

July 19, 2004

Ms. Paulette Myrie-Hodge
Regional Director Illinois
Federal Reserve Bank of Chicago
230 S. LaSalle St.
Chicago, IL 60604-1413

Dear Ms. Myrie-Hodge:

Thank you for forwarding us Marquette Bank's May 14, 2004 response to our April 27th letter detailing the bank's poor lending performance to minority borrowers. There are arguments contained in the bank's letter to which we would like to respond.

In its letter, Marquette argues that the bank has a "strong record of lending to...minority neighborhoods and borrowers within the Chicago Metropolitan Statistical Area" despite "significant competition" from larger financial institutions for these loans. The bank goes on to compare its lending to minority neighborhoods and borrowers to that of a self selected group of peer community banks. Marquette's analysis indicates that the bank outperforms these peers in its share of loans to minority neighborhoods and borrowers. We find a number of problems with Marquette's analysis:

Area of Analysis: Marquette Bank uses the Chicago MSA as its geographic region of analysis rather than its designated CRA assessment area. The bank says this is to "ensure consistency" since they changed their assessment area in 2001. However, because the bank's analysis only considers 2002 data, there should be no issue with consistency of assessment areas. Additionally, using the MSA skews the analysis in Marquette's favor. The bank's assessment area is much more racially and ethnically diverse than the MSA. This diversity is illustrated in the 2002 HMDA lending data which show that 23 percent of single-family mortgages in the Chicago MSA were to minority borrowers compared to 31 percent of such mortgages in Marquette's assessment area. Given that the assessment area is the geography designated by the bank as the area it is able to serve and the fact that the bank originated over 72 percent of its mortgages in its assessment area, we feel that this is the appropriate geographic level of analysis, not the MSA, and that Marquette's lending should reflect the diversity of this assessment area.

Peer Institutions: The five peer institutions chosen by Marquette, while similar in deposit size and branch number to the bank, have very different service areas and business patterns. Marquette's self selected peers (West Suburban Bank, Parkway Bank & Trust, Oak Brook Bank, CIB Bank, and Harris Bank Joliet) are basically suburban banks with branch networks that serve predominantly white, middle- and upper-income (MUI) communities. Combined, the "peer institutions" had 98 branches in the Chicago MSA in 2002. Of those 98, only two (or less than two percent) were in majority minority zip codes

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and zero offices were in a low- or moderate-income (LMI) zip codes. Conversely, in 2002, 44 percent (or eight) of Marquette Bank's 18 branches were in zip codes that were both LMI and minority.

Additionally, Marquette's "peer institutions" originated very few single-family mortgages in 2002 compared to Marquette. The five peer banks averaged 281 mortgages originated in 2002 ranging from 934 (West Suburban) to 8 (CIB). Marquette originated 1,684 single-family mortgages in the Chicago MSA in 2002. Given that Marquette Bank has a much higher share of its offices in minority communities and is a more significant mortgage lender, we do not feel this group of banks is an appropriate peer group for mortgage lending analysis.

Market Competition: Marquette positions itself as a community bank that has difficulty competing with larger financial institutions and subprime lenders for loans to LMI and minority borrowers. While we appreciate the challenges that mid-sized banks have in mortgage lending, Marquette is a significant lender within its assessment area where it ranked 11th in 2002 single-family mortgage lending. Additionally, as stated in our April 27 letter, Marquette ranks 10th in home purchase lending to white borrowers in its assessment area, but not in the top 60 to African-American borrowers. The bank argues that it does not offer subprime loans which limits its ability to compete in LMI and minority communities. We believe this mindset is what has perpetuated a dual lending market where minority communities and borrowers have little access to prime mortgage products forcing them to take out higher cost subprime loans. Given its strong presence in lending to white borrowers in its assessment area, we see no reason why the bank ranks so poorly in lending to African-American borrowers.

Lending to Minority Borrowers: Marquette uses an MSA level analysis of its lending to compare its lending to minority borrowers to that of its "peer" banks. Based on this analysis, Marquette concludes that it "surpassed by wide margins comparable minority lending by peer institutions and came close to meeting aggregate lending data for the overall market." As stated above, we do not feel that an MSA level comparison of these self-selected "peer" lenders is an appropriate analysis. Given its strong market share within its assessment area, we feel the bank's lending should be analyzed within its assessment area against all the lenders it competes with in that market. This is the type of analysis Woodstock Institute conducted in its April 27 letter which indicated significant disparity between the bank's lending to African-American and white borrowers.

Additionally, in its letter, Marquette states that its "CRA lending initiatives generally focus on loans to LMI borrowers and areas," and that "Marquette's LMI initiatives also benefit minorities" because "[d]emographic data show that a relatively high proportion of minority borrowers are LMI borrowers." While we strongly disagree with equating minority and LMI status, we analyzed Marquette's lending to only LMI borrowers to see if most of the bank's LMI borrowers were indeed also minority borrowers. As Table 1 shows, 76 percent of the bank's LMI home purchase and refinance borrowers within its assessment area were white compared to less than 40 percent for all lenders within the assessment area. Less than 7 percent of the bank's home purchase loans to LMI borrowers were to African-Americans compared to over 23 percent assessment area-wide. A similar pattern is reflected in the bank's refinance and home improvement lending. This distribution of loans to LMI borrowers indicates that Marquette's LMI initiatives do not benefit minorities.

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Table 1.
Percent of Originations to LMI borrowers by Race/Ethnicity of Borrower in
Marquette's Assessment Area, 2002

	<u>Marquette</u>			<u>All Lenders</u>		
	African American	Hispanic	White	African American	Hispanic	White
Home Purchase	6.5%	15.4%	76.4%	23.4%	25.0%	39.8%
Home Improvement	15.2%	15.2%	52.5%	24.4%	16.0%	26.0%
Refinance	9.1%	10.0%	76.3%	21.3%	17.3%	36.5%

Suitability of HMDA Data: The bank argues that HMDA data has “limited value as an indicator of discrimination,” and cites a regulatory notice as stating that “HMDA data alone do not prove lending discrimination.” That same notice, however, states “HMDA data are useful...for identifying lenders whose practices may warrant investigation for compliance with fair lending laws.” While we agree that HMDA data analysis alone does not prove discrimination, we believe the disparities in Marquette’s lending data are sufficient to raise serious questions about their lending practices and warrant further investigation by the Federal Reserve and U.S. Department of Justice.

Again, we ask you to fully consider our comments and recommendations when evaluating Marquette Bank’s CRA and fair lending performance.

Sincerely,

Geoff Smith
Project Director

GS/bab

cc: Tom Bamford, Marquette Bank