COUNCIL OF THE CITY OF PHILADELPHIA

COMMITTEE ON FINANCE

- - -

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, November 16, 2005
10:35 a.m.

- - -

PRESENT:

COUNCILWOMAN JANNIE BLACKWELL, CHAIRWOMAN
COUNCILWOMAN BLONDELL REYNOLDS BROWN
COUNCILMAN FRANK DiCICCO
COUNCILMAN W. WILSON GOODE, JR.
COUNCILWOMAN MARIAN B. TASCO
COUNCILMAN FRANK RIZZO
COUNCILMAN JUAN RAMOS

BILLS 050615, 050745, 050746, 050747, 050829 and 050830

- - -

V A R A L L O Incorporated
Litigation Support Services
Eleven Penn Center
1835 Market Street, Suite 600
Philadelphia, Pennsylvania 19103
215.561.2220   215.567.2670

COUNCILWOMAN BLACKWELL: Good morning. Thank you very much. Forgive our delay. These are the days they say that try men's souls, meaning there's just too much to do. But we're happy to thank the Committee for their patience and to let you know that our Committee on Finance is happy to begin this hearing. We have several bills on the agenda.

We'll ask the Clerk to read the title of all bills at one time.

Would the Clerk please read the title of all the bills. Then we can entertain the testimony since it will be pertinent to all.

THE CLERK: Bill 050615, an ordinance amending Section 17-104 of The Philadelphia Code, entitled "Prerequisites to the Execution of City Contracts," by requiring any City Depository authorized to accept City deposits under Section 19-201 of The Philadelphia Code to annually certify compliance with Section 17-104 and, if such depository has disclosed slavery policies sold by it or its profits from slavery, to provide the City with a statement of financial reparations, all under certain terms and conditions; and

Bill No. 050745, an ordinance amending Chapter 19-200 of The Philadelphia Code, entitled "City Funds, Deposits, Investments, Disbursements," by requiring any City Depository authorized to accept City deposits under Section 19-201 of The Philadelphia Code to annually certify compliance with Section 17-104 and to provide the City with a long-term strategic plan to address disparities in its lending and investment activities; and

Bill No. 050746, an ordinance amending Chapter 19-200 of The Philadelphia Code, entitled "City Funds, Deposits, Investments, Disbursements," by amending Section 19-201, entitled "City Depositories," by authorizing the City Treasurer to deposit funds in Bank of

America, under certain terms and conditions; and

Bill No. 050747, an ordinance amending Chapter 19-200 of The Philadelphia Code, entitled "City Funds, Deposits, Investments, Disbursements," by amending Section 19-201, entitled "City Depositories," by authorizing the City Treasurer to deposit funds in Advance Bank, under certain terms and conditions; and

Bill 050829, authorizing the City Treasurer to deposit funds in Wachovia Bank, under certain terms and conditions; and

Bill 050830, authorizing the City Treasurer to deposit funds in Republic First Bank, under certain terms and conditions.

COUNCILWOMAN BLACKWELL: Thank you very much.

The Chair notes we have a quorum. To my left, Councilman W. Wilson Goode, who has been the sponsor of these bills. To his left, Councilwoman Blondell Reynolds Brown, Vice-Chair. To my right, Councilman Frank DiCicco. To his right, Councilwoman Marian Tasco.

We would like to ask Mr. Goode if he would like to make a statement.

COUNCILMAN GOODE: Thank you, Madam Chair.

Together today we consider six bills related to our City depositories. Two bills will amend the status of depositories, two bills will add City depositories, and two bills will add requirements for City depositories.

Requirements to be added are in direct correlation to lending disparities disclosed in the new CRA and fair lending study conducted by the National Community Reinvestment Coalition. The study concludes that by 2002, community reinvestment legislation has boosted banks performing into making home loans and branches available to working-class and minority communities, but the City depositories need to improve their performance of small business lending.

It also concludes that when separately analyzing home purchase, home improvement and refinance loans, racial disparities remain greater than income disparities. In other words, race is still a factor in local lending, not only in home loans, but in small business lending as well.

While we have improved lending to low- and moderate-income neighborhoods as we set out to do, there are other disparities to consider, including race, gender and geography, City versus suburbs. Therefore, the study recommends that we now require City depositories to create strategies to match or exceed pure lending performance in meeting capital access and credit needs disclosed for the study's findings. I will offer an amendment later to Bill No. 050745 to incorporate that recommendation.

Thank you.

11/16/05 - FINANCE - BILL 050615, ETC.

COUNCILWOMAN BLACKWELL: Thank you very much.

Do we have someone from the Administration who would like to testify?

COUNCILMAN GOODE: Actually, I'd like to call both NCRC and the City Treasurer to the table together and ask that NCRC testify first.

COUNCILWOMAN BLACKWELL: Welcome. Please identify yourself for the record and begin your testimony, as so requested.

MR. SILVER: Thank you so much. My name is Josh Silver. I am Vice-President of Research and Policy at the National Community Reinvestment Coalition, and it is a pleasure and an honor to be here today. I thank the City Council of Philadelphia for inviting us to testify today, and I also thank Councilman Wilson Goode for his leadership and vision in conducting these hearings and also for his pioneering legislation over the years.

First of all, the National Community Reinvestment Coalition, for those of you who are not familiar with NCRC, we're the nation's economic justice trade association of 600 community organizations dedicated to increasing access to credit and capital for minority and working-class communities, and one of the ways in which we do this is through research and advocacy and producing studies analyzing the CRA and fair lending performance of banks.

I want to start off today strongly endorsing the proposed bill by Councilman Goode to require a strategic plan from City depositories that would ask them to indicate how they're going to match or exceed peer performance in lending to working-class and minority neighborhoods. I think that this is a very powerful mechanism for increasing lending to traditionally underserved communities in the City.

Just by way of a little context

and history, in the late 1990s, we had several big mergers and there was a lot of activity in the City of Philadelphia when First Union was proposing to take over CoreStates and then we know that Nation's Bank and Bank of America merged and, more recently, Bank of America took over Fleet.

Well, since the late 19 -- 1998 was a big year of mergers. Then the year 2004 was also a big year of mergers.

When big lenders merge, they're under a public microscope and there is accountability on these lenders to increase their loans to low and moderate and minority communities, but during the off years when there's not a whole lot of merger activity, the public microscope sort of recedes or gets turned off a little bit. And sometimes when there's less public accountability, we see either a stagnation in lending to traditionally underserved neighborhoods or even a decline in lending to traditionally underserved neighborhoods.

The mechanism that the City Council and Councilman Wilson Goode have adopted over the last few years is really a pioneering mechanism to keep the public accountability on lending institutions to make sure that there is adequate and fair access to credit and capital for traditionally underserved populations.

The idea of the annual CRA goal statements and now the strategic plan is really, I think, a very innovative and pioneering concept that we think could be -- that has the potential for being very powerful in making sure that there is steady increases in access to credit and capital for the homeowners and the small businesses in traditionally underserved communities. And just imagine if other large cities and medium-sized cities around the country start adopting this approach. I think indeed the potential is very large across the country and in the City of

Philadelphia. So I just wanted to say that by way of introduction.

Last spring, Councilman Goode engineered a unanimous resolution through City Council asking the City Council to hire NCRC to conduct a comprehensive lending study for the City, and we responded by saying we would, of course, be delighted and love to do this. We want to do this with the 2003 data, which was publicly available last spring, and we also want to come back to the City Council in a few months' time and do this with the 2004 data as well, and that's what we've been asked to do, do a study with the 2003 and 2004 data. 2004 data just became recently available.

The data that's publicly available is data on home lending under the Home Mortgage Disclosure Act and also the Community Reinvestment Act data on small business lending patterns.

We first started with an analysis of home lending in the City and we looked at prime lending and subprime lending. The prime lending refers to market-rate interest rates. The competitive interest rate right now is about 6 percent. Subprime lending refers to interest rates that are higher than the going rate or a high-interest rate lending.

Subprime lending has surged in the last number of years. The higher interest rates of subprime loans compensate lenders for the extra risk of lending to people with credit blemishes or people with less than perfect credit. And responsible subprime lenders serve a very important place in the marketplace in making loans to people who may not otherwise get loans, but when you see a rapid surge of subprime lending in certain neighborhoods, you get very concerned that there's not the product choice in these neighborhoods that there needs to be.

And when subprime lenders end

up -- if they really corner the market to any group of borrowers in neighborhoods, then there is an increased potential for predatory lending or exploitative lending that really takes advantage of homeowners.

So you want to look at prime lending and subprime lending trends across the City and to certain borrowers to make sure that there's not a disproportionate amount of subprime lending going to any group of borrowers.

We did find in Philadelphia that particularly African-Americans are more likely to receive subprime loans. For example, African-Americans, that is the middle set of bars right -- not the left. That's Asians. The next one over is African-American.

African-Americans represent about 40 percent of the City's populations, and they received 19 percent of the prime loans in the City and received 36 percent of the subprime loans in the City. So 40 percent of the population received 19 percent of the going-rate loans that are about 6 percent.

We believe that the gap can be closed and lending made at least a little bit more equal. There is disturbing evidence over the years, studies at NCRC has conducted and studies that the Federal Reserve Board has conducted, that after controlling for credit worthiness, minorities receive still too much subprime loans. As the number of minorities in the neighborhood increase, so does subprime lending even controlling for credit worthiness.

So that's why I'm saying this morning I think that that gap for African-Americans can be closed.

And if you go over to whites on the end, you actually see that whites receive a higher percentage of prime loans than their portion of the population.

If you go to the next slide, this is a slightly different way of looking at the data. This says, How much of the market does subprime lenders have? Subprime lenders made about 18 percent of all the loans to African-Americans, whereas subprime lenders made about 8 percent of the loans to whites in the City during 2003.

If you divide the 18 percent that African-Americans received by the 8 percent that whites received, it's a disparity of 2.27. That's a little triangle towards the top above the bar for African-Americans.

So African-Americans were 2.27 times more likely to receive a subprime loan than whites. And Hispanics were 1.29 times more likely to receive a subprime loan than whites.

And these disparities by race are generally higher than the disparities by income. In other words, low- and moderate-income borrowers are not as likely to receive a subprime loan relative to middle- and upper-income borrowers as African-Americans are relative to whites.

And if you think about this a little more closely, there are, of course, a lot of middle- and upper-income African-Americans. So why is the disparities by race higher than the disparities by income? And we hope over the years that prime lenders become more competitive and increase their prime lending to minorities.

Go to the next slide.

We also wanted to point out that this is not just a City phenomena. Disparities are also present in the suburban part of the Philadelphia metropolitan area. We just looked at the suburban part of the Philadelphia metropolitan area in Pennsylvania. And we see here, too, that blacks receive 14 percent of -- subprime lenders made 14 percent of all the loans to

African-Americans and subprime lenders made about 5 percent of the loans to whites. So African-Americans in the suburbs are 2.98 times more likely than whites to receive a subprime loan, and Hispanics are about twice as likely as a white to receive a subprime loan.

Then you go to the next slide. Of course, I won't read through all of these paragraphs, but what we did is, we also wanted to look in detail in the lending performance of banks receiving City deposits. I will call them City depositories. And we really wanted to see how the City depositories are performing relative to their peers. And this is one of the real strengths and I think geniuses of the CRA goal statement program.

The City depositories represent about 20 percent of the home loan market in the City of Philadelphia, and that's actually a big chunk, because the home loan market in most cities and localities are still pretty fragmented. There's lots of lenders competing in the home loan market.

And also the City depositories own 57 percent of the branches in the City of Philadelphia. So the City depositories have a very large market presence in the City, and when you have a bunch of lenders that have a large market presence, they have an opportunity to be leaders in the market and really leading the entire market in making more loans to low- and moderate-income neighborhoods and minority neighborhoods. So they have a real potential here to move the entire market to make more loans to low and moderate income and minorities.

In the home lending analysis, we used 17 indicators of performance to look at the home lending performance of the City depositories, indicators ranging from the percent of loans to African-Americans, the percent of loans to women, to the percent of loans in low-and moderate-income neighborhoods, and also looking at the denial rates, the African-American denial rate compared to the white denial rate.

In home lending overall, the good news is that the City depositories outperformed their peers on 15 of the 17 indicators, their peers being the other lenders in the City. So they outperformed their peers on 15 of the 17 indicators of performance, or 88 percent of the indicators of performance, and that's the good news.

Within the lending types, the City depositories do a lot better on home improvement lending. That's very important, because the City has an aging housing stock. But not as well on home purchase lending and refinance lending compared to their peers.

So we recommend that they step up working with the City's program, the Neighborhood Transformation Initiative, that the City depositories step up their performance on the home purchase and refinance lending while maintaining their good performance on home improvement lending.

Go to the next, which is -- keep on this slide. I'm sorry. I'm going to give you a few slides of how the City depositories perform in lending to certain groups of borrowers.

You see that -- and, remember, African-Americans are about 40 percent of the households. All the lenders in the City make about 20 percent of their loans to African-Americans.

The banks on the left-hand side are doing the best on this indicator. PNC is making about 30 percent of their loans to African-Americans and so is Wachovia. And down towards the end, Commerce Bank is making about 15 percent of their loans to African-Americans.

So all the lenders are in the black, and the City depositories are kind of on the gray bars. So you can see that the banks to the right of the black bar are not performing as well as all lenders as a group, and that's what Councilmember Wilson Goode is asking all the City depositories, How are you going to perform as well or better than all other lenders in the City on these indicators of performance.

Then you go to the next slide, low- and moderate-income borrowers. Low- and moderate-income borrowers are 57 percent of the City's households. All the lenders are making 51 percent of their loans to low- and moderate-income borrowers. Wachovia is making 61 percent of their home loans to low- and moderate-income borrowers. That's very commendable, because that's even a greater percentage than the percentage of households that are low and moderate income. And then you can look at the other lenders and see how they're stacking up. Only two of the City depositories are behind all the lenders as a group.

Then if you go to the next slide and we switch over to the small business lending analysis, there are some similar indicators of performance. Instead of reading the words to you, I'll go to the next slide.

And if you look at kind of the left-hand -- the very left-hand bars, you see that the black bar is the percentage of businesses in low-income census tracts in the City. In the City of Philadelphia, 28 percent of the businesses are in low-income tracts. And you see the white bar next to it, which is lower, they are receiving only 21 percent of the loans, or almost 22 percent of the loans, but 28 percent of the businesses are in low-income tracts.

In moderate-income tracts, the good news, it's more equal between the percentage of loans and percent of businesses.

Then I also have bars that show

the situation in the suburbs on the right-hand side, but we can go to the next slide and we can look at the situation in minority census tracts. Minority census tracts are tracts where more than 50 percent of the population is minority, and, again, in the City, which is on the left-hand side, we see a gap, that 35 percent of the loans are made in minority tracts, but minority tracts contain 45 percent of the City's businesses. So there's a gap of about 10 percentage points. And there is also a gap of about 1 percentage point in the suburbs, but there's much fewer census tracts in the suburbs that have more than 50 percent minorities.

Then you go to the next slide. This is small business loans to small businesses with revenues less than $1 million or the smallest businesses in the community, and this is where the gaps are particularly significant. In the City of Philadelphia, 32 percent of the loans are made to small businesses with revenues less than $1 million, but businesses with revenues less than $1 million constituted about 58 percent of the small businesses in Philadelphia. So that's a very significant gap, almost two to one between the percent of businesses that have revenues under $1 million and the percent of loans that go to these businesses. And, interestingly enough, the gap is just about the same in the suburbs.

So I think there's also some opportunities for the City and the suburban jurisdictions to work together to address some of these disparities and perhaps combine resources.

The City depositories did good overall in home lending, but they had more difficulty in small business lending relative to their peers. We looked at five indicators of performance. We would like to do more, but the small business lending data is not as detailed as the home loan data.

But anyway, half of the City depositories -- half or more of the City depositories exceeded the performance of all other lenders in the City on just two of the five indicators of performance. So on just 40 percent of the indicators, you have more than half of the City depositories exceeding the performance of other lenders.

Then if we go to the next slide, these are the percent of loans in low- and moderate-income census tracts. The testimony that was before preceding me was correct, that more than half of the loans are going -- more than half of the small business loans are going to low- and moderate-income census tracts. That's the black bar in the middle, all lenders.

But 62 -- actually, 63 percent of the small businesses are located in low- and moderate-income census tracts. So there's still a gap, 63 percent of the businesses located in low- and moderate-income census tracts receiving 57 percent of the loans.

You do see that three of the City depositories exceed the performance of all lenders as a group. Those are the bars to the left of the black bar. But four of the City depositories don't do as well as all lenders as a group. So this is an example where more than half of the City depositories, we hope to see them in future years to the left of the black bar.

Then the next slide shows your ratio of the lenders' market share in low- and moderate-income census tracts compared to middle- and upper-census tracts. I'll give you a quick example of this hypothetical. Suppose one lender makes 5 percent of the loans in low- and moderate-income census tracts and made 3 percent of the loans in middle- and upper-income census tracts. If you divide the 5 by the 3, their market share in low- and moderate-income census tracts is higher than their market share in middle- and upper-income census tracts. And that is the case for only three of the City depositories which have a ratio above one. Four of the City depositories, starting with Wachovia, have ratios below one.

We want them to have a ratio of one or more, meaning that their market share in low- and moderate-income census tracts exceeds their market share in middle- and upper-income census tracts.

If you go to the next slide, this shows the City depositories are doing well in terms of reaching small businesses with revenues less than $1 million, or the smallest of the small businesses. These businesses constitute 58 percent of the businesses in the City, and you see Bank of America and Fleet. Bank of America is making almost 80 percent of their loans to these businesses. Fleet is making 61 percent of their loans to these businesses.

2003, by the way, was before the merger between Bank of America and Fleet, and that's why they're analyzed separately.

And almost all of the lenders receiving City deposits are to the left of the black bar, meaning that they're performing better than all lenders doing business in the City.

Two of the lenders receiving City deposits are performing less than all -- not as well as all lenders receiving deposits in the City.

Go to the next slide.

We have two slides on branching patterns. The good news is that most of the City depositories placed a higher percentage of their branches in low- and moderate-income neighborhoods and minority neighborhoods than all lenders as a group.

Go to the next slide.

I'll sort of go through this a

little faster in the interest of time.

You see the black bar? The lenders to the left -- there's four of them in the low- and moderate-income census tracts -- are outperforming all lenders as a group. And then you go to the next slide. We do this for minority census tracts as well. Four lenders to the left of the black bar again are outperforming all lenders as a group in terms of the percent of their branches in minority census tracts.

Then we go to the next series of slides, which I think should be of great interest to some individual Councilmembers as well as the Philadelphia Association of CDCs that are in the audience and also NCRC members. I want to recognize Philadelphia Association of CDCs because they really helped us identify these nine neighborhoods.

These are nine neighborhoods that are targeted by community development corporations, and also three of the nine neighborhoods are empowerment zones as well. So we wanted to look at the lending trends in these neighborhoods.

And the good news is, if we go to the next slide, is the City depositories, by and large, have a higher market share of the loans in these nine neighborhoods than they do City-wide. For example, Wachovia, on the very left-hand side of the graph, makes 8 percent of the home loans in these nine target neighborhoods, but Wachovia makes about 5 percent of the loans City-wide. And that's a very good finding, that Wachovia is targeting its lending activity more intensively in these nine neighborhoods than City-wide.

The banks towards the right-hand side where the white bar is lower than the black bar, these lenders need to improve their market share in the nine target neighborhoods relative to their market share City-wide. But four of the seven City depositories have a higher market share in the nine neighborhoods than City-wide.

Well, you might be tempted to say, Oh, that's great news, things are going well in the neighborhood, but hold it a second. You turn to the next slide and you find that City-wide that all -- that in the City of Philadelphia, 13 of 100 owner-occupied housing units received loans, or about 13 percent of the owner-occupied housing units received a loan in the year 2003, but then you look to the right of the black bar and you see in the neighborhoods themselves, the very next neighborhood, OARC has about 8 percent of the owner-occupied housing units receive a loan, and actually in most of the neighborhoods, 4 percent or less of the owner-occupied housing units are receiving loans.

So there's definitely room to make more loans in these neighborhoods.

The credit needs remain unmet.

Then we do the same thing in the next slide in the small business. This is small business lending to businesses with less than -- with businesses less than $1 million in revenue. In the City of Philadelphia overall, lenders made 11 percent -- reached 11 percent of these businesses, but in most of the neighborhoods in the American Street Empowerment Zone, they reached 10 percent of these businesses. And then you go on down the line. In North Central Empowerment Zone, for example, they reached about 5 percent of these businesses with revenues less than $1 million.

So the last slide goes through our recommendations. I heartily and strongly recommend the new resolution on the strategic plan. I do think there's an opportunity for City and suburban jurisdictions to work together, because these lending disparities, unfortunately, know no jurisdictional boundaries. They cut across City and suburban lines.

And we also recommend to the City that they consider collecting small business data on a census tract level. We only have small business lending for banks that's publicly disclosed on categories of census tracts. So we know how many small business loans Bank of America makes in low-income census tracts, but we don't know how many loans they make in each of the individual census tracts that constitute, say, one of these neighborhoods.

We shared the preliminary draft study with the lenders receiving City deposits, and we thought that would actually improve the integrity and credibility of the study. We shared it with the City and with the City depositories, and they had some very constructive comments, and one of the comments was, Well, if we disclose to the City the small business lending done on a census tract basis but our competitors don't, would we be at a competitive disadvantage?

So thinking through that comment, we actually recommended the City require census-tract-by-census-tract data from these lenders, but the City holds this data on a confidential basis until hopefully the Federal Government will require the census-tract-by-census-tract disclosure of the small business data for all the lenders that have CRA responsibilities. But in the interim, it would still be very useful for the City and for the lenders themselves if this is done on a confidential basis between the City and the lenders to see which neighborhoods really are not -- really which neighborhoods do need to receive more small business loans.

And the next recommendation is, City depositories should boost their performance on home purchase, refinance and small business lending in general.

They're doing well in home improvement lending. Keep the performance on home improvement lending, but boost the performance in small business, home purchase and refinance lending.

And we hope that going forward, we can do many more studies for the City, annual studies on lending trends overall in the City and the lending trends of the City depositories, and this concludes my testimony, and I thank you so much for giving me this opportunity.

COUNCILWOMAN BLACKWELL: Thank you very much.

The Chair also notes that Councilman Juan Ramos is here. We thank him.

We will hear from the City Treasurer and then we will entertain questions from some of my colleagues.

Thank you. Please identify yourself to the record and make your testimony.

We want to certainly thank

Councilman Goode for all the work he's done on this subject and all the documents he's provided.

MR. NACCHIO: Good morning, Madam Chairman and members of the Committee on Finance. I am John Nacchio, the City Treasurer for Philadelphia.

I had prepared testimony for each of the individual bills, so I don't know if that's the approach that you would like to take or just to enter them into the record. But I could read the first one.

COUNCILWOMAN BLACKWELL: That will be fine.

MR. NACCHIO: Thank you. I appreciate the opportunity to testify before you on the matters related to City depositories, financial institutions authorized to accept City deposits.

The principal function of the City Treasurer's office is to administer the disbursement and distribution of printed checks that includes coordination of associated forms of electronic payment processes. This function is in addition to managing the City's cash in order to provide daily liquidity in a variety of bank accounts to cover the disbursement payments while simultaneously working to maximize the daily investment of excess cash reserves.

The City Treasurer's principal objective is to protect and to grow the financial cash assets of the City.

The City Treasurer has no objection to request annually that City depositories that are authorized under Section 19-201 to certify compliance with Section 17-104 of The Philadelphia Code by January 1st of each year. If there are disclosed slavery policies, a statement of financial reparations will be also requested of the City depository.

That concludes my testimony on Bill 050615.

COUNCILWOMAN BLACKWELL: Will this refer to the other bills as well?

MR. NACCHIO: Yes. For the two bills related to the same sections, yes.

COUNCILMAN GOODE: Mr. Nacchio, the Administration does not oppose any of the six bills; is that correct?

MR. NACCHIO: That's correct.

COUNCILMAN GOODE: And if passed by City Council, will implement all six bills; is that correct?

MR. NACCHIO: Excuse me, Councilman?

COUNCILMAN GOODE: And if passed by City Council, will implement all six bills; is that correct?

MR. NACCHIO: That's my understanding, yes.

COUNCILMAN GOODE: Thank you.

Mr. Silver, thank you for your testimony and the hard work that you've put into this. I think you've covered everything in a very effective PowerPoint presentation. Because of the weight of the amount of data, I want to just emphasize some things for the record.

First, could you elaborate on why it's important for all City depositories to match or receive peer lending performance both in small business lending and home lending?

MR. SILVER: I think it's very important, because City depositories, as I said earlier, control 57 percent of the branches in the City and make 20 percent of the home loans. These lenders are the commanding lenders in terms of they have significant market, they have a significant amount of the market in the City of Philadelphia. And if you can move lending institutions that control 50 percent of the branches, if you can move them to make more loans to minority and low- and moderate-income neighborhoods, then you have the potential for moving the entire market, because the reaction of the other lenders is, they'll see the City depositories making more loans in minority and low- and moderate-income neighborhoods. Then they'll want to also be more competitive themselves. So the other lenders as well will be making more loans in these neighborhoods.

And the end game for NCRC is increasing access to credit and capital for traditionally underserved communities, and we think that this is a very powerful mechanism for doing that, the CRA goal statements and the programs that you're implementing.

COUNCILMAN GOODE: Could you please comment once again on whether you believe that the proposed amendment to Bill 745 accomplishes that goal.

MR. SILVER: I think it does so very effectively, that you're requesting a strategic plan from the lenders how they're going to match or exceed their performance on CRA and fair lending indicators such as the ones used in NCRC's report.

If a lender puts down on a piece of paper, for example, all lenders as a group or making -- all lenders as a group are making 20 percent of the loans to African-Americans, our objective is to make 35 percent of all loans to African-Americans. That is a powerful statement, and you can use that statement to hold the lender accountable. If they come back next year and they made 30 percent of their loans to African-Americans, they're still exceeding what the other lenders in the City are doing, but they didn't meet their 35 percent goal. So hopefully the next year they'll meet or exceed that 35 percent goal.

And this is not without precedent. On the federal level under the Community Reinvestment Act, there's something called a Strategic Plan Option, and under the Strategic Plan Option, it's very much a similar type of goal-setting process, what is our specific goals on some specific indicators of performance, and then in future years, the CRA examiners will see if the banks met or exceeded their goals.

So this is a very powerful tool, and I recommend City Council pass it.

COUNCILMAN GOODE: Again, just for the record, although you covered it, could you describe how City depositories perform in small business lending versus the rest of the market?

MR. SILVER: Not as good on small business lending as on home lending. We used five indicators of performance on small business lending to compare lenders to their peers, and half of the City depositories exceeded the other lenders in the City on just two of the five indicators of performance.

In particular, we think that they need to increase their small business lending in low- and moderate-income census tracts, their market share in low- and moderate-income census tracts compared to their market share in middle- and upper-income census tracts.

COUNCILMAN GOODE: You circulated drafts of this report, I believe, on October 7th to all the City depositories. Can you tell me which ones gave you responses?

MR. SILVER: Sure. Wachovia gave us a response, and Wachovia thanked NCRC for a comprehensive and well-reasoned and informed study, and I thank Wachovia for making those comments.

There was another lender, Commerce Bank, that had some questions about some of the specifications we used for the data analysis.

When you're dealing with the home loan data in particular, it's a very complex dataset, and you can use the dataset in many different ways, there's many different variables, and they just wanted to ask us how we were considering it. And, actually, the way we were thinking through the home loan data is actually very similar to the way Commerce

Bank was thinking through the home loan data.

I had some phone tag with PNC Bank, but that was it.

COUNCILMAN GOODE: In your testimony in the report, you cite 58 percent of all small businesses generate less than a million dollars in revenue in the City of Philadelphia, and I would note that Citizens Bank offers about 58 percent of their loans to those small businesses, PNC 57 percent, Commerce 57 percent, but Wachovia only 16.2 percent of their loans to businesses that generate less than a million dollars.

Did they offer any explanation in response to your draft report?

MR. SILVER: I hesitate -- yes. They did send me a letter, and I hesitate to repeat what their response was because I don't remember their entire response, so I don't want to do them a disservice by saying something that would be incorrect. But in talking to some of the

Wachovia representatives here in this room before the hearing, they did acknowledge that they will be revamping their small business lending program. So we certainly hope that that 16 percent gets higher in future years and approaches and exceeds what all other lenders in the market are doing.

COUNCILMAN GOODE: For the record, in terms of our City depositories and their small business lending to businesses of less than a million dollars in revenue, almost all of our City depositories were right there, and essentially it's that 16.2 percent figure from Wachovia that dragged all the depositories down to less than a third; is that correct?

MR. SILVER: You have to look at the loan volume, and I don't recollect that off the top of my head, but definitely a 16 percent performance would drag down the performance of the other depositories.

COUNCILMAN GOODE: I have a copy of the report here.

MR. SILVER: Go through the tables and we have to review that.

COUNCILMAN GOODE: I think it's Table 20.

MR. SILVER: Okay. 145-page report. Bear with me for one second.

COUNCILMAN GOODE: It's Table 20.

MR. SILVER: That's the thing with data. That's why we do the PowerPoint. We try to boil down data analysis and make it lively.

Wachovia made a significant amount of small business loans. They made 1,264 small business loans overall in the City in 2003, and to small businesses with less than $1 million of revenue, they made 204 of their 1,264 loans. So that's the 16 percent.

PNC, by contrast, made 1,389 small business loans overall and 796 loans to small businesses with revenues less than a million dollars. So PNC has a similar loan volume overall as Wachovia, and hopefully going forward, Wachovia will adopt some of the best practices of the lenders that do better on this indicator and so hopefully overall -- so we have some real potential to move performance of all of the City depositories on this indicator by moving the performance of Wachovia.

And I think that's the positive -- that's the win-win of this type of data analysis in this type of report. Not necessarily trying to play a game of got you and saying, You're a bad bank, but, more importantly, saying, We have some real opportunity to increase lending to populations and small businesses that previously haven't received the loans that they need, and just by moving the performance of one lender, we can improve the situation City-wide. So there's some real power in this.

COUNCILMAN GOODE: Last question, very simple question. Per your analysis on 2003 and prior analyses, is race a factor in lending in Philadelphia?

MR. SILVER: I'm afraid to say that race remains a factor in lending in Philadelphia. I hope in my generation that factor disappears from the lending marketplace, but unfortunately, with the data available, publicly available to NCRC, and even when the Federal Reserve, the best economists in the world, do their studies, they come up with the same results that we do.

We were able to control for credit worthiness in a study we did a few years ago, and the Federal Reserve controlled for credit worthiness in a study they did about the same time, and we still found that controlling for credit worthiness, high-cost lending increases as the amount of minorities increase in the neighborhood. And I hope in five years or ten years when I'm doing a study like this, that disappears, but unfortunately, that's still present in the lending marketplace.

COUNCILMAN GOODE: One follow-up. Is race more of a factor for certain City depositories than others?

MR. SILVER: I think in home lending the City depositories are doing better than other prime lenders, I should say, other prime lenders in the City. For small business lending, let's just go to -- small business lending, we don't have the data, and we don't have the data because it's not made publicly available. We have the data on lending in low- and moderate-income census tracts, but I would love to see the data on lending in minority census tracts.

COUNCILMAN GOODE: In terms of home lending, did Wachovia offer any explanation in its response to why it offered only 18 percent of its loans to African-Americans?

MR. SILVER: I don't recollect

that in their response, no. They were kind of inconsistent on the home lending. I think they were doing well on the refinance lending, but not as well on the home purchase lending.

COUNCILMAN GOODE: I believe they were number one on both refinance and home improvement in the market and in terms of African-Americans, but they were next to last or dead last in terms of home purchases. In other words, if you already own a home, they will refinance to help you improve it, but they won't necessarily help you purchase a home if you're African-American.

MR. SILVER: Again --

COUNCILMAN GOODE: Or start a business.

MR. SILVER: Again, a real opportunity moving the performance of one lender to moving the market.

COUNCILMAN GOODE: Thank you.

Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank

you very much.

Councilwoman Tasco, and I know, Councilman Rizzo, you're waiting. Thank you.

COUNCILWOMAN TASCO: Thank you very much.

First, I want to thank Councilman Goode for his organized effort in addressing the whole issue of the lending in the City by the various financial institutions and then moving to introduce legislation to probably correct some of the disparities.

When you talk about the subprime loans and the high number of subprime loans in the African-American community, are the subprime loans mostly attributed to loans for home improvements?

MR. SILVER: It's actually refinance. Subprime lenders have been -- their largest market presence is in refinance lending, but subprime lenders also have a presence in home improvement lending as well. And there are a number of scams in home improvement lending that you might be thinking about.

COUNCILWOMAN TASCO: Okay. Thank you very much.

MR. SILVER: Sure.

COUNCILWOMAN TASCO: Thank you very much.

COUNCILWOMAN BLACKWELL: Thank you very much.

Councilwoman Blondell Reynolds Brown.

COUNCILWOMAN BROWN: Thank you, Madam Chair.

Good morning. Let me also go on record also to commend Councilman Goode's consistent focus, like a laser beam, on this issue over the past number of years.

I would like to go to the recommendations you mention on Page 25. Please define for me in the words of NCRC what is a non-occupant investor and why following those trends is meaningful and purposeful in the mission of this initiative.

MR. SILVER: Thank you so much for picking that up. In the interest of time, I didn't talk about that in the presentation, but that is a very important topic.

We've had a housing boom across the country in the last few years with record-low interest rates, and that has increased lending to investors who own a property but don't live in the property. Non-occupant owners is another cumbersome way of talking about them, but I'll just call them investors.

And in large cities, you have investors buying homes and renting them out, and this report cannot address the quality of the housing stock of small landlords, if you will, small investor landlords, but we did find that loans to investors are the minority of loans made in the City. But we also found that it is more likely to be made to an investor that's middle and upper income purchasing property in minority and low- and moderate-income neighborhoods. Is that a problem? Again, this study -- I can't look at the quality of the housing stock with the home loan data, but that's definitely something for the City to look into. It could be the case that in some cases these are very responsible people, investors. In other cases, they may not be.

But certainly when we see that overall in the City lenders are making about 13 out of every hundred owner-occupied residences are receiving loans --

COUNCILWOMAN BROWN: You said 13 out of what?

MR. SILVER: 13 out of every hundred owner-occupied housing units are receiving loans, but in the nine target neighborhoods, only four out of every 100 owner-occupied units are receiving loans. There's clearly more opportunity to make loans to owner-occupants in these neighborhoods.

So hopefully we'll see more loans to owner occupants, because there's clearly a need. But I just wanted to raise this issue of investor housing and look at those trends as well. And I think hopefully the City will look into this further and see, Okay, is this okay or is it something we should be concerned about.

COUNCILWOMAN BROWN: Is there another city that you can look to that would inform our City why non-occupant owners are not a good thing in the scheme of things? I mean, do you have research that suggests some other major city where this reality proved to be disfavorable to the citizens of that city? I mean, there's a reason why you say watch the trends.

MR. SILVER: That's a very good question, and my answer will be, I will give you an inadequate answer, because this is a little bit outside of my field. I really focus on lending data.

But I do remember that we've talked to Fannie Mae and Freddie Mac over the years, you know, huge institutions, and one of these representatives was very concerned about the trends of lending to investors and said, We shouldn't get credit. Fannie Mae and Freddie Mac shouldn't get credit for purchasing loans that are made to investors.

That was a very strong statement made by somebody from Fannie Mae, actually. So they're concerned about it and the impact of the quality of the housing stock.

So I thought it was a good idea to look at this study, because it also has been -- it's been a nationwide trend as well as in cities. So our recommendation is just to monitor it.

COUNCILWOMAN BROWN: Sure. Thank you for your testimony, and the report I find to be very revealing.

Thank you.

MR. SILVER: Thank you.

COUNCILWOMAN BLACKWELL: Councilman Rizzo, thank you for your patience.

COUNCILMAN RIZZO: Thank you, Madam Chair.

Good morning. In reference to your PowerPoint presentation, you drive through the City and you see a presence of one particular bank more so than another. How significant is the presence in the community of a particular Wachovia or Commerce or a lack of another one? What does that do to skew the numbers?

And, also, I've shopped for a mortgage and basically walked out because it wasn't a good deal. I mean, the business decision also has to be factored into a person whether they don't or accept a mortgage from a particular lender.

But the first part of the question is the presence in the community. People have a tendency to go close to where -- or is that not a factor?

MR. SILVER: Bank branches are very, very important. Thank you so much for asking that question. I think it's particularly important in small business lending, because the small business lending is really done more on a personal interaction level. The home lending has gotten automated over the years, but even in home lending, particularly somebody who is just buying a house for the first time, the branch is very important.

I'll give you a national-level finding from the Federal Reserve Board. They found that where banks have branches, the banks are actually more likely to make prime loans to minorities. Then when the banks are doing business through brokers, the banks are more likely to do subprime loans.

So if you're more likely to make a prime loan through a branch, that's what the community wants, because the prime loans are a lot more affordable to somebody from the community than the subprime loan. Even a difference of three percentage points in the interest rate can translate into $50,000 to $100,000 over the life of the loan, and that's a lot of wealth that's going to the lender instead of the homeowner.

COUNCILMAN RIZZO: Can I just jump in and comment on what you just said?

MR. SILVER: Sure.

COUNCILMAN RIZZO: Is there any statistics on previous relationships? Did you look to see how many people that have a bank account, a checking account, a savings account had used the bank that they already have a business relationship with? I mean, that would be interesting to see how they treat their customers that they already have versus -- I'm a perfect example. I couldn't get a deal with a very good mortgage rate and also points, et cetera, with the bank that I've been doing business with for 30-plus years and I had to go some place else.

MR. SILVER: That's a very good question, and believe it or not, there's not as much research out there as you'd think on this question. I mean, it's intuitive that if you have a savings account and a checking account, that should lead to a bank loan.

COUNCILMAN RIZZO: The first place I went. I figured they have a history with me. They know a little bit about me, but it didn't matter.

MR. SILVER: I would say, though, that in our study, we do think that there is a relationship between bank branches and lending performance. Wachovia, for example, has 54 branches in the City. PNC has 39 branches. Commerce Bank, on the other hand, is newer to the City and they have 11 branches, and Commerce Bank doesn't do as well on the small business and home lending indicators in terms of reaching minorities.

COUNCILMAN RIZZO: They don't?

MR. SILVER: They don't do as well, and I think a part of that is the branching.

We believe that branches are very, very important, and also important not just in terms of small business and home loans, but there's been such an exposure to payday loans over the years. Instead of going down the street and getting a loan from a payday lender, go down the street and open up a checking account or a savings account or get even a credit card from a bank is a lot less expensive than the payday loan.

And, you know, I see this in Washington, D.C. I used to live in Adams Morgan, a Hispanic neighborhood in Washington, D.C. What was open after 8 o'clock? The payday lender, not the bank branch.

So I think that bank branches

are very important and that going forward, I think one way that the City depositories can improve their performance is opening up some more branches in low-income and minority neighborhoods.

As I said in my testimony, overall the City depositories do better than the other lenders in terms of placing a higher percentage of their branches in minority and low- and moderate-income communities, but none of the lenders really match the demographics of the City; that is, are they putting the same percentage of their branches that is equal to the percentage of households in minority neighborhoods? And the answer is no for any of the lenders, the City depositories or the other lenders.

So there is room to place more branches in minority and low- and moderate-income communities, and I think notwithstanding your personal experience, which would be very frustrating to me too, I do think that branches make a difference in terms of making small business and home loans to particularly people who are not familiar with banks and need more of a one-on-one hand-holding, how do I do this, counseling, et cetera.

COUNCILMAN RIZZO: Thank you, Mr. Silver, and thanks for the good work.

MR. SILVER: Thank you.

COUNCILMAN RIZZO: Thank you, Madam Chair.

COUNCILWOMAN BLACKWELL: Thank you very much.

Are there further questions for these witnesses?

(No response.)

COUNCILWOMAN BLACKWELL: Is there anybody else here who would like to testify?

Thank you very much. Yes, sir. Come forward.

Thank you. Good morning.

Please identify yourself for the record and begin your testimony.

MR. RANDAZZO: Madam Chairwoman, my name is Vince Randazzo. I am the Director of Government Relations at Wachovia and --

COUNCILWOMAN BLACKWELL: Spell your name again for the stenographer.

MR. RANDAZZO: R-A-N-D-A-Z-Z-O.

And simply what I would like to do is, if it would be all right, to submit for the record a letter that Wachovia presented to NCRC that I believe responds to many of the issues that were discussed in the conversation between Councilman Goode and Mr. Silver, if that would be permitted.

COUNCILWOMAN BLACKWELL: Certainly. We will include your record. The Clerk will make copies and we will include your letter in the record as if you had made testimony.

MR. RANDAZZO: Thank you very much.

COUNCILWOMAN BLACKWELL: Thank you very much.

Questions?

COUNCILMAN GOODE: But once you take a seat at the table, you open yourself up to questions.

MR. RANDAZZO: Absolutely.

COUNCILMAN GOODE: Can you explain why Wachovia only offered 18 percent of home purchase loans to African-Americans?

MR. RANDAZZO: I believe the comment that I would make on that -- I don't believe I can accurately answer that question for you, Councilman, because I don't have all the data with me, other than to say that, as you know, it's a very dispersed market for home lending. As you know, Wachovia has a large market share overall within the City, but yet our market share is quite small.

COUNCILMAN GOODE: Well, I can say for the record that Fleet offered 32 percent of home purchase loans to African-Americans, Commerce offered 28 percent, Citizens offered about 26 percent. PNC was first in terms of home purchase loans to African-Americans, about 38 percent. 18 percent is offensive. Don't you agree?

MR. RANDAZZO: I really don't have the data to comment, Councilman, but I'd be happy to go back --

COUNCILMAN GOODE: But you submitted a document to be entered into the record related to the data?

MR. RANDAZZO: It specifically is the response, yes.

COUNCILMAN GOODE: Can you explain for the record Wachovia's denial disparity ratio in terms of African-Americans in terms of home purchase loans?

MR. RANDAZZO: Councilman, I am not prepared. I don't have the data for that.

COUNCILMAN GOODE: Do you know

that African-Americans, if they want to purchase a home and receive lending from Wachovia, are three times more likely to be denied and no other City depository has that type of offensive record?

MR. RANDAZZO: No, I was not aware of that, sir.

COUNCILMAN GOODE: Let me give you the denial disparity ratios. Commerce Bank is actually excellent. It's under 1.0. It's actually 0.41. Bank of America actually has an excellent record, is under 1.0. It's 0.61. PNC is 1.52. Fleet is 1.79. Citizens is not so great at 2.24. Wachovia, African-American denial disparity ratio for home purchase loans is 3.17. So I'm offended you would even come to the table today.

MR. RANDAZZO: I appreciate that perspective. Again, I'm not familiar with the data to be able to respond.

COUNCILMAN GOODE: Thank you.

MR. RANDAZZO: Thank you very much.

COUNCILWOMAN BROWN: I should mention we're waiting for the Chair of the Finance Committee to return and we'll move on these bills.

(Pause.)

COUNCILWOMAN BLACKWELL: Are there any further questions?

(No response.)

COUNCILWOMAN BLACKWELL: Is there anyone else who would like to testify with regard to these bills?

(No response.)

COUNCILWOMAN BLACKWELL: Seeing none, that will end the hearing part of our deliberations. We will now enter into stated meeting.

The Chair will recognize -- and he's been, for the purposes of our gathering, a member of this Committee hearing as well. The Chair recognizes Councilman Goode with a motion with regard to Bill No. 050615.

COUNCILMAN GOODE: Thank you, Madam Chair. I move that Bill 050615 be reported out of Committee with a favorable recommendation and that the rules of Council be suspended so as to permit first reading at our next Council session.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that Bill No. 050615 be reported out of Committee with a favorable recommendation and, furthermore, that the rules be suspended so as to permit first reading at our next session of Council.

All in favor will say aye.

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and the bill is passed.

The Chair recognizes Councilwoman Blondell Reynolds Brown with regard to an amendment to Bill No. 050745.

COUNCILWOMAN BROWN: Madam Chair, I move that Bill No. 050745 be amended.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that Bill No. 050745 be amended.

All in favor will say aye.

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and so the amendment is adopted.

The Chair now recognizes Councilwoman Brown with regard to a motion on the bill as amended with a suspension of the rules.

COUNCILWOMAN BROWN: Surely, Madam Chair. I move that Bill No. 050745 as amended be reported out of Committee with a favorable recommendation and further move that the rules of Council be suspended to permit first reading of this bill at our next Council meeting.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded Bill No. 050745 as amended will be reported out of Committee with a favorable recommendation and also a recommendation for a suspension of the rules so that it may be heard at our next session of Council.

The Chair recognizes Councilwoman Tasco with a motion regarding 050746.

COUNCILWOMAN TASCO: Madam Chair, I move that Bill 050746 as amended be reported out of Committee with a favorable recommendation and a suspension of the rules so that the bill can be heard at Council's next session.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: Thank you. It's been moved and seconded that

Bill No. 050746 be reported out of Committee with a favorable recommendation and, furthermore, that the rules be suspended so as to permit first reading at our next session of Council.

All in favor say aye.

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and so the bill passes.

The Chair recognizes Councilman Ramos with regard to a motion for Bill No. 050747 with a suspension of the rules.

COUNCILMAN RAMOS: I move that Bill No. 050747 be reported out of Committee with a favorable recommendation. I further move that the rules of Council be suspended to permit first reading of this bill at our next Council meeting.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: It has been moved and seconded that Bill No. 050747 be reported out of Committee with a favorable recommendation, also a recommendation for a suspension of the rules.

All in favor will say aye.

(Aye.)

COUNCILWOMAN BLACKWELL: The ayes have it. Any opposed?

(No response.)

COUNCILWOMAN BLACKWELL: And so the bill passes.

The Chair recognizes Councilman Goode with regard to Bill No. 050829.

COUNCILMAN GOODE: Thank you, Madam President. I move that Bill 050829 be reported out of Committee with a favorable recommendation and that the rules of Council be suspended so as to permit first reading at our next Council session.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: All in

favor will say aye.

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and so the bill passes, and Bill No. 050829 will be reported out of Committee with a favorable recommendation and also with a recommendation for a suspension of the rules so that it may be heard at our next session of Council.

Councilwoman Blondell Reynolds Brown, we'll ask you for a motion with regard to the final bill, Bill No. 050830.

COUNCILWOMAN BROWN: Madam Chair, I move that Bill No. 050830 be reported out of Committee with a favorable recommendation and further move that the rules of Council be suspended so as to permit first reading at our next Council meeting.

(Duly seconded.)

COUNCILWOMAN BLACKWELL: All in favor will say aye.

(Aye.)

COUNCILWOMAN BLACKWELL: Opposed?

(No response.)

COUNCILWOMAN BLACKWELL: The ayes have it and Bill No. 050830 is reported out of this Committee with a favorable recommendation and also a recommendation for a suspension of the rules so as to permit first reading at our next session of Council.

That concludes this Calendar. We want to thank all of you who are here. We want to thank all members of the Finance Committee, and we especially want to thank Councilman Goode for all of his work on this issue.

This hearing is now recessed. Thank you all very much.

This hearing is adjourned.

Thank you, Councilwoman Tasco.

(Committee on Finance adjourned

at 11:45 a.m.)

- - -

CERTIFICATE

I HEREBY CERTIFY that the proceedings, evidence and objections are contained fully and accurately in the stenographic notes taken by me upon the foregoing matter on November 16, 2005, and that this is a true and correct transcript of same.

____

MICHELE L. MURPHY
RPR-Notary Public

(The foregoing certification of this transcript does not apply to any reproduction of the same by any means, unless under the direct control and/or supervision of the certifying reporter.)