - Regulator: 50% - 200% of Target Bank Values Based on Loan Volume or Asset Size
 - Refined Peers: Uses Institution Characteristics

III. Redlining Elements

- Defining Refined Peers
 - Defining Refined Peers is Science and Art
 - Creating Peer Lists
 - Geography (MSA)
 - 50% - 200% (Loan Volume/Assets)
 - Institution Characteristics
 - HMDA Characteristics (e.g. Loan Purpose, Term, Loan Type, etc.)
 - Circulate a Potential Peer List
 - May Need Several Iterations
 - Marketing Departments May Be of Limited Usefulness
 - Final List is a Blend of Logical Filters and Judgement.

IV. Conclusions

- Redlining is a Regulatory Focus
 - You Should Do Redlining Analysis but What to Do Depends on Your Bank's Complexity
 - For Less Complex Institutions Mapping is the Answer
 - Applications/Originations for You and Your Peers
 - Use HMDA Data to Define Peer Choice
 - Add Branch Locations
 - Color Code for High Minority Areas/Low/Mod Income Tracts
 - Check for REMAs – Areas Beyond CRA Assessment
 - More Complex Institutions
 - Add Statistical Analysis to Support Mapping

V. STATISTICAL APPENDIX

- T-TEST CALCULATION

- Numerator = $(.5130 - .4215)$

- Denominator = $\text{SQRT}\left(\frac{(.4215)*(.5785)}{(94)} + \frac{(.5130)*(.4870)}{(22157)}\right)$

- T-Value = 1.7926

- Cutoff = 1.96

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