

October 28, 1999

Ms. Deborah Kasemeyer
CRA Officer
Northern Trust Bank
50 S. LaSalle Street
Chicago, IL 60675

Dear Ms. Kasemeyer:

Woodstock Institute and the Chicago CRA Coalition have discussed the following list of CRA concerns related to Northern Trust's 2000-2002 Strategic Plan with you and other bank staff. We have not yet received a response to our written comments or the matters addressed at the Strategic Plan Public Meeting on October 13, 1999. We are very concerned with the bank's low levels of lending, services, and investments in lower-income communities as outlined in the plan and must therefore recommend that the Federal Reserve reject Northern Trust's 2000-2002 Strategic Plan. A summary of the issues and problems at hand follows:

General Comments on Presentation

The Strategic Plan includes valuable information, particularly in Section One. However, the substantive history and goals in Sections Two and Three are fairly confusing. Some of the data are not clearly presented and there are problems in the consistency of the data (e.g. measuring loan applications in some places and originations in others).

In Section Two, the history of performance in the last three years (1996 – 1998), there are a number of consistency problems in the bank's lending data, especially across years. Also, in some categories, the bank has included loans that are not normally included under conventional CRA analysis, making it difficult to understand what is going on, especially in comparison to other lenders. An example of these problems is that the bank shows an almost doubling in small business lending from 1997 to 1998. However, a footnote reveals that the 1998 figure includes all renewals of small business loans, while the 1997 figure includes only new originations and renewals in which the loan amount increased. In fact, the bank's small business originations declined from 1997 to 1998.

Substantive Comments on the Plan

1. Lending

In order to get a fair picture of the bank's recent performance, the Woodstock Institute analyzed the bank's lending according to conventional techniques typically used in CRA examinations. (Due the unusual classifications used by the bank and the inclusion of some data not reported to the federal regulators, there are some deviations in the figures used here and those used by the bank. The largest, differences, however, are due to differences in how, or the degree to which, the data are analyzed.)

1a. Mortgage Lending:

The bank's share of single-family loans in 1998 to low- and moderate-income (LMI) households is much lower than its market-share to middle- and upper-income (MUI) households.

- For home purchase loans, the bank's share of the MUI market is more than 2 times its share of the LMI market. This is significantly worse than in 1996 and 1997, during which the differences were approximately 1.5 to 1 and 1.3 to 1, respectively. It also shows a substantial reversal in the progress made over those two years. The bank's home purchase lending to LMI borrowers dropped by 30% in 1998, while its home purchase lending to MUI borrowers increased by 6 percent.
- For refinance loans, the MUI share is 3 times the LMI share.
- For home-improvement loans, the MUI share is more than 5-1/2 times the LMI share. This is significantly worse than the 1996 and 1997 differences, during which the difference was closer to 3 to 1. Home improvement lending to LMI borrowers has dropped steadily from 1996 to 1998, for a decline of 44%, while lending to MUI borrowers was essentially flat.

In order for the bank to have achieved an LMI market share equal to its MUI market share in 1998, it would have had to:

- Increase its home purchase lending to LMI borrowers by 114% or more than 360 loans
- Increase its refinance loans to LMI borrowers by 200% or 380 loans
- Increase its home improvement loans to LMI borrowers by 476% or 200 loans

Also, the bank's own reporting of loans through its Affordable Mortgage Program declined from 779 loans in 1997 to 304 in 1998. The 1998 level was even below the 461 of 1996.

Comments on goals:

- The goals should include the increases (described above) needed to bring the LMI market share up to MUI market share.
- Also, home purchase, refinance and improvement loans should be broken out for both historical reports and goals. Refinancings fluctuate so widely that they can totally skew the data otherwise.

1b. *Small Business Lending*

The plan is quite confusing here because it includes, for 1998 and future goals, all renewals of small business loans. The federal regulators do not collect data on regular renewals unless the loan amount is increased. All such renewals should be broken out from CRA-reportable small business loans to allow for comparison to other lenders.

Again, the Institute did its own analysis of CRA data. It shows that the bank, after weakening LMI-to-MUI performance from 1996 to 1997, has improved its lending to LMI areas, especially for loans to businesses with less than \$1 million in sales. From 1997 to 1998, the bank's lending to LMI businesses increased from 34 to 52 loans (53%) while MUI lending declined by 17 percent. Lending to relatively larger firms in LMI areas dropped 38% from 26 to 16 loans. Over the same time period, however, the bank's lending to larger firms in MUI areas dropped a bit faster, by 42 percent.

While the bank has significantly improved its small business lending to LMI areas, it remains a relatively small lender to such areas, especially compared to its size. Northern ranks 3rd or 4th in assets in Illinois at \$25 billion, but ranks 29th in LMI small business loans in its assessment area. The bank is not a very active small business lender overall.

Comments on Goals

- Goals should break out CRA-reported loans separately, for all categories (by size of business, size of loan and geography).
- Goals should include loans to businesses with less than \$1 million in sales AND located in LMI tracts.
- The projected 15% first year and subsequent 10% increases in LMI lending are reasonable, given the bank's recent improvements over poor 1997 performance.

1c. *Community Development Lending*

The number of community development loans has increased significantly since 1996. However, the dollar amounts in 1997 and 1998 were lower than the 1996 level. Consistent data on community development loans are scarce. Another large bank with approximately 66% of the Illinois assets of Northern Trust made about \$30 million in CD loans in 1996, more than 80 percent of Northern's level.

Comments on Goals

The goals for 2000-2002 do not ever reach the 1996 dollar amount, even without adjusting for inflation. Given the bank's relatively weak direct lending to LMI communities, one would expect very high goals here.

- The bank should increase its community development lending substantially, by at least 25 percent in each year.

2. *Investments (including grants)*

The bank does not clearly break down its investments during the 1996 – 1998 period. It provides only a total for the three years and a projected figure for 1999. This figure, \$6.4 million, is less than the banks' 1997

level of \$6.8 million, according to a recent CRA exam. There is no breakout for how much of this is at low interest rates, or how much is in the form of grants.

From other sources, we know that in 1997 the bank made less than \$900,000 in grants that are CRA qualified. A bank with less than ¼ of the Illinois assets of Northern Trust recently committed to at least \$300,000 in community development grants in 1999. (And this bank is an active small business and mortgage lender that has committed to reaching an LMI market share equal to its MUI market share.) Another large bank with fewer assets in Illinois than Northern Trust made \$2 million in CRA qualified grants in 1997. Also, Boston's State Street Bank, a trust bank (as is Northern Trust), made \$3.7 million in CRA qualified grants in 1996. State Street is only about 25 percent larger than Northern.

Comments on Goals

- The total goal for investments should be increased further if lending goals are not increased to the levels recommended above.
- The plan does state that 50 percent of its investments will be either grants or investments below market rates of return. Given the level of other similarly situated institutions' grant making, this level seems too low. A 75 percent goal would be more appropriate.
- The plan should also break out goals for grants, which it does not currently do. The banks' CRA-qualified grant making should increase substantially, to at least \$2 million annually.
- Given the serious problem with subprime lending in the region, the bank should agree not to invest in subprime mortgage or asset-backed securities as a part of this plan.

3. *Services*

The plan contains little information on existing services or recent improvements. It contains no information on checking or savings accounts for LMI people. The bank currently has 20 branches and only 14 non-branch ATMs. There is no breakout of branches and ATMs in LMI neighborhoods.

Comments on Goals

- The bank should open a new branch in an LMI area, preferably in Chicago's west side or in the south suburbs, and commit to maintaining its existing LMI branches. The bank currently proposes no new branches in LMI areas and only one ATM in an LMI neighborhood each year.

The bank should establish new low-cost checking or savings accounts for LMI individuals. For the first year of the Plan, the bank should establish 100 of these new accounts. In the second year 200 new access accounts should be generated and in the third year 300. These accounts should include the following key features:

1. No credit check
 2. \$10 or less opening requirement
 3. No minimum balance
 4. No monthly service fee
 5. Unlimited check writing
 6. Six free non-Northern Trust ATM transactions per month
 7. No teller charges
 8. Promotion of direct deposit of paychecks and government benefits
- The bank should increase the number of full-service ATMs in low-income tracts by one per year and the number of ATMs in moderate-income tracts by one per year.
 - The bank should establish an annual goal of no less than 30 financial literacy seminars being targeted to LMI communities. These seminars should primarily focus on basic financial services and "home financing" (to help people become less susceptible to predatory lending practices).
 - The bank should maintain or increase Bank-at-School participation in LMI areas.

4. *Measurement and Ratings*

If the very modest proposed goals are not increased, the bank is essentially assured of an Outstanding rating. Moreover, the plan calls for an outstanding lending and investment rating if the direct lending AND

investment goals are exceeded by 10 percent, but an outstanding service test rating would be obtained without exceeding the goals.

Comments

An outstanding component rating should only be awarded if the bank exceeds all quantitative goals in the component area by 20 percent. No exception should be made for services and community development lending goals. They should also be met (or exceeded for an outstanding rating). Of course, these measurements will become essentially meaningless if the goals are not modified and improved substantially.

Please contact Woodstock Institute if you have questions about this document or if you require further information. Thank you.

Sincerely,

Malcolm Bush
President, Woodstock Institute
Convenor, Chicago CRA Coalition

cc: Douglas Kasl, Federal Reserve Bank of Chicago