October 25, 2013

Ms. Alicia Williams
Vice President, Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604

Dear Ms. Williams,

I am writing on behalf of Woodstock Institute to comment on the proposal from MB Financial, Inc., of Chicago, Illinois to merge with Taylor Capital Group, Inc., Rosemont, Illinois, and thereby indirectly acquire Cole Taylor Bank, Chicago, Illinois. We urge the Federal Reserve Bank of Chicago to carefully consider how the proposed merger would create a public benefit, especially for low- and moderate-income (LMI) communities and communities of color that historically have been denied access to financial services. While the acquiring institution MB Financial has an above-average record in lending to borrowers of color and low- and moderate-income borrowers, Cole Taylor Bank is underperforming relative to its peers in these markets. We ask the Federal Reserve Bank of Chicago to ensure that MB Financial improves Cole Taylor Bank’s lending products and practices to underserved borrowers and communities.

For nearly 50 years, the law has required prudential regulators to consider the public’s interest when approving bank mergers and acquisitions. Section 225.24(a) (iii) of Regulation Y specifically states that every applicant has a duty to state the public benefits that can reasonably be expected to result from the acquisition. Assessing both institutions’ past records of serving classes protected under the Equal Credit Opportunity Act and underserved borrowers and communities indicates how well the merged institution will address public needs going forward.

We are concerned that Cole Taylor Bank’s record of mortgage lending does not meet the needs of low- and moderate-income borrowers and borrowers of color. In order for the acquisition to adequately meet public needs, the merged institution must improve Cole Taylor Bank’s performance in these markets. We ask the Federal Reserve Bank of Chicago to set targets for improving Cole Taylor Bank’s mortgage lending to low- and moderate-income borrowers and borrowers of color as a condition of approval of the acquisition and require that the merged institution report publicly on progress towards meeting those goals on an annual basis.

The following analysis of 2011 data from the Home Mortgage Disclosure Act on single family, first-lien home lending to owner occupants illustrates how Cole Taylor Bank is not adequately meeting public needs:

Supervision and Regulation, Applications Division
Federal Reserve Bank of Chicago
230 South LaSalle Street
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Cole Taylor Bank made a lower percentage of loans to low- and moderate-income borrowers and borrowers of color than its peers did.

- Cole Taylor Bank made a lower percentage of its loans to African Americans than its peers did in 2011, making 1.86 percent of its home loans to African Americans versus 4.81 percent from all lenders. This gap in lending to African American borrowers is compounded because the percentage of home lending from all lenders falls below the percentage of African-American households in the Chicago Metropolitan Statistical Area (MSA), which stands at 18.52 percent.
- Cole Taylor Bank made a lower percentage of its loans to Latinos than its peers did in 2011, making 3.45 percent of its home loans to Latinos compared to 7.12 percent of home loans from all lenders. This gap in lending to Latinos is particularly concerning because Latinos receive only 7.12 percent of home loans from all lenders but comprise 11.76 percent of the households in the Chicago MSA.
- Lending to low- and moderate-income borrowers made up 14.13 percent of Cole Taylor Bank’s loans, which is substantially below the 24.61 percent of loans made by all lenders to LMI borrowers. Low- and moderate-income families make up 40.25 percent of households in the Chicago MSA, meaning that both Cole Taylor Bank and all lenders fall short in making a proportionate number of loans to LMI borrowers.
- Compared to all lenders, Cole Taylor Bank made a greater percentage of its loans to borrowers in low- and moderate-income census tracts. All lenders made 8.95 percent of their loans to borrowers in LMI census tracts, while Cole Taylor made 11.95 percent of its loans in these tracts. Both Cole Taylor Bank and all lenders made a lower percentage of their loans to LMI census tracts than the 17.62 percent of owner-occupied housing units in the Chicago MSA that are located in tracts where occupants make less than 80 percent of area median income.
- Cole Taylor Bank’s share of the market in majority minority census tracts is comparable to, but slightly higher than, its market share in predominantly white census tracts. MB issued .23 percent of all loans in majority minority tracts and .22 percent of all the loans in white tracts.

MB Financial better serves low- and moderate-income borrowers and borrowers of color through home lending than its peers do.

- MB Financial made a higher percentage of its home loans to African Americans than its peers did in 2011, making 5.57 percent of its home loans to African Americans versus 4.81 percent from all lenders. However, the percentage of home lending to African Americans by both MB Financial and all lenders falls substantially short of the percentage of African-American households in the Chicago MSA, which stands at 18.52 percent.
- MB Financial made a slightly higher percentage of its home loans to Latinos than its peers did in 2011, making 7.43 percent of its home loans to Latinos compared to 7.12 percent from all lenders. Home lending from all lenders is still not representative of the percentage of households in the Chicago MSA that are Latino, which stands at 11.76 percent.
- Lending to low- and moderate-income borrowers made up 26.56 percent of MB Financial’s loans and 24.61 percent of the loans of all lenders in the Chicago MSA. While MB once again outperforms its peers in this category, the aggregate percentage of single-family lending to LMI borrowers does not keep pace with the percentage of LMI-owned households in the Chicago MSA, which is 40.25 percent.
- Compared to all lenders, MB Financial made a greater percentage of its loans to borrowers in majority minority census tracts. All lenders made 12.75 percent of their loans to borrowers in majority minority census tracts, while MB Financial made 15.88 percent of its loans in these
tracts. Both MB Financial and all lenders once again made a far lower percentage of their loans in minority census tracts than in the 24.15 percent of owner-occupied housing units in the Chicago MSA that are located in tracts where 50 percent or more occupants are non-white.

- MB Financial’s share of the market in minority census tracts is comparable to, but slightly higher than, its market share in predominantly white census tracts. MB issued .25 percent of all the loans in minority tracts and .20 percent of all the loans in white tracts.

While the acquiring institution, MB Financial, has an above-average record of home lending to borrowers of color and low- and moderate-income borrowers, we believe that the public has reason to be concerned about whether the proposed acquisition would create a public benefit, given Cole Taylor’s underperformance in underserved markets. We urge the Federal Reserve Bank of Chicago to approve the acquisition on the condition that the institutions create a plan for improving Cole Taylor Bank’s home lending performance, including specific targets for the merged institution’s portfolio to meet or exceed its peers in lending to low- and moderate-income borrowers and borrowers of color, and by requiring an annual public report on progress towards meeting those goals.

Thank you for the opportunity to comment on the proposed acquisition. We are happy to discuss the issue further.

Sincerely,

Dory Rand
President, Woodstock Institute
Chicago, IL