

2010 Census Data: What it means for HMDA, CRA, and Fair Lending Compliance?

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Central to CRA, HMDA & Fair Lending

- Census data used to evaluate lending, services, and investment activity for regulated institutions, their regulators and the public at large
 - Income data used to categorize census tracts and borrowers by relative median family income (MFI)
 - Regulated entities can quantify lending across income groups and compare to peers or broader market
 - Regulators can evaluate institution performance
 - Public can track performance and respond
 - Race data used in fair lending and redlining analysis
 - Population and housing data provide context

Key Census Sources

- Census 2010 (decennial census) is complete population count and source for:
 - Race and ethnicity data
- American Community Survey (ACS)
 - Replaces “long form” of decennial census
 - Source of income and population and housing data
 - Conducted **annually**; but relatively small sample size
 - About 2.9 million households nationwide
 - Insufficient size for annual census tract estimates
 - Combined **2006-2010 ACS** provides income estimates for:
 - Census tract income classification
 - Borrower income classification

Timeline for Key Census & FFIEC Releases

- **Summer 2011:** Census Bureau released 2010 decennial census, uses 2010 tract boundaries
- **December 2011:** Census Bureau released 2006-2010 ACS data
- **January 2012**
 - Reporters started geocoding 2012 CRA and HMDA reportable loans using 2010 census tract identifiers
 - FFIEC updated on-line geocoding system using 2010 street address/census tract correspondence
 - FFIEC released updated MFI estimates for census tracts

Timeline for Key Census & FFIEC Releases

(continued)

- **March 2012:** Reporters submit 2011 HMDA and CRA data using *2000 census tract geographies and income*
- **June 2012:** FFIEC releases updated Census demographic file including population and housing characteristics (e.g., age of housing stock) and list of distressed census tracts

Changes Affect CRA, Fair Lending & HMDA Data Assessments

- Three key changes affect census tract relative income classifications:
 - Income updates
 - Revised geographic dimensions of census tracts
 - Revisions to MSA designations by Office of Management and Budget (OMB)

Income Updates from ACS

- Income updates lead to revised classifications of census tracts by relative median family income
 - Revised classifications arise from:
 1. New MFI estimates from each census tract
 - The numerator
 - The FFIEC will use 2006-2010 ACS estimates for 5 years and then update again for 5 years
 - » For 2010, income estimates are not available for about 1,000 census tracts or .72% of total
 2. New MFI estimates for each broader area (MSA or non-MSA portion of state)
 - The denominator
 - The denominator is included in the 2006-2010 ACS Data
 - Comparing **2000 Classifications** with **2006-2010 classifications**:
 - Find increased share of LMI tracts and fewer middle income

Census Tract Income Comparison

Census tract income profile, 2000 census compared with the 2006-2010 ACS

| Census tract income group | MSA | | Non-MSA | | National | |
|---------------------------|-------------|---------------|-------------|---------------|--------------|---------------|
| | 2000 census | 2006-2010 ACS | 2000 census | 2006-2010 ACS | 2000 census | 2006-2010 ACS |
| Low | 7.3% | 9.1% | 0.8% | 1.6% | 6.1% | 7.8% |
| Moderate | 23.7% | 23.5% | 13.8% | 16.2% | 21.9% | 22.2% |
| Middle | 43.8% | 39.6% | 73.2% | 65.8% | 49.4% | 44.3% |
| Upper | 25.1% | 27.8% | 12.2% | 16.5% | 22.7% | 25.7% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Population Updates from 2010 Census

- Population updates from 2010 Census lead to revised classifications of census tracts by race and ethnicity
 - Revised classifications arise from both changes in the composition of the population but also revised geographic boundaries of census tracts
 - Most notable change is the smaller share of predominately non-Hispanic White census tracts

Population Comparison

Census tract racial profile, 2000 census compared with the 2006-2010 ACS

| Census tract race composition | MSA | | Non-MSA | | National | |
|-------------------------------|-------------|---------------|-------------|---------------|--------------|---------------|
| | 2000 census | 2006-2010 ACS | 2000 census | 2006-2010 ACS | 2000 census | 2006-2010 ACS |
| Less than 10% | 28.3% | 19.9% | 57.9% | 50.9% | 33.8% | 25.5% |
| 10%-49% | 43.0% | 47.7% | 32.1% | 37.9% | 40.9% | 46.0% |
| 50%-79% | 12.9% | 16.4% | 6.8% | 8.1% | 11.8% | 14.9% |
| 80% or greater | 15.8% | 16.0% | 3.3% | 3.1% | 13.4% | 13.7% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Revised Census Tract Boundaries

Reflecting population changes due to births, deaths and in- or out-migration and changing infrastructure (for example, new highways) the 2000 census tract boundaries have been revised

- These changes alter the count and composition of the population and housing in an area and lead to changes in area characteristics (income, population and housing)
- These physical boundary changes can lead to changes in census tract income classifications

Revised Census Tract Boundaries *(continued)*

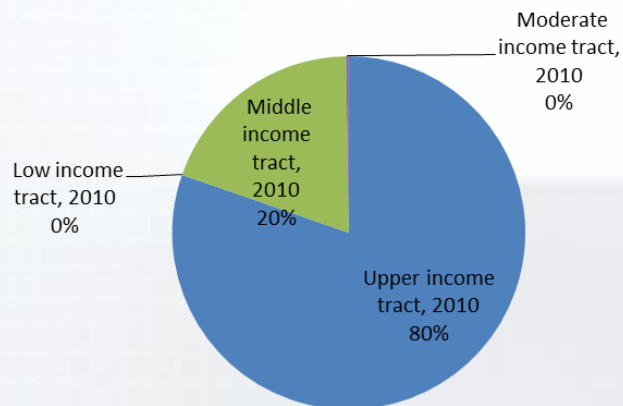
- In 2000, there were 66,309 census tracts
- In 2010, there are 74,002 census tracts
 - 46.5% of 2010 tracts have the **same** land area as in 2000
 - 72.1% of 2010 tracts were 95% or more similar based on land area in 2000
 - Remaining tracts were either split, merged, or some other combination that was substantially different from 2000

Measuring Possible Effects of Revised Income Estimates

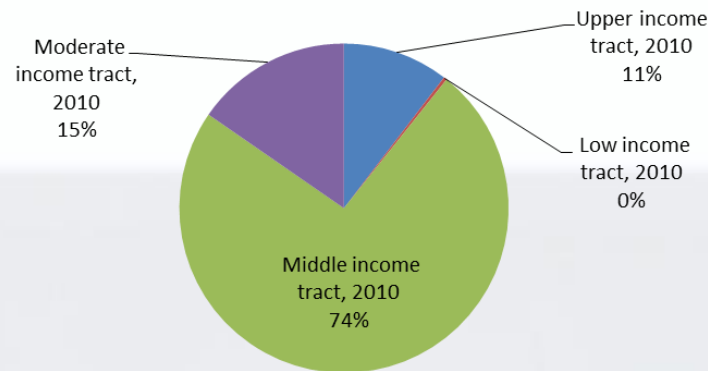
- To measure effects of revised census tract income classifications took the 2006-2010 MFI estimates for each tract and its broader area (MSA or non-MSA) and compared to income classification based on 2000 census
 - Tracts first sorted based on 2000 MFI grouping (low, moderate, middle or upper) and then revised 2006-2010 income classification
 - **ONLY used tracts with little or no boundary change**
 - Excludes about 30% of tracts
 - Transition matrix is the resulting outcome
 - Use three measures:
 - Number of census tracts
 - Number of loans (used 2010 lending)
 - Number of branch offices

Transition Effects of the Revised 2010 Census Data on Census Tracts

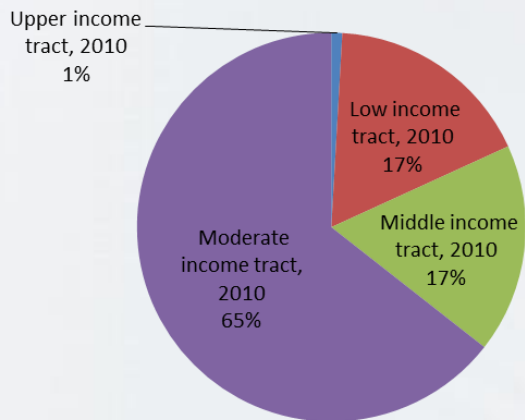
Upper-income tracts, 2000



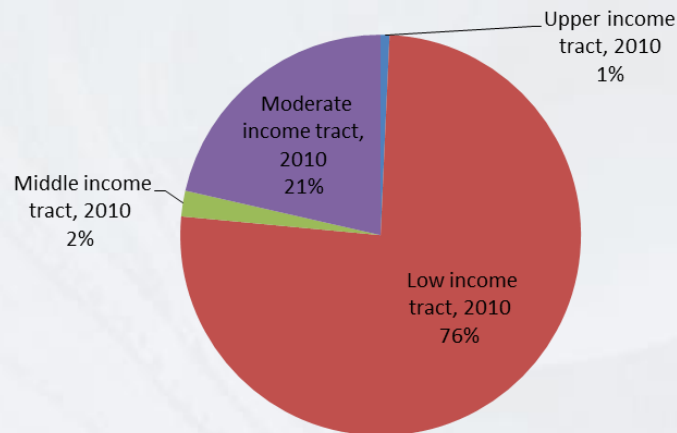
Middle-income tracts, 2000



Moderate-income tracts, 2000

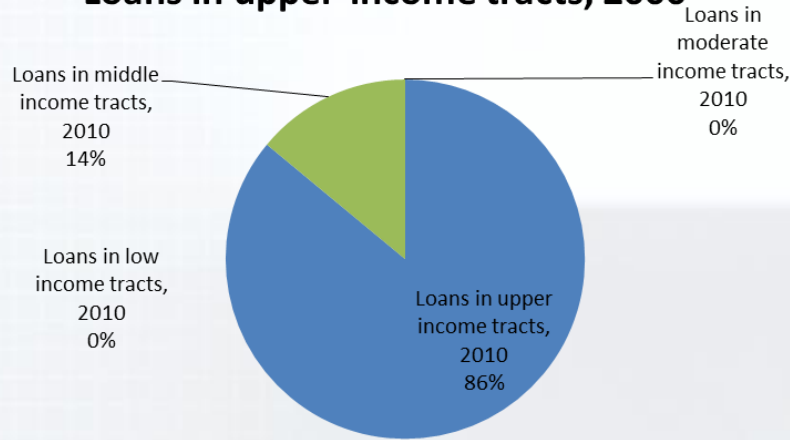


Low-income tracts, 2000

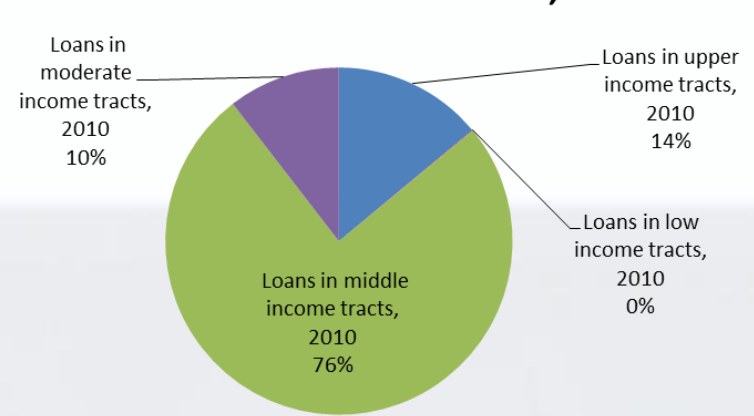


Transition Effects of the Revised 2010 Census Data on Lending

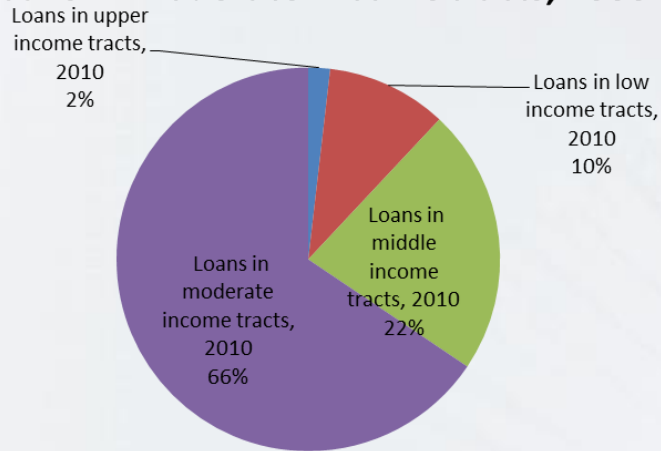
Loans in upper-income tracts, 2000



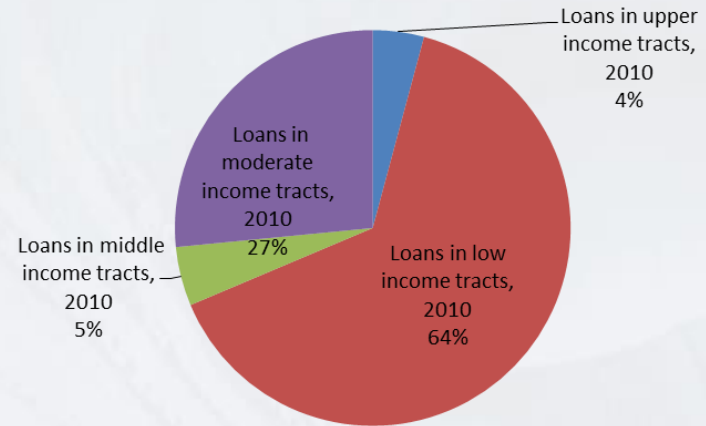
Loans in middle-income tracts, 2000



Loans in moderate-income tracts, 2000

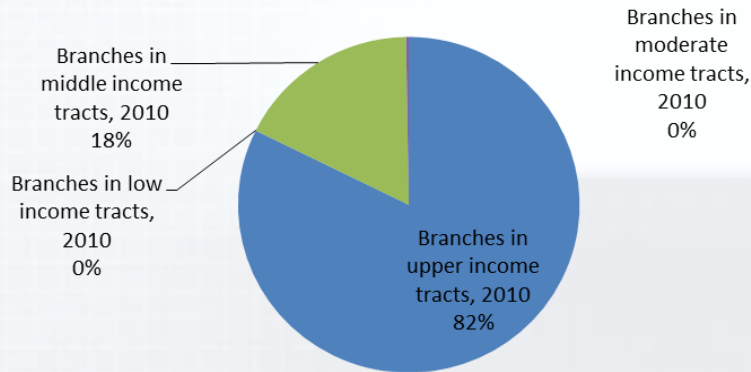


Loans in low-income tracts, 2000

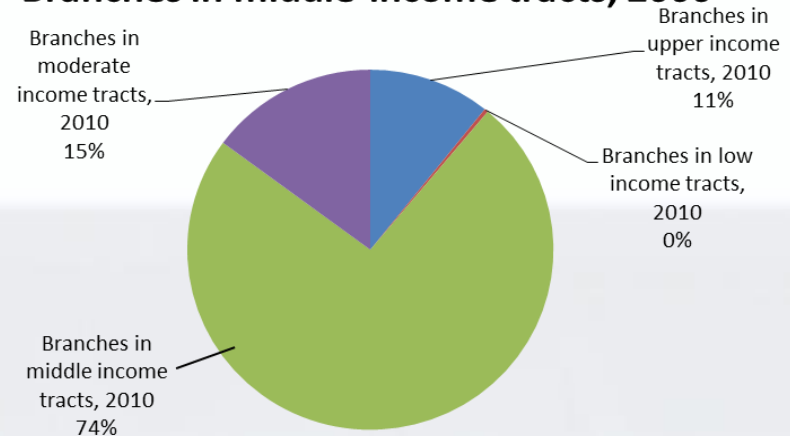


Transition Effects of the Revised 2010 Census Data on Branches

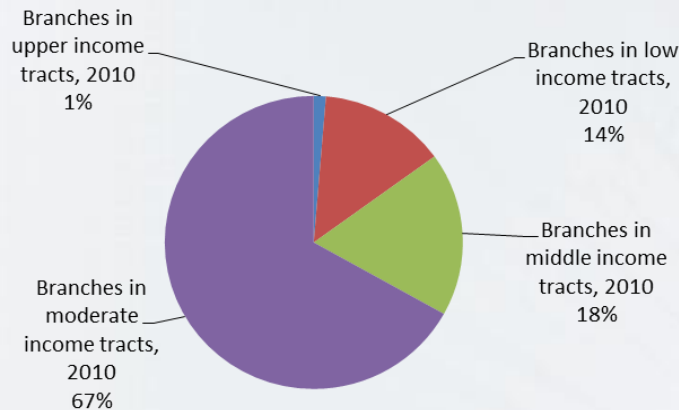
Branches in upper-income tracts, 2000



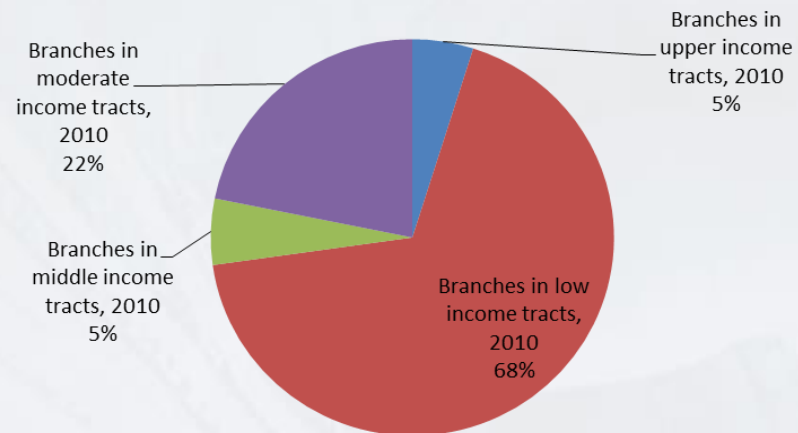
Branches in middle-income tracts, 2000



Branches in moderate-income tracts, 2000



Branches in low-income tracts, 2000

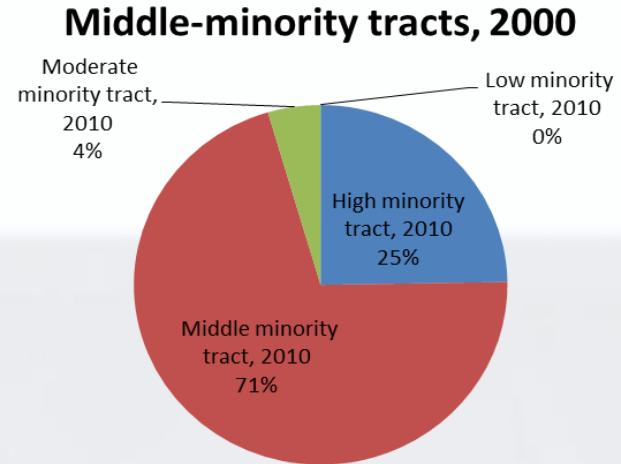
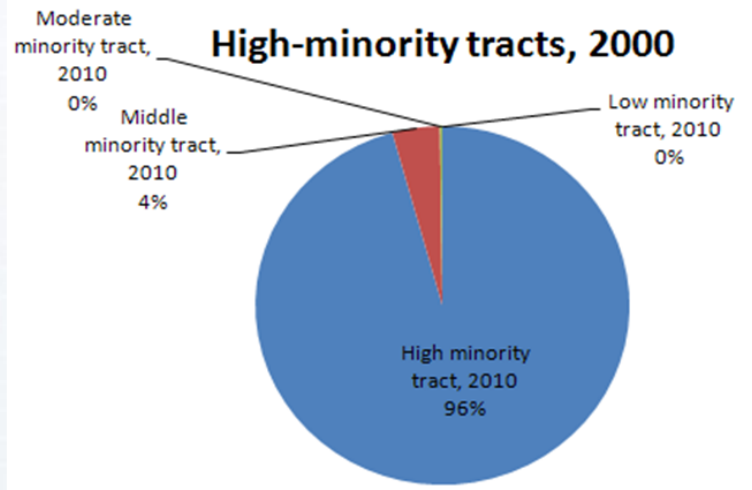


Measuring Possible Effects of Revised Racial & Ethnic Population Counts

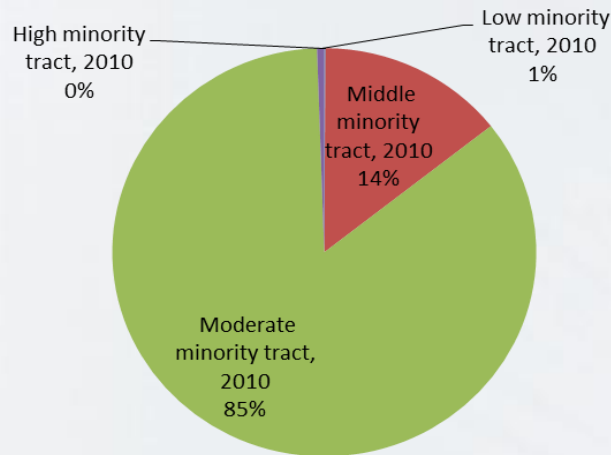
- The 2010 Census updates race and ethnicity population counts for each census tract using the 2010 census tract boundaries
- To estimate the potential effects, we again use the 72% of tracts that had little or no change in boundaries
- Created four minority population share groups:
 - Low minority – Less than 10%
 - Moderate minority– 10% - 49%
 - Middle minority – 50% - 79%
 - High (or predominately) minority – 80% or more

Transition analysis is based on **count of census tracts**

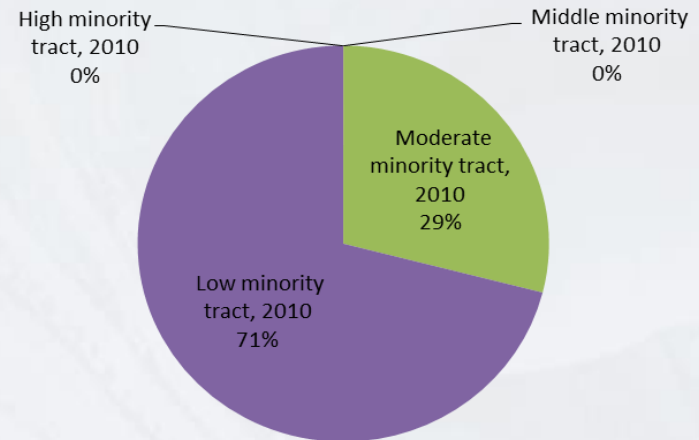
Transition Effects of the Revised Data on Census Tracts



Moderate-minority tracts, 2000



Low-minority tracts, 2000



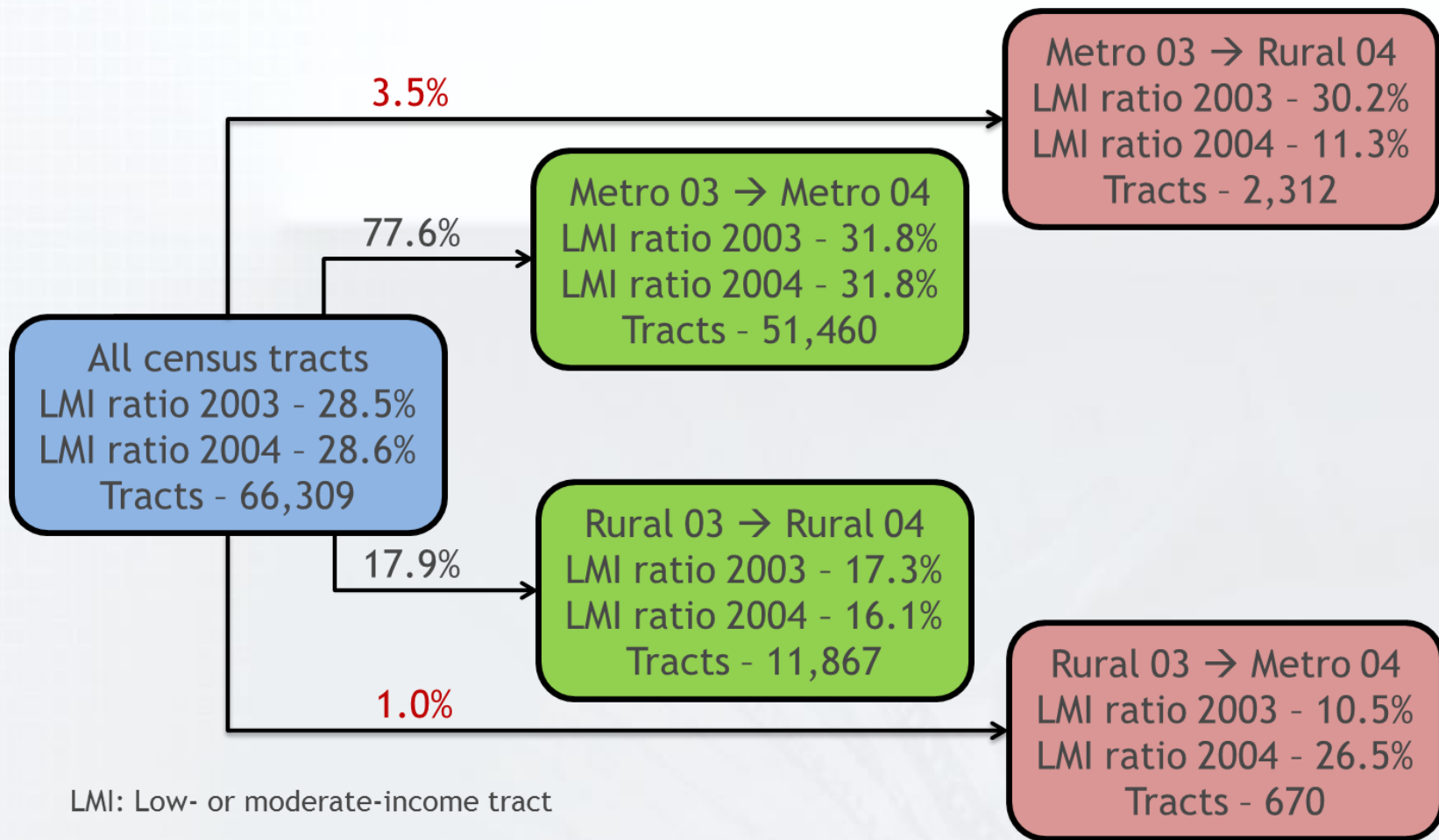
OMB MSA Designations

- Revised MFI classifications will occur when OMB designates a revised list of MSAs
 - OMB plans to announce delineations of areas based on the 2010 census in 2013
 - New MSA designations will alter the geographic boundaries of the “broader” areas used in the denominator of MFI relative income classifications
 - These changes can lead to significant changes in classifications, particular in census tracts that were
 - Rural and become MSA
 - MSA and become rural

Effects of MSA Redesignation in 2003

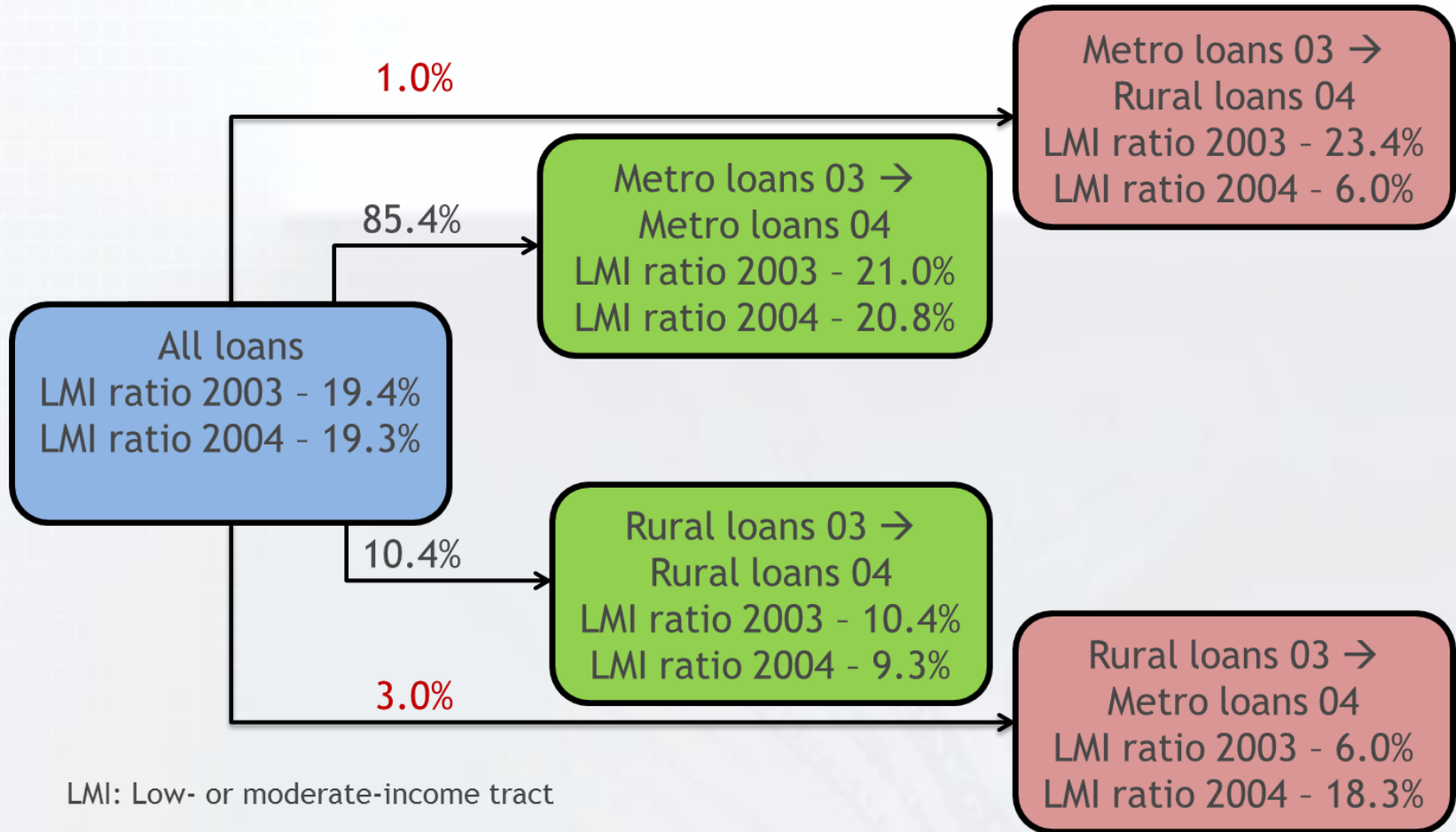
- 49 entirely new MSAs were added in 2003
- Large number of old MSAs were modified
 - Counties added to or dropped from old boundaries
- 98% of all census tracts were affected in some fashion
 - Most effects slight
 - Vast majority had no change in MFI CRA classification
 - About 6% of tracts experienced a shift in relative tract income
 - Most shifts were to or from middle-income category
 - » About 1.2% lost CRA eligibility
 - » About 1.4% gained CRA eligibility

MSA Redesignation on Census Tract Income Classification, by 2004 Census Tracts



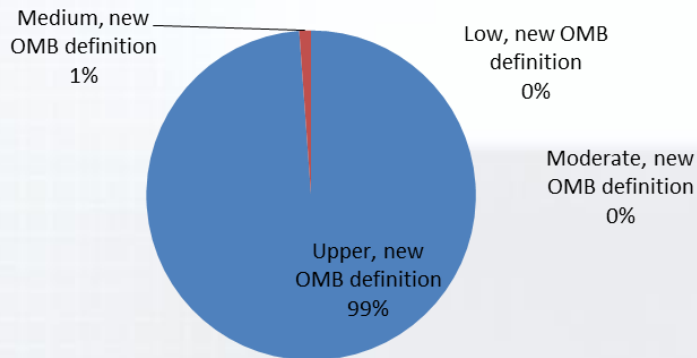
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MSA Redesignation on Census Tract Income Classification, by 2004 Loans

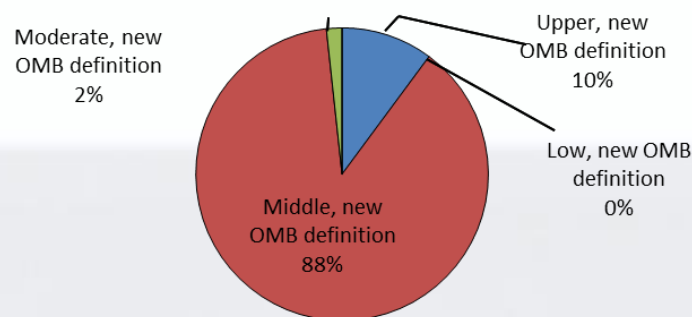


Effects of MSA Redesignation on Borrower Income Classification, by 2004 Loans

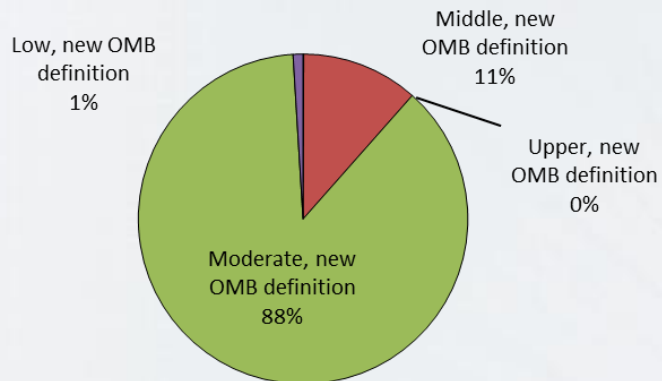
Upper, Old OMB Definition



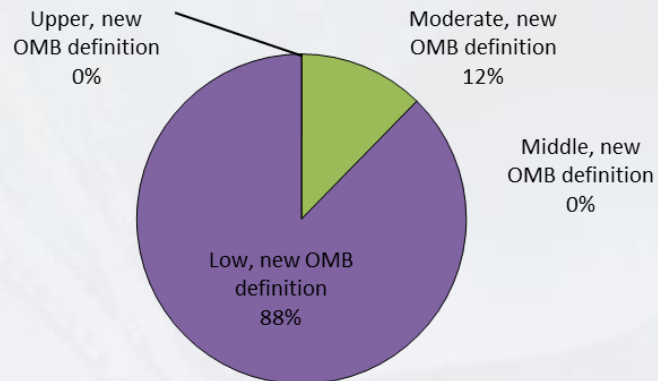
Middle, Old OMB Definition



Moderate, Old OMB Definition



Low, Old OMB Definition



Data and Timeline Recap

- June 2012 – FFIEC scheduled to release 2010 census tract demographic information (including population and housing characteristics)
- Third Quarter 2012 – Federal Reserve System to begin using updated 2010 census information for supervisory activities
- January 2013 – OMB to release new 2010 MSA delineation standards

Data and Timeline Recap *(continued)*

- FFIEC will use the 2010 ACS five year data to recreate a new base file
 - Tract Income data
 - Race and Ethnicity data
- HUD Estimated Metropolitan Family Income (MFI) will be replaced by the ACS Estimated Metropolitan Median Family Income Listing (ACS MFI)

ACS Data Review

- ACS Data is updated annually
 - Population, housing and income
 - Race and Hispanic origin
 - Age, sex, disability
 - Housing characteristics
 - Other data
 - Provides performance context to help evaluate CRA performance
- Different data sets available
 - 1-year, 3-year, and 5-year estimates
 - May select a longer or shorter time period of data depending on need
 - Time period under review
 - Need for more or less “precision”
 - Helpful for establishing performance context for a CRA evaluation
 - Can provide more current demographic information for a fair lending review

CRA Examinations

- Which census data should I use for my CRA assessment?
 - CRA performance assessment using HMDA and small business loan data from 2011 or earlier should be analyzed using 2000 Census data
 - CRA performance using HMDA and small business loan data from 2012 (going forward) should be analyzed using 2010 Census data
 - Remember – the next demographic data update will occur in 2015
 - If an assessment or examination include HMDA and small business loan data from both 2011 and 2012
 - Analyze 2011 loan data using 2000 Census data
 - Analyze 2012 loan data using 2010 Census data

Community Development Activities

- The eligibility of a loan, investment, or service as a community development activity is based on the demographic information available at the time the activity is undertaken
 - Loans, investments, or services performed before or during 2011 are assessed using 2000 Census data
 - Loans, Investments, or services performed during 2012 (or beyond) are assessed using 2010 Census data

Assessment Area Review

- Review your designated assessment areas to determine if changes to the designation are warranted
- Did Geographic changes affect your assessment area?
 - Some MSA changes
 - Tract boundaries have changed
 - Increase in low-, mod, and upper-income tracts nationally
 - About 28% of census tracts are substantially different in 2010 than they were in 2000

Assessment Area Review *(continued)*

- Did Geographic changes affect your assessment area? *(continued)*
 - Reevaluate your bank's lending distribution using updated census data
 - Loans that qualified as LMI previously may not qualify with new tract income categories
 - Branch distribution considerations
 - Will changes affect where certain activities take place?
 - Additional LMI tracts may open more opportunities for community development activities

Fair Lending Examination Considerations

- Changes to demographic make-up of the bank's market
- Revised classifications of census tracts by race and ethnicity based on 2010 Census data
 - Changes in the population composition
 - Revised geographic boundaries
- Notable decline in non-Hispanic White census tracts

Fair Lending Examination Considerations

(continued)

- Changes to population by race
 - Large percentage increase in minority populations
 - Relatively small percentage increase in white population overall
- Changes to population by ethnicity
 - Large increase in Hispanic or Latino Ethnicities

Fair Lending Self Assessments

- Review lending in your market in light of new census data (including demographic data available through ACS)
 - How have the demographics changed in the bank's lending territory (assessment area)?
 - Percentage of minority loan applications comparable to the demographic make-up of the lending territory (assessment area)?
 - Percentage of lending to minority borrowers comparable to the demographic make-up of the lending territory (assessment area)?
 - How does the bank's lending compare to the new demographic make-up?
 - Should marketing strategies be reassessed?
 - Are minority tracts being penetrated?
 - Considering new demographic data, do lending patterns create any redlining concerns?

Summary

- Census changes and forthcoming OMB MSA designations will affect CRA and fair lending evaluations and enforcement
- Regulated entities need to prepare for CRA reviews
 - Review 2010 and 2011 lending in light of new census changes to CRA to see if CRA eligible shares change
 - Review initial 2012 lending in the context of the new MFI census tract income changes and boundary changes
 - Review branch distributions in light of new census changes
- Regulated entities need to prepare for fair lending reviews
 - Review lending in light of new census racial and ethnic composition
 - Review lending in light of new housing stock characteristics

Useful Links and Resources

- American Community Survey (ACS)
 - <http://www.census.gov/acs/www/>
- Census 2010 for race and ethnicity data
 - <http://2010.census.gov/2010census/>
- FFIEC release of MFI estimates
 - <http://www.ffiec.gov/hmda/default.htm>
- FFIEC publications, including:
 - A Guide to CRA Data Collection and Reporting
 - A Guide to HMDA Reporting (Getting it Right!)
 - CRA/HMDA Reporter Newsletter
 - Distressed and Underserved Tract List
 - <http://www.ffiec.gov>

Useful Links and Resources *(Continued)*

- CA 12-4 – Guidance on Usage of 2010 Data in Community Reinvestment Act Examinations
 - <http://www.federalreserve.gov/bankinforeg/caletters/caltr1204.htm>
- A Banker's Quick Reference Guide to CRA
 - Federal Reserve Bank of Dallas (as amended effective Sept. 1, 2005)
 - <http://www.dallasfed.org/assets/documents/cd/pubs/quickref.pdf>
- CRA Loan Data Collection Grid
 - Federal Reserve Bank of Dallas (revised September 2006)
 - <http://www.dallasfed.org/assets/documents/cd/pubs/craloan.pdf>