Branch/LPO Locations

Description of High Risk

Generally, the lender's branch locations show high redlining risk if the data show that the branches are concentrated in non-majority minority census tracts, thereby failing to serve majority minority census tracts. This risk also applies to loan production offices ("LPOs"), which are lending locations that do not take deposits. Sometimes, lenders first open an LPO before undertaking the expense of a full-service branch. Thus, the LPO locations can be additional indicators of risk if the lender is not placing locations in majority minority tracts and is failing to plan to serve communities of color. In addition, the risk can be further confirmed if a map of the subject lender's branches and LPOs shows a "doughnut" or "horseshoe" pattern where locations appear surrounding but not including the majority minority census tracts in the geographic area.

Credit Unions and Nonbank Lenders. Credit unions, nonbank lenders (including internet and fintech lenders), and some depository institutions may have a business model that does not rely on physical branch locations to generate mortgage applications. In those situations, advocates can review the lender's website and other public materials (such as SEC filings) to determine the lender's business model for generating applications and analyze whether the business model raises the risk of avoiding service to communities of color.

How to Find the Branch/LPO Data and Mapping Tools

Nearly every lender includes branch and office locations on their publicly available website. In addition, the FDIC maintains detailed information on financial institutions, including a list of locations. These locations can be matched against maps or tables representing the race and national origin demographics of census tracts in an area. For example, the FFIEC maintains a geocoding system that can match the address to the demographics of the census tract. Mapping these locations visually can also illuminate patterns that may not be evident from simply comparing tables—for example, that branches in majority minority census tracts are located only in areas immediately adjacent to non-majority minority census tracts.

Metrics for Identifying High Risk Branch and LPO Locations

The branch/LPO location risk can be determined by using census tract information to identify the extent to which the lender has branches/LPOs in majority minority census tracts. The analysis can show the total number of branch/LPO locations and the number of those locations that are in majority minority census tracts. Some simple division shows the percentage of locations in majority minority census tracts.

$$\frac{\text{\# of Branch/LPO Locations In Majority Minority Census Tracts}}{\text{Total \# of Branch/LPO Locations}} = \textbf{\% of Locations in Majority Minority Census Tracts}$$

The DOJ and CFPB complaint against BancorpSouth Bank can be used as an example. (*See United States of America and Consumer Financial Protection Bureau v. BancorpSouth Bank*, Complaint filed June 29, 2016 N.D. Miss.) In that case, the bank failed to locate any branches in majority minority census tracts. While there is no exact percentage threshold to show risk, in this case, the census tract analysis clearly showed high redlining risk for branch/LPO location risk factor. The complaint stated: “BancorpSouth concentrated its branches to serve the credit needs in areas outside of, and avoid lending in, minority neighborhoods, thereby discouraging prospective applicants in those minority neighborhoods.”

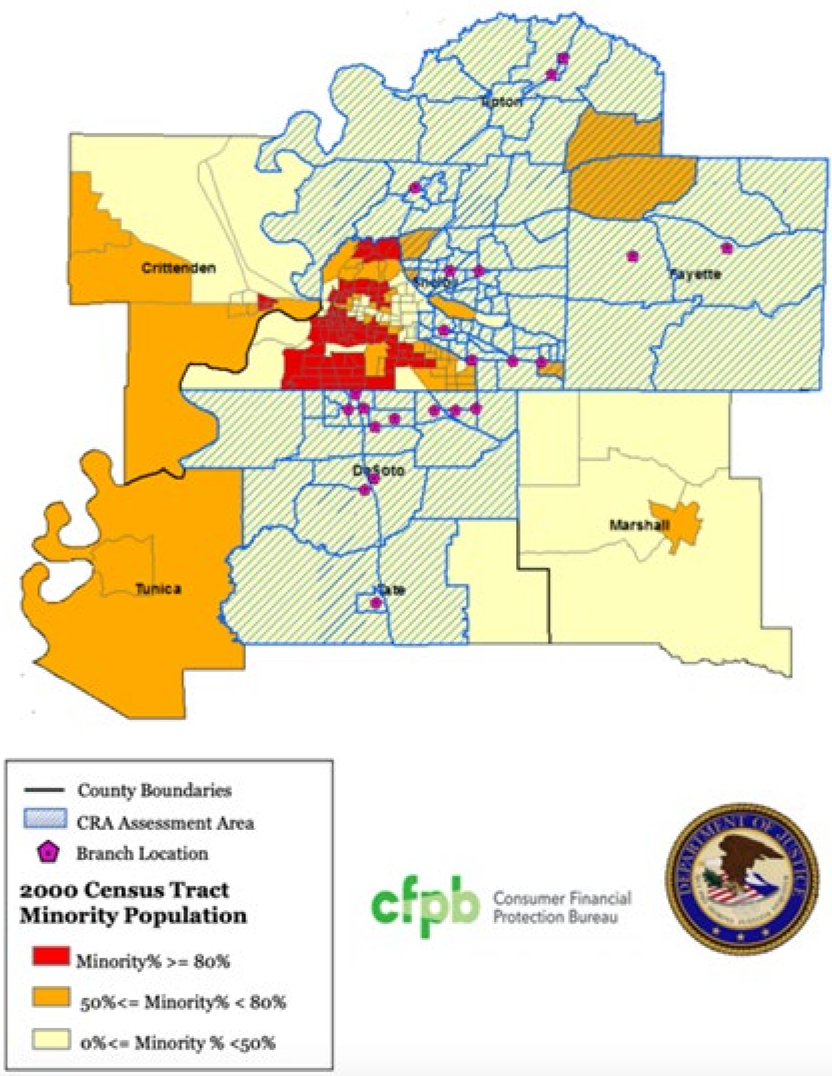
Branch/LPO Location Analysis	Branches	Loan Production Offices
# Locations in Majority Minority Census Tracts	0	N/A
Total # Locations	34	N/A
% Locations in Majority Minority Census Tracts	0%	N/A

Mapping the Branch/LPO Locations

The branch/LPO location risk can be further confirmed by using a map to show that the lender has failed to locate branches and LPOs in majority minority tracts. In the BancorpSouth Bank case, the banks’ branch locations avoided majority minority census tracts in a classic “horseshoe” pattern, which mirrored the bank’s Original Assessment Area. For both the branch locations and the CRA assessment area, the bank chose to serve majority White census tracts while excluding majority minority census tracts. The map clearly demonstrated the risk of locating the branches in a manner that avoided the majority minority census tracts.

Exhibit B:

BancorpSouth Pre-January 2013 Assessment Area and Branches, Memphis MSA



Additional Risk Considerations

Branch Acquisition History. The lender's redlining risk may be elevated where the lender has a history of acquiring branches without regard to redlining risk. For example, the bank may make acquisitions based on opportunities presented without analyzing the redlining risk. In some situations, the lender may end up with a series of branches that exclude majority minority tracts and form a "donut hole" or "horseshoe" around the majority minority census tracts. If possible, advocates should determine whether the lender has evaluated branch acquisition opportunities in the context of redlining risk and the pattern shown over the history of the bank's acquisitions.

Applications within a Certain Radius of the Branches/LPOs: The lender's risk can be further elevated if the majority of the applications are within a certain radius of the branches or LPOs, and those locations are not in majority minority census tracts. This suggests that the lender's business model is highly dependent on physical locations to generate applications, and the lender has not taken into account the redlining risk of failing to locate branches or LPOs in majority minority census tracts. To analyze this risk, advocates can create maps showing the census tracts, the radius around the branches/LPOs (e.g., five miles out), and the location of the applications.

Applications outside a Certain Radius of the Branches/LPOs. Similarly, the lender's risk can be further elevated if the majority of the applications that are received from *outside* of a certain radius of the branches or LPOs are *not* in majority minority census tracts. This suggests that even when the lender deviated from its usual business model and generated applications beyond a certain radius, the lender tended to generate those applications in non-majority minority census tracts. To analyze this risk, advocates can create maps showing the census tracts, the radius around the branches/LPOs (e.g., five miles out), and the location of the applications.

Common Arguments and Replies

The lender may pose certain arguments in defense of the current branch/LPO locations. In some instances, the arguments may provide a reasonable explanation for the locations; in other instances, however, the arguments may warrant a reply and further discussion. Below are some common arguments and replies.

Branch Acquisitions: The lender may argue that it acquired branches based on the opportunities presented and that no opportunities were presented in majority minority census tracts.

> *Reply #1*: Branch locations have long been viewed as a key redlining risk factor. The lender should have reviewed its branch acquisitions for redlining risk and taken steps to mitigate the risk.
>
> *Reply #2*: The lender should be able to identify the reasons and metrics used to select the branches and to demonstrate that these reasons and metrics were applied equally to minority and non-minority areas.

Consumer Demand: The lender may argue that it saw no need to open a branch in a majority minority census tract as it did not perceive a consumer demand for home mortgage credit in that area.

> *Reply*: The lender should have some analysis to support this assertion, particularly if there are lending disparities, which indicate that the lender's peers have experienced consumer demand in the majority minority census tracts.

Conclusion

In summary, if the lender has limited branch or LPO locations in majority minority census tracts, then the lender has high risk for this risk factor.

Moreover, if the lender shows high risk for all three of the key risk factors (lending analysis, CRA assessment area, branch/LPO locations), then it can be concluded that the lender has high overall redlining risk and should take remedial action to address the issue.

Risk Factor	Analysis	Risk Level
Lending Analysis	Statistically significant application or origination disparities	**High**
CRA Assessment Area	Partial geographies that exclude majority minority census tracts	**High**
Branch Locations	Limited branch locations in majority minority census tracts	**High**
	Overall Redlining Risk	***High***