



A VERY RED LINE

**New Haven Savings Bank
fails to serve Connecticut's
low- and moderate-
income families and
communities of color**

September 2003

Connecticut Center for a New Economy
www.ctneweconomy.org

A VERY RED LINE was researched and written by Patrick Woodall for the Connecticut Center for a New Economy.

John Canham-Clyne, Senior Research Analyst for the Federation of Hospital and University Employees edited the report.

Maps and analytical assistance were provided by Jon Brown at Essential Information.

Connecticut Center for a New Economy
425 College St., New Haven CT 06511 (203) 785-9494
www.ctneweconomy.org

In July 2003, New Haven Savings Bank (NHSB) announced its intention to change its ownership from a “mutual” savings bank to a stock bank and at the same time to purchase two smaller banks. Currently, NHSB is owned collectively by its depositors, thousands of working men and women who entrust their salaries and savings to New Haven’s last locally-owned bank. The deal would shift ownership to Wall Street investors who have no stake in the communities served by NHSB. This decision was announced a month after the New Haven Register reported that NHSB CEO Peyton Patterson “has no plans to go public at this time.”¹

In the United States, ordinary citizens rely on homeownership as their primary means of accumulating wealth. In the late 1990s, U.S. homeowners’ average net worth exceeded \$78,000, more than 30 times the average renter’s net worth of \$2,300.² This trend is even more pronounced for African American families, among whom homeowners have an average net worth of \$48,300 compared to \$500 for renters. Moreover, increased home ownership rates directly benefit and stabilize the community - neighborhoods of homeowners have more stable and higher home values, lower crime rates and residents are more involved in civic activities such as volunteering and politics.³

According to the non-profit Corporation for Economic Development, which studied asset acquisition nationwide, the “homeownership rate in Connecticut is below the median (28th), and in particular, the gap in homeownership between white and non-white families is the 5th largest among all states.”

Thus, home purchase mortgage lending, especially to lower-wage workers in Connecticut’s rapidly growing service economy, is critical to the state’s efforts to rebuild a middle class hit hard by the disappearance of manufacturing jobs.

New Haven Savings Bank is the largest recipient of deposits in the New Haven area, accounting for 18% of all New Haven deposits. As such, it plays a central role in the financial life of the community. The Connecticut Center for a New Economy has conducted extensive analysis of NHSB’s conventional home purchase mortgage lending patterns because these are the loans that increase homeownership rates and promote economic stability, reduce crime and promote civic involvement. The data raise serious concerns about NHSB’s operations even when compared to the rest of the industry:

- **NHSB exports capital from the New Haven area.** While 93.3% of its deposits are taken from the New Haven metropolitan area, more than 20% of NHSB's mortgage loans were made in the Bridgeport, Hartford and New London areas in 2001.
- **NHSB makes more loans to upper income neighborhoods than to low- and moderate-income neighborhoods combined.** Every year between 1998 and 2002, NHSB made more conventional mortgage loans in upper income neighborhoods than in low- and moderate income neighborhoods combined.
- **NHSB takes very few applications from minorities.** In 2002, NHSB took 374 conventional home mortgage applications from whites but only 16 from African Americans and 7 from Latinos
- **NHSB disproportionately lends to whites.** NHSB makes loans to people of color at a rate far below their proportion of the population and below the rate that lenders, on average, make credit available to applicants of color.
- **NHSB rejects people of color much more often.** From 1998-2002, NHSB rejected 25% of conventional mortgage applications from upper income African-Americans in New Haven, a rate 14% higher than low-income whites.
- **NHSB concentrates its lending in overwhelmingly white neighborhoods.** Every year between 1998-2002, NHSB made more than 81% of its conventional mortgage loans to borrowers in census tracts that are more than 90% white. Every year less than 3.5% of NHSB's loans went to census tracts with 50% or higher minority population. In four of the five years, fewer than one-half of one percent went to areas with 80% or higher people of color.
- **NHSB lags the market in income and race community lending indicators.** In 2002, NHSB's lending to minority and low- and moderate-income individuals and communities trailed the market averages:

NHSB offers a limited array of mortgage products. Many other banks offer flexible private loan products to encourage first-time low-income and minority borrowers to successfully

apply. Also, according to a national study by the U.S. Public Interest Research Group, NHSB's account fees exceed national and regional averages.

These data are particularly disconcerting because NHSB is owned by its depositors, and has several branches in areas with significant low- and moderate-income populations and

2002 Conventional Mortgage Lending in the New Haven Area: NHSB vs. Market Average

Indicator	NHSB	Market Avg.
% of Loans to Low-Income Census tracts	1.2%	3.0%
% of Loans to Moderate-Income Census tracts	9.2%	13.2%
% of Applications from African Americans	3.7%	6.9%
% of Applications from Latinos	1.6%	4.8%
% of Loans made to African-Americans	3.5%	5.3%
% of Loans made to Latinos	1.4%	4.2%
% of Loans to 90%+ White Census tracts	82.1%	73.2%

high percentages of minorities.

Mutual banks were originally created as philanthropic institutions designed to offer local working class people a place to save and invest. NHSB Chairman, President and CEO Peyton Patterson writes that “as a mutual savings bank founded in 1838, more than 160 years ago to serve our Connecticut ancestors, New Haven Savings Bank today remains committed to helping build and maintain the economic and social vitality of our South Central Connecticut community”⁴ The Community Reinvestment Act directs depository institutions that benefit from the stability and consumer confidence generated by federal deposit insurance to “help meet the credit needs of the communities in which they operate.”⁵

Yet the data suggest that NHSB has not met the credit needs of the entire community from which it draws deposits. Until it does so, it should not be permitted to merge with other banks - particularly two banks likely to further concentrate lending in wealthy, white neighborhoods - nor should its leaders be allowed to reap windfall profits from a sale of a bank now owned by the people of the region to Wall Street investors.

A Good Deal for Insiders – A Bad Deal for the Community?

On July 16, 2003, NHSB announced its intention to demutualize by converting to a publicly traded stock holding company and simultaneously acquire Connecticut Bancshares, Inc., and Alliance Bancorp of New England, the parent companies of Savings Bank of Manchester and Tolland Savings Bank. Just six weeks before NHSB announced its conversion, CEO Peyton Patterson told the *New Haven Register* that she was not planning such a conversion:

The bank has no plans to go public at this time, Patterson said.

“Mutuals are an unusual structure, and we are very comfortable with that structure,” she said. “We’ll do what makes sense for the company as the company grows.”

Local officials are lining up with concerns about the deal. New Haven Mayor John DeStefano opposes the conversion outright. In a statement on the day NHSB announced the deal, he wrote “[t]his is bad news for our local economy. It will shift NHSB’s focus away from creating a strong local economy and push it towards earning the highest returns possible for shareholders all over the globe. Bigger isn’t always better. But hometown is always best.” Connecticut State Senate Majority Leader Martin Looney urged NHSB to adopt a model used by People’s

Bank, in which a majority of stock is held by a mutual holding company, rather than a full public offering.

As is typical in such conversions, NHSB argues that the deal's purpose is to "utilize new capital to improve financial performance and create scale," while at the same time increasing "the level of community support."

However, local leaders are concerned that the ultimate aim of the deal is a sale to a national bank - with large personal profits for insiders - once a five-year anti-takeover provision expires. The interim CEO of New Haven Savings Bank who preceded Ms. Patterson predicted in the *New Haven Advocate* that "the bank will not be around in five years." Indeed, a study of such conversions in the *FDIC Banking Review* notes that "today, the impetus for conversions seems to derive more from competitive pressures and managerial desires for better compensation."⁶

Ms. Patterson and bank insiders are likely to make handsome personal profits from the transaction. Although all depositors are permitted to buy shares in the conversion, in reality few have the resources to do so. Some analysts suggest that as few as 5% of depositors typically buy shares in conversions,⁷ but the wealthier insiders often make large personal profits. CEO James Keegan promised not to sell Cambridgeport Bank when he converted it in 2000. But according to *Boston Globe* columnist Steve Syre,

It's true Keegan insisted Port Financial would remain independent when it won regulatory approval to convert from a mutually owned bank to a public company at \$10 per share while others (that would be me) said differently. The Boston Capital forecast of 2000: CambridgePort would disappear soon enough, when management was ready to cash out.

Regulators make it nearly impossible to sell a bank for three years after its conversion from mutual to stock ownership. The Citizens deal was announced three years and four days after Port Financial went public. Biggest winner: Jim Keegan, 61, who walks away with better than \$10 million.⁸

NHSB's Mortgage Lending Record, 1998-2002

NHSB's Home Mortgage Disclosure Act (HMDA) data presents a telling picture of a lender failing to meet the needs of lower-income and moderate income neighborhoods and borrowers. Every year between 1998 and 2002, NHSB made more loans in upper income neighborhoods than in low-and moderate-income neighborhoods combined. NHSB lagged behind market averages for providing conventional mortgage loans in low and moderate income areas. In effect, the New Haven area's largest depository institution directed its capital away from low-wage working families who most need to take the first step toward the American Dream.

This effect is particularly strong for minority borrowers and neighborhoods. Between 1998 and 2002, NHSB lagged behind market averages in providing conventional home purchase mortgage credit to minority borrowers, has rejected these applicants at a high rate even for wealthier minority applicants, and made the overwhelming majority of its loans to disproportionately white neighborhoods.

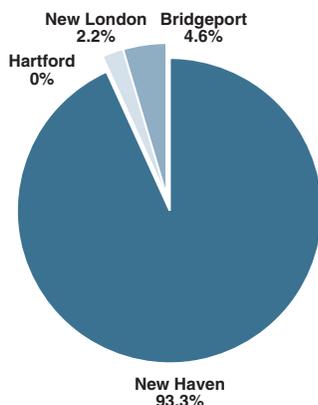
HMDA was enacted in 1975 to provide citizens with a demonstrable record of a bank's lending performance. CCNE closely examined NHSB's conventional home purchase mortgage lending because that is the most important form of credit to increase homeownership, which is vital to building wealth and stabilizing communities.⁹

NHSB Removes Deposit Dollars from New Haven Area

Although the majority of NHSB depositors are from the New Haven area, a significant portion of NHSB's conventional mortgage lending provides credit outside of the New Haven metropolitan area. More than nine out of ten depository dollars are collected from depositors from within the New Haven metropolitan area.¹⁰ In fact, before NHSB's proposed merger, NHSB had no branches outside the New Haven metropolitan area.¹¹ More than 90% of NHSB's deposits by dollar value (93.3%) were taken in the New Haven metropolitan area, while fewer than 5% were taken in any other metropolitan area in Connecticut.

A significant amount of NHSB's conventional mortgage lending is leaving the New Haven metropolitan area to provide loans where the institution takes very few of its

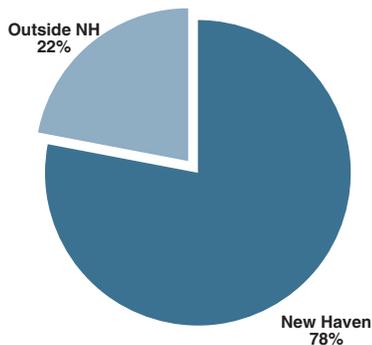
NHSB Deposit Distribution, 2002



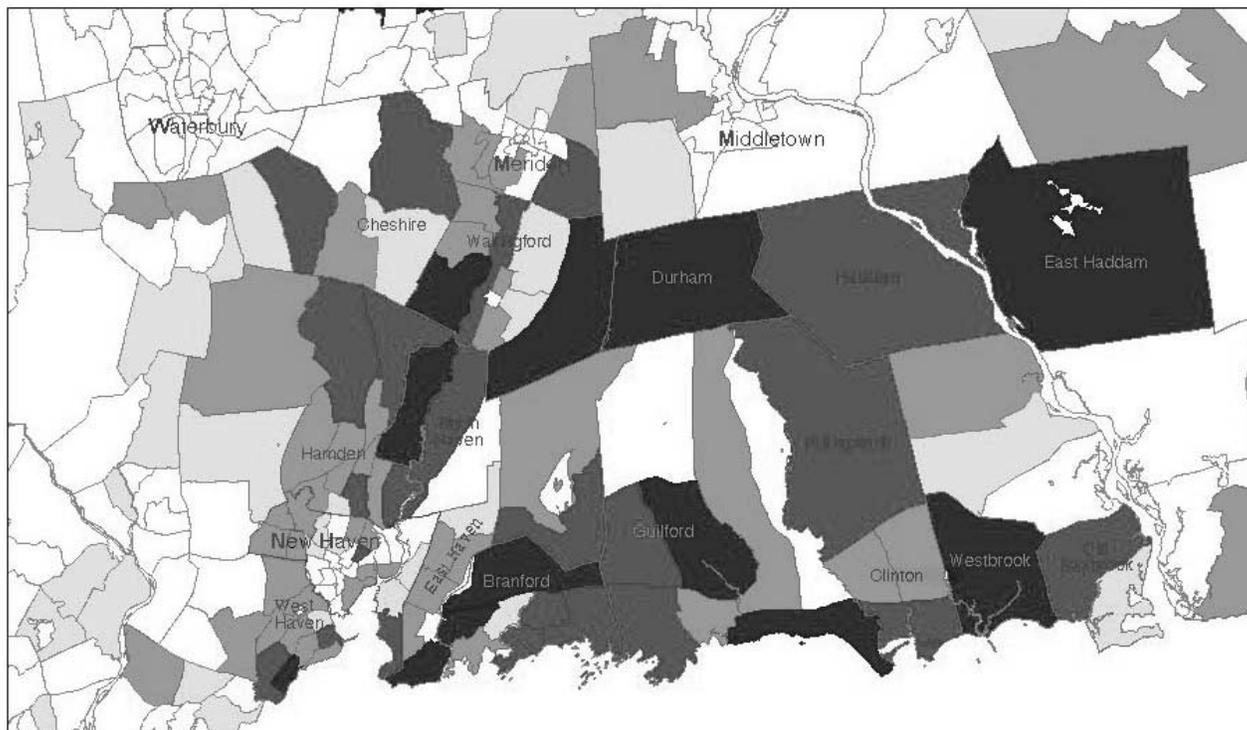
deposits. Although 93% of NHSB's deposits are taken in the New Haven metropolitan area, only 78% of NHSB's conventional mortgage loan dollars were made in the New Haven metropolitan area in 2001. By 2002, the percentage of conventional mortgage dollars going to New Haven rose to 83.7%. The increase follows the fact that NHSB stopped making loans in the Hartford area. Measured by numbers of loans, New Haven receives an even smaller share of NHSB loan originations. New Haven received 273 of NHSB's conventional mortgage loans in 2001, or 69.3%, while the Hartford area received 20.3% of NHSB's loans, New London received 5.8% of its mortgage loans and Bridgeport received 4.7% of its mortgage loans. Again, by not lending in Hartford the 2002 share of loans to New Haven rose to 78.8%, with 246 of 312 conventional mortgages made in the New Haven metropolitan area while Bridgeport received 10.9% and New London received 10.3%.

Even within the New Haven metropolitan area, NHSB's loans are fleeing the city of New Haven for the suburbs. In 2001,

NHSB Conv. Mortgage Loan Dollars, 2001



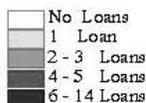
Number of NHSB Home Purchase Loan Originations: 2001 – South-Central Connecticut



Source: FFIEC, 2001 HMDA data.

□ Town Boundaries

Number of Home Purchase Loan Originations in 2001 - by Census Tract



Connecticut Center for a New Economy <http://www.ctneweconomy.org>

NHSB made only 29 conventional mortgage loans (excluding government-backed FHA loans) in the city of New Haven itself, 11% of its total conventional mortgages in the New Haven market and 7.3% of total mortgages. Yet, NHSB branches in the city account for 19.3% of total deposits, and the bank's second largest branch is on Dixwell Avenue in Hamden, just across the New Haven line, and likely takes significant deposits from New Haven residents. (See map on previous page.)

In "It's a Wonderful Life," George Bailey (Jimmy Stewart) explains to his depositors that he doesn't have their money *per se*, instead the deposits have been reinvested into local families' homes. In the case of NHSB, roughly a fifth of the deposit dollars are not reinvested in New Haven, but instead leave town to provide loans overwhelmingly to wealthy white borrowers, as is described below.

BLOCKING ACCESS TO THE AMERICAN DREAM

Access to a mortgage on reasonable terms is the essential first step toward homeownership and wealth for working families. To understand the impact of NHSB's lending patterns on the ability of low and moderate wage workers to begin to realize the American Dream, CCNE analyzed conventional mortgage loans to borrowers and census tracts for four income groups:

Low Income: Individuals whose income is at 50% or less of the regional median, and census tracts whose median income is 50% or less of the regional median.

Moderate Income: 50% to 80% of the regional median income.

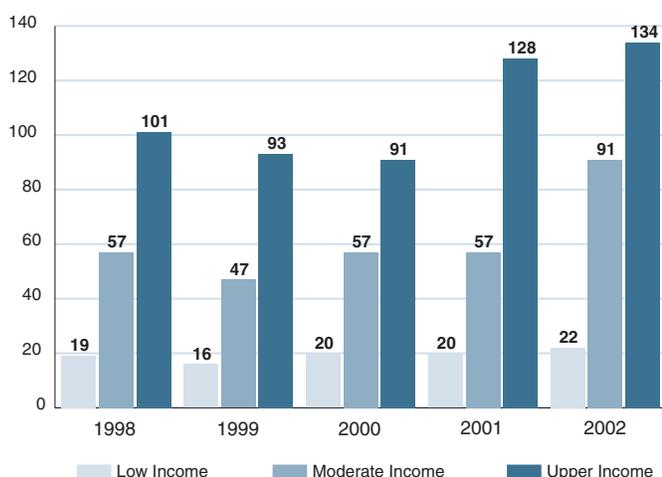
Middle Income: 80% to 120% of the regional median income

Upper Income: 120% or more of the regional median income

In each of the past five years, NHSB has taken more applications from, and made more loans to upper income borrowers than low- and moderate-income borrowers combined, despite a spike in moderate-income loans in 2002.

The following analysis focuses on the contrast between loans to upper income and moderate and low income borrowers and neighborhoods, excluding the middle income category because there are so many more people and census tracts in those categories, and most loans are made to middle income borrowers and neighborhoods.¹²

NHSB Mortgage Originations, New Haven



Applications and Loans Skewed to Upper Income borrowers

NHSB loans to upper income borrowers increased rapidly in 2001 and 2002. Yet, loans to low-income borrowers showed only a small increase. From 1998 to 2002, NHSB made between 19 and 22 loans to low-income borrowers each year. In contrast, NHSB originations to upper-income borrowers after stagnating at about 90 during 1998-99, increased by 41% to 128 in 2001.

Few Applications from or Loans in Low- and Moderate- Income Neighborhoods

NHSB makes loans disproportionately in upper income census tracts when compared to low and moderate income census tracts.

NHSB did not receive more than 2% of its mortgage applications from low-income census tracts in any year between 1998 and 2002. In only two years between 1998 and 2002 did NHSB receive more than 10% of its applications from moderate-income census tracts.

In NHSB's assessment area, 8.3% of the census tracts are low-income, 17.9% of the census tracts are moderate-income and 22.1% of the census tracts are upper income.¹³ In 2002, low-income census tracts were nearly six times (5.9 times) more prevalent in NHSB's assessment area as were applications from low-income census tracts (8.3% of census tracts but 1.4% of applications). Moderate-income census tracts were nearly twice (1.8 times) as common in NHSB's assessment area as were applications from moderate-income census tracts (17.9% of tracts but 10.0% of applications).

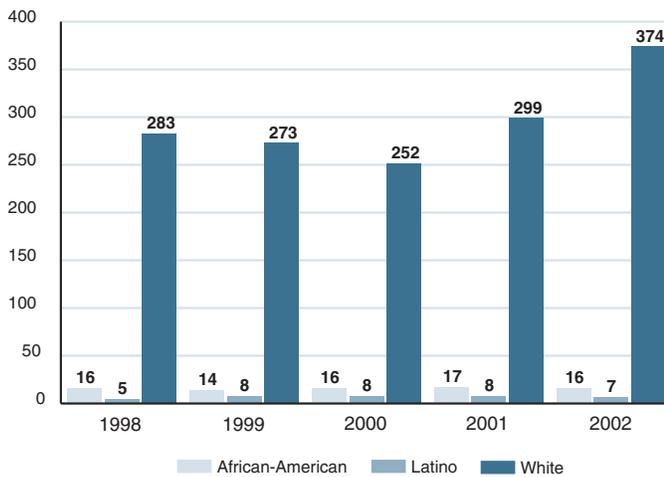
Because of NHSB's high rejection rate of low- and moderate-income borrowers, the disparity in the share of loan originations (actual loans made) in these neighborhoods is higher. NHSB makes a smaller share of loans to these neighborhoods than it takes in applications. NHSB made about one percent of its conventional home purchase mortgages to low-income census tracts between 1998 and 2002. In four of the years, it made fewer than 10% of its loans to moderate-income census tracts, falling to a four-year low of 6.2% in 2001. More than 25% of its loans are made to upper-income census tracts for four of the years between 1998 and 2002. The share of loans going to upper-income census tracts was more than two and a half times greater than the share going to moderate-income and 19 times greater than the share going to low-income census tracts in 2002.

NHSB Takes Few Applications from People of Color

The disparities between NHSB's mortgage lending to whites and to people of color are as glaring as those between lower

income borrowers and upper income borrowers. NHSB receives very few of its applications from people of color. Between 1998 and 2002, NHSB took fewer than 10 applications a year from Latinos and fewer than 20 from African Americans. Over the same period, NHSB received more than 250 applica-

NHSB Conventional Mortgage Applications, New Haven



tions each year from white applicants, including 374 in 2002. In the lowest year, NHSB took nearly 16 times as many applications from white applicants as African Americans - in 2002, it was 23 times as many. It received 31 times as many applications from white applicants as Latino applicants. Between 1998 and 2002 more than 85% of NHSB conventional mortgage applicants were white, while the highest percentage of African American and Latino applicants was 8% in 2000 (8.1%). Between 2000 and 2002, NHSB took more applications from whites each year

(nearly fifty more in 2001 than 2000 and 75 more in 2002 than in 2001) but the number of applications from African Americans and Latinos remained flat at 23-25.

The data suggest a fundamental failure by NHSB to present itself to its own depositors as an institution that provides home purchase mortgage credit to the community where it takes deposits. NHSB's failure to increase the number of applicants of color while dramatically increasing the number of white applications it receives suggests little relative outreach to communities of color. NHSB has few innovative lending programs to bring new borrowers in the door and ensure they qualify for NHSB lending products, as many lenders across the country have. NHSB's first-time homebuyer programs rely on the backing of the federal and state government, and NHSB made relatively little use of these programs. For example, in 2002, NHSB took 13 applications for federal FHA mortgage products and made only nine loans, all of them to white families.¹⁴ NHSB participated in only two homeownership seminars in the three years between 2000 and 2001.¹⁵

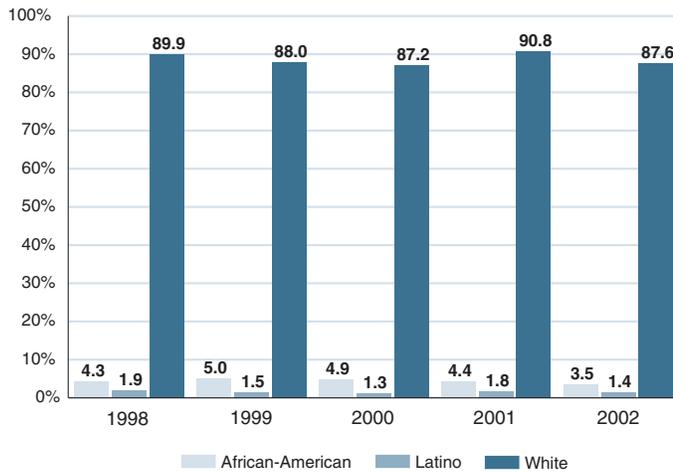
NHSB Makes Few Loans to People of Color

The same pattern holds true for conventional mortgage originations. Between 1998 and 2002 NHSB made only 22 conventional mortgage loans to Latinos and 59 conventional mortgage loans to African Americans. In contrast, NHSB made 1,208

loans to white borrowers. Between 1998 and 2002 NHSB made nearly 15 times as many loans to white borrowers as it did to Latinos and African Americans. It's worth noting that the period studied has been recognized as an especially good period for homeownership by African Americans and Latinos. The homeownership rate of African Americans and Latinos reached an all time high during the years 1997-2001, yet NHSB appears not to have participated in this boom.

NHSB made the overwhelming majority of its conventional mortgage originations in the New Haven area to white borrowers. Every year between 1998 and 2002, more than 85% of NHSB's conventional mortgages have gone to white borrowers even though the New Haven metropolitan area is 79% white.

Percentage of NHSB Mortgage Originations by Race



In contrast, NHSB never made more than 5% of its conventional mortgage originations to African American borrowers, even though African-Americans make up 13.7% of the New Haven area population. In 2002, NHSB made 3.5% of its conventional mortgage loans to African American borrowers, a 74.4% under-representation compared to the population. Latinos have not received 2% of NHSB's conventional mortgage loans between 1998 and 2001 despite making up 9.5% of the New Haven area population. In

2002, NHSB made 1.4% of its mortgage loans Latinos, an 85% under-representation.

African-Americans and Latinos combined now make up a majority of the population in the city of New Haven proper. Yet, of 32 mortgage loans made in the city of New Haven in 2001 (including conventional and government-backed mortgages), 25 were made to whites, 5 to African-Americans and 2 to Latinos.

NHSB Rejects Latinos and African-Americans More Often than Whites, Regardless of Income

NHSB's rejection rates by race vary wildly year-to-year because of the small number of applications from Latinos and African Americans, which makes it even more difficult to analyze rejections by race and income. To get an adequate picture, CCNE aggregated all of the application data between 1998 and 2002. In the five years between 1998 and 2002, minority rejec-

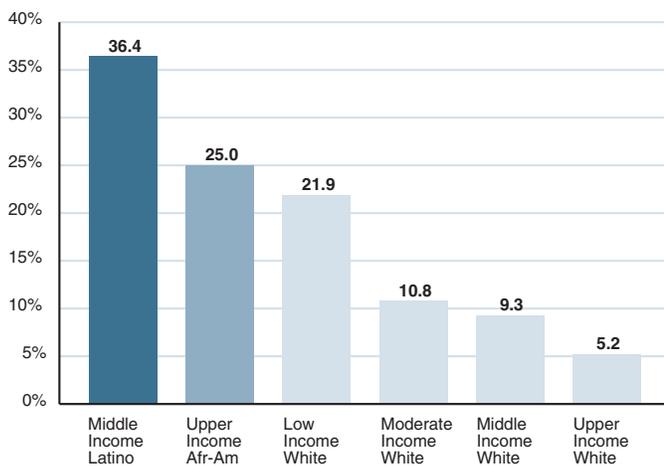
tion rates were always higher than white rejection rates for conventional home purchase loans in New Haven.

The data show that NHSB rejects wealthier African Americans and Latinos more frequently than white applicants of any income. Between 1998 and 2002, middle income Latinos (between 80%-120% of the New Haven median income) and upper income African Americans (over 120% of the median) were rejected more frequently than whites of every income level, including low-income white applicants. Upper income African Americans were rejected by NHSB 14% more frequently

than low-income whites, two and a half times more frequently than moderate and middle income whites, and five times as frequently as upper income whites.

These disparities are especially stark when compared to the industry's already troubling record. The banking industry as a whole rejected upper income African Americans 3.7 times as frequently as upper income whites in the New Haven area market in 2002, compared to five times at NHSB, or nearly 30% higher than the market disparity.

NHSB Rejection Rates by Race & Income, 1998-2002



NHSB did have a 100% acceptance rate for upper income Latinos - all four of the upper income Latino applicants from 1998-2002 received loans. However, middle income Latinos were rejected by NHSB 75% more frequently than low-income whites, four times as frequently as middle and moderate income whites, and more than six and a half times as frequently as upper income whites. This is worse than in the New Haven market as a whole, where middle income Latinos were rejected 22% more frequently than low-income whites, about twice as frequently as moderate and middle-income whites and four and a half times as frequently as upper income whites.

NHSB Loans Are Concentrated in Overwhelmingly White Areas

Although NHSB's assessment area includes downtown New Haven and Bridgeport, where there are a significant number of minority census tracts, NHSB's applications and loans are heavily concentrated in overwhelmingly white census tracts.

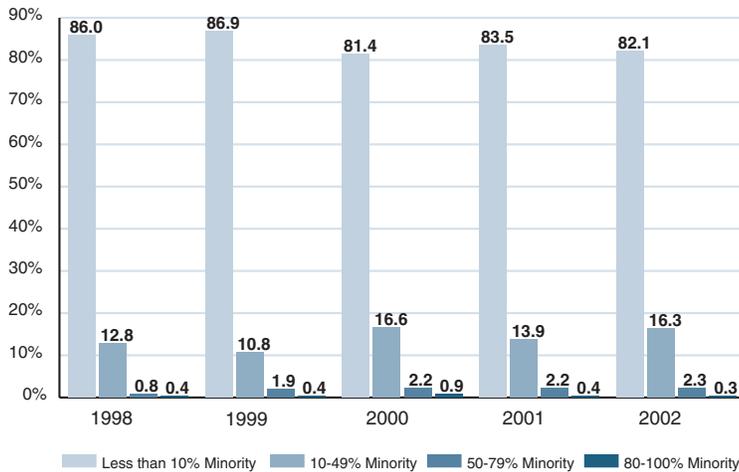
Between 1998 and 2002, NHSB received 1403 applications from census tracts which are more than 90% white. Over the

same period, it took only 47 applications from census tracts where people of color are in the majority, and only 11 applications from census tracts where people of color make up more than 80% of the population.

Given the paucity of applications and the high minority rejection rate, each year between 1998 and 2002, NHSB made more than 80% of its home purchase loans to census tracts that are more than 90% white.

NHSB never made more than 3.1% of its loans to census tracts where people of color are in the majority, and never more than 1% to census tracts where people of color constitute more than 80% of the population. NHSB did not make more than 16% of its loans to census tracts that were majority white but less than 90% white in any year during the period.

NHSB Mortgage Originations by Racial Geography



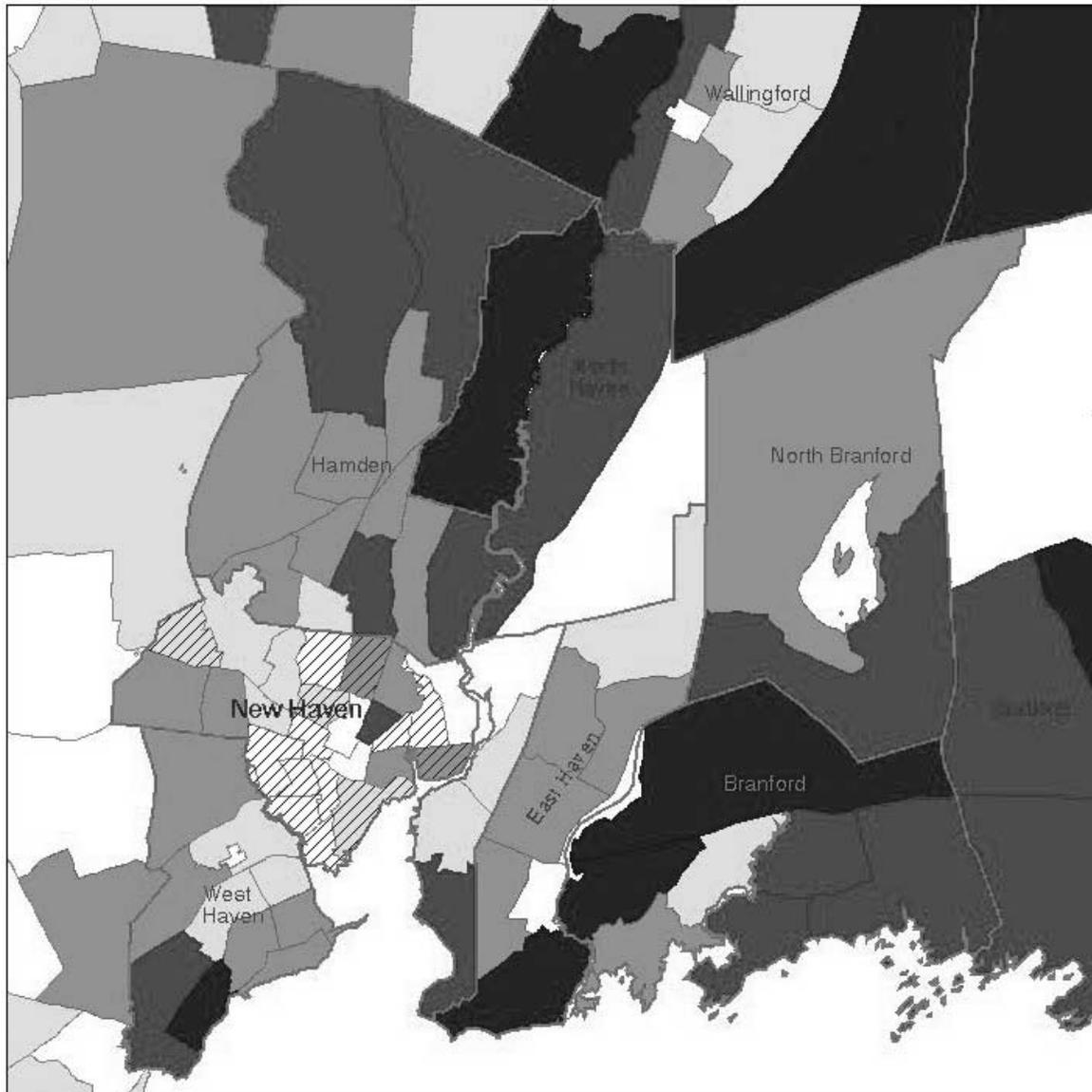
Map number 2 (next page) shows NHSB's conventional mortgage lending in census tracts in the New Haven with a minority population greater than 50%, compared with others.

Redlining the City of New Haven

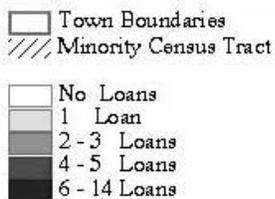
As troubling as NHSB's record on low-income and minority lending may be, a peculiar geographic twist raises further concerns. The failure to make loans in low- and moderate-income neighborhoods and areas with a high concentration of minorities is more pronounced within the city limits. That is, NHSB is much more likely to make loans to low and moderate income census tracts (up to 80% of the regional median income) if they are in the towns surrounding the city of New Haven, than those within the city limits.

There are 26 lower-income census tracts (low and moderate combined) in and around New Haven - 20 within the New Haven city limits and 6 outside of the city boundaries. The majority of all lower-income census tracts (53.8%) received at least one loan from NHSB. However, inside New Haven, more than half (55.0%) of the lower-income census tracts received no loans from NHSB, but outside the city, more than four-fifths (83.3%) of the lower income census tracts received loans from NHSB. This pattern was maintained even for white, lower-

Number of NHB Home Purchase Loan Originations: 2001 New Haven Metropolitan Area



Number of Conventional Home Purchase Loan Originations in 2001 - by Census Tract



Diagonal Overlay for Minority Neighborhoods

Minority Census Tract: Minority persons comprise 50% or more of census tract population.

Source: FFIEC, 2001 HMDA data; and 1990 US Census data.

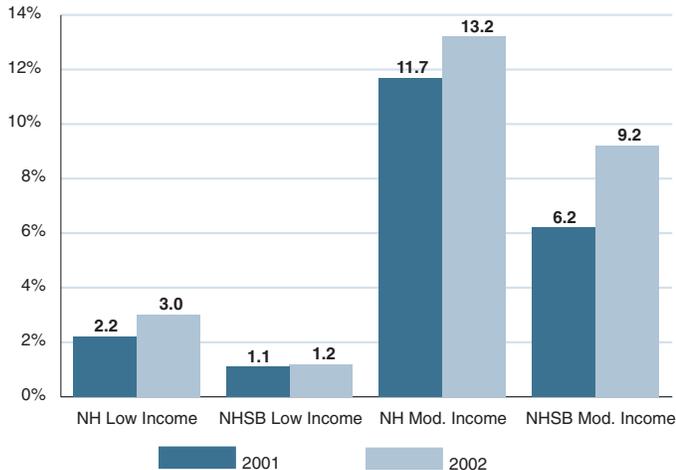
Connecticut Center for a New Economy <http://www.ctneweconomy.org>

income census tracts. White, lower-income census tracts in the city were twice as likely to receive no loans from NHSB than white, lower-income census tracts outside of the city.

**NHSB TRAILS ITS MARKETS
ON RACE AND INCOME INDICATORS**

New Haven Savings Bank takes a smaller share of applications from minority and low and moderate income applicants than the market does on average and makes fewer loans to minority and low and moderate income borrowers than market averages in every market where it operates in Connecticut. The disparities suggest that NHSB is doing a poor job reaching out to working families and communities of color. Without active and effective outreach, NHSB will continue to fail to serve these communities.

**Share of Mortgage Originations by Income Geography
NHSB v. Market**



Income

In the New Haven area, in 2002, NHSB made only 1.2% of its conventional mortgage loans in low-income census tracts. The market made loans in these areas at nearly 3 times the rate, 3.0 percent.

This trend is particularly damaging in the City of New Haven itself, where the majority of the area’s lower income census tracts are concentrated.

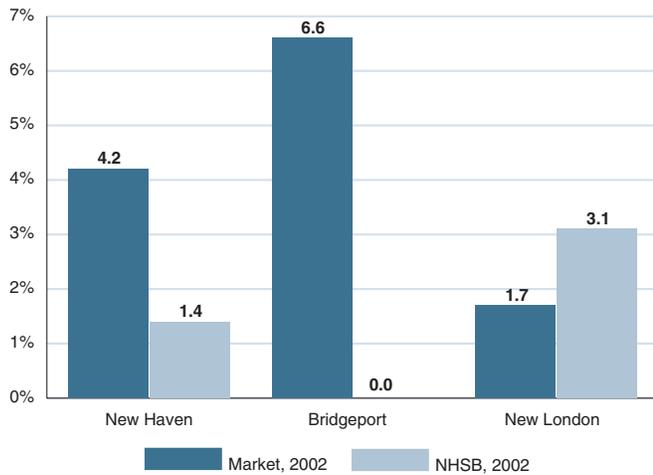
Race

The numbers of conventional mortgage loans made by NHSB to African-American and Latino borrowers lagged the bank’s markets across the board in 2001, and lagged all but New London in 2002.

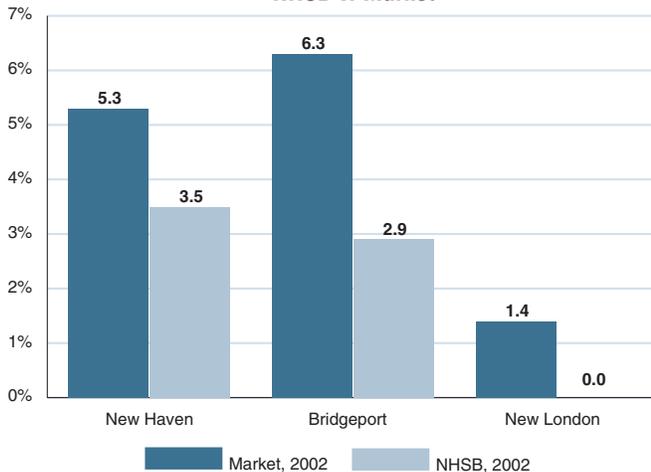
In New Haven, NHSB made a third as many of its loans to Latinos than the market did as a whole in 2002: 1.4% compared to the market average of 4.2%. In Bridgeport, NHSB made no loans to Latino borrowers because it received no applications from Latinos in 2002. In New London, NHSB made one loan to a Latino family, accounting for 3.1% of NHSB’s 32 area loans, exceeding the market average of 1.7%, a figure of limited significance given the small size of the loan portfolio.

In 2002 in the New Haven market, NHSB made 3.5% of its loans to African Americans, 34% below the market average of 5.3%. In New London, NHSB took no applications and made

Share of Mortgage Originations to Latinos, NHSB v. Market



Share of Mortgage Originations to African-Americans NHSB v. Market



no loans to African American families. In Bridgeport, NHSB's 2.9% of its loans to African Americans was less than half the market average of 6.3%.

These data are discouraging on their face. However, they are all the more so because NHSB is owned by its depositors, and has several branches in areas with significant minority population. NHSB's headquarters branch - its largest single source of deposits - sits in downtown New Haven, a city in which African-Americans and Latinos make up a majority of the population. The second largest branch is on Dixwell Avenue in Hamden, just across the town line from New Haven - a heavily African-American neighborhood. The bank's fourth largest branch is in West Haven, an inner suburb of 52,000 people, more than a quarter of whom are people of color. NHSB also has a large branch in the middle of Fair Haven, New Haven's most heavily Latino neighborhood.

AN "OUTSTANDING" COMMUNITY RECORD?

Under the federal Community Reinvestment Act, banks are required to meet the credit needs of the communities from which they take deposits. Federal regulators regularly evaluate banks and rate their community investment performance. Banks are given one of four ratings "Outstanding," "Satisfactory," "Needs to Improve," or "Substantial Noncompliance." Regulators issue the ratings based on three tests, the "Lending test," the "Investment test," and the "Services test."

The Federal Deposit Insurance Corporation completed New Haven Savings Bank's most recent CRA performance evaluation in July 2002. The FDIC issued a rating of "Outstanding," but there are three significant questions about the rating:

Grade Inflation: Community groups which monitor CRA compliance have long criticized federal regulators for their lax evaluation of America's banks, savings and loans, and bank holding companies. The majority of institutions receive the top

two grades (“Outstanding” and/or “Satisfactory”), and banks virtually never receive the lowest rating, “substantial noncompliance.” Even within this context, NHSB’s regulators are easy graders - fully 44% of banks of NHSB’s size regulated by the FDIC in New England received “outstanding” evaluations.

Sidestepping Race: NHSB’s performance evaluation makes only three passing references to minorities, noting:

- that the number of Spanish speakers in New Haven is increasing significantly. However, it does not say whether or how NHSB is addressing this change through new products, services or hiring of Spanish speaking staff.¹⁶
- NHSB is not in violation of federal anti-discrimination laws.¹⁷
- NHSB advertises in two Spanish and two African-American newspapers.¹⁸

There is no mention of mortgage lending to minority census tracts or to African American and Latino borrowers, despite the fact that the Home Mortgage Disclosure Act requires detailed disclosure by race, income and geography. As noted in detail above, the data strongly indicate that NHSB underserves minority borrowers and communities.

Reliance on Charities without Development Mission:

The FDIC’s evaluation of NHSB gives significant weight to the bank’s charitable activities when considering investments in the community. Indeed, the bank’s public statements about the merger claim that community investment will increase because NHSB is prepared to add several million dollars to its foundation.

NHSB makes charitable contributions in two ways. According to NHSB’s most recent CRA evaluation, the bank made \$999,000 in charitable contributions between 2000 and 2001, but less than a third went to organizations identified by NHSB as having a community development mission. In its 2002 annual report, NHSB describes certain recipients of contributions as having a “community development” purpose. Several, while laudable, are of dubious “community development” value—the Chamber of Commerce, the Walter Camp Football Foundation and the New Haven Road Race.

Contributions to the arts, the Road Race and the Chamber of Commerce do not make up for NHSB’s failure to serve working class and minority borrowers and neighborhoods. NHSB claims it will increase the size of the NHSB foundation to \$30 million in the proposed demutualization and merger. While such a foundation might provide a valuable stream of charitable contributions, community leaders and regulators should give much greater weight to the impact of the deal on

NHSB's already weak community lending record.

**MERGER TARGETS' LENDING IS
MORE CONCENTRATED THAN NHSB**

Tolland Savings Bank and the Savings Bank of Manchester operate exclusively in the suburban towns surrounding Hartford. Their branches can be found almost exclusively in white neighborhoods.

In 2001, Tolland Savings Bank took only one of its 97 applications from African Americans (it was approved), and zero from Latinos. Tolland made no loans to census tracts that are more than 20% minority - 95% of its loans were made in census tracts that were 90%+ white. It made no loans to low-income census tracts and only one in a moderate income census tract, compared to 21 to upper-income census tracts.

Savings Bank of Manchester is a much larger institution, making nearly 7 times as many conventional mortgage loans as Tolland in 2001. Manchester took 5 applications and made 4 loans to African Americans that year, and took 7 applications and made six loans to Latinos. The ten loans to African American and Latino families represent just 1.5% of Manchester's 659 conventional mortgage loans for the year - the Hartford area is 9.8% percent Latino and 8.9% percent African American. Manchester made 88% of its mortgage loans in census tracts that are 90%+ white.

Only 3% of Manchester's loans went to low-income borrowers. 0.3% of loans went to low-income census tracts, and the exact same percentage went to census tracts where minorities constitute a majority of the population. In essence, the mergers will allow NHSB, which has built a strong balance sheet in part on the foundation of deposits from low and moderate income working people, including many minorities, to penetrate the suburban Hartford market, accelerating the trend of loans to white, wealthy neighborhoods and borrowers, while ignoring urban Hartford.

New Haven Savings Bank is the last of a series of locally-controlled banks in the New Haven area. More people in the New Haven area deposit their money in NHSB than any other bank. Yet, the bank underserves low-income and minority communities.

- FDIC and the Connecticut Banking Commission should reject NHSB's application to demutualize and merge with Tolland Savings Bank and Savings Bank of Manchester pending significant improvements in NHSB's community lending record.
- NHSB must over the next two years substantially improve its community lending record.
 - NHSB should develop flexible, private lending products that enable low and moderate income applicants to become bankable and receive home mortgages.
 - NHSB should offer the full range of lending products for lower income applicants, not just FHA but also VA loans and participate in all of Connecticut's programs to increase homeownership rates.
 - NHSB should dramatically expand its outreach to minority, low- and moderate income communities.
 - To make up for past underservice, NHSB should meet and maintain a goal of 150% of the market average for loans to African-American and Latino borrowers, neighborhoods that are more than 50% minority, low-income census tracts and moderate-income census tracts.
- NHSB should not be permitted to merge with Tolland Savings Bank and Savings Bank of Manchester—the lending profile of these banks will only worsen NHSB's community lending record.
- NHSB must invest significant resources, with independent community oversight, in affordable housing in New Haven's low- and moderate-income neighborhoods.
- In any future demutualization:
 - The threshold for depositor voting should be \$1.
 - NHSB should be required to hold a full depositor vote.
 - NHSB should be required to hold 2 depositor meetings— one at which depositors may have their questions answered and then a subsequent one at which the vote is taken.
 - If a public stock sale is necessary, it should happen through

a community offering, rather than on Wall Street.

- To prevent profiteering by the Board and senior executives, there should be no subscription rights for insiders, and the new by-laws should prohibit insider stock options in perpetuity.

Endnotes

- 1 Steve Higgins, "Turning the Corner: Veteran Banker Injects New Life into Venerable Bank," *New Haven Register*, Jun. 8, 2003.
- 2 ACORN, Capital & Communities, Report to the Annie E. Casey Foundation on ACORN's Work to Revitalize Low and Moderate Income Communities, October 1997.
- 3 "Social Consequences of Homeownership," Robert D. Dietz, Ohio State University for the Homeownership Alliance, Jun. 2003.
- 4 See the "President's Corner" on NHSB's website, <http://www.nhsb.com/news/pre-scrn.asp>
- 5 Federal Financial Institutions Examination Council, "Community Reinvestment Act History and Purpose," available at <http://www.ffiec.gov/cra/history.htm>.
- 6 Joseph A. Colantuoni, "Mutual-to-Stock Conversions: Problems with the Pricing of Initial Public Offerings," *FDIC Banking Review* 1998, vol. 11, #4.
- 7 Vol. 59, 122 Fed. Reg. 30358 (1994).
- 8 "Steve Syre Boston Capital: Bank Seller's Market" Steve Syre, Boston Globe May 20, 2003 page E1.
- 9 CCNE examined the HMDA data from 1998-2002 and looked at the Federal Financial Institutions Examinations Council tables 4-2 (applications for conventional home purchase loans by race and by income), 5-2 (applications for conventional home purchase loans by race and income categories combined) and 7-2 (applications for conventional home purchase loans by race and income of the properties census tracts). This data is publicly available at www.ffiec.gov/hmda/. Unless otherwise specified, references to "mortgage" loans in this report refer to conventional home purchase mortgages recorded in these tables. CCNE's analysis excludes government backed loan programs such as the federal FHA program. FHA products are expensive for homebuyers, often adding as much as 10% to the monthly cost of mortgages due to mandatory private mortgage insurance payments. In any event, NHSB makes relatively little use of these programs, issuing just 9 FHA mortgages in 2002.
- 10 FDIC/Office of Thrift Supervision Summary of Deposits database, Market Share Report, data as of Jun. 30, 2002, available at www3.fdic.gov/sod//sodMarketRpt.asp.
- 11 Federal Deposit Insurance Corporation and Office of Thrift Supervision Summary of Deposits Database, as of Jun. 30, 2002, available at www3.fdic.gov/sod.
- 12 For this reason the graphs in this section do not sum to 100%
- 13 FDIC, NHSB CRA PE, Jul. 8, 2002, p. 6.
- 14 FDIC, NHSB CRA PE, Jul. 8, 2002, p. 15.
- 15 FDIC, NHSB CRA PE, Jul. 8, 2002, p. 24.
- 16 FDIC, NHSB CRA PE, Jul. 8, 2002, p. 7.
- 17 Only Black Pipe Bank in South Dakota, Chevy Chase Bank in Washington, DC and Decatur Savings Bank in Georgia have settled Fair Housing Act cases with the federal government. Other anti-discrimination statutes related to housing are rarely effectively brought against lenders. CRA only provides regulatory mechanisms to improve performance for ratings of "substantial non-compliance," a rating that is very infrequently given to banks.
- 18 FDIC, NHSB CRA PE, Jul. 8, 2002, p. 23.