

LOCAL
SOLUTIONS,
LASTING
CHANGE:

*The Greater
Cleveland
Residential
Housing and
Mortgage
Credit
Project*



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ANNUAL REPORT

The Federal Reserve System is responsible for formulating and implementing U.S. monetary policy. It also supervises banks and bank holding companies, and provides financial services to depository institutions and the federal government.

The Federal Reserve Bank of Cleveland is one of twelve regional Reserve Banks in the United States that, together with the Board of Governors in Washington, D.C., comprise the Federal Reserve System.

The Federal Reserve Bank of Cleveland, including its branch offices in Cincinnati and Pittsburgh and its check processing center in Columbus, serves the Fourth Federal Reserve District. The Fourth District includes Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky.

It is the policy of the Federal Reserve Bank of Cleveland to provide equal employment opportunities for qualified persons regardless of race, creed, color, national origin, age, gender, or disability.

The brick home pictured on the cover, located in Cleveland's Hough neighborhood, was the subject of an appraisal test project that illustrated the potentially discriminatory practices that can occur in mortgage lending. If we are to revitalize our distressed communities, we must ensure fair and equal access to home mortgage credit. To that end, a group of Cleveland-area housing, real estate, and lending professionals participated in the Greater Cleveland Residential Housing and Mortgage Credit Project, a community-based effort to eliminate discrimination and disparate treatment in the home buying process. Concluded in April 1997, the Cleveland project is being modeled in cities across the nation.



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FEDERAL RESERVE BANK OF CLEVELAND

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ANNUAL REPORT

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PRESIDENT'S FOREWORD

With passage of the landmark Community Reinvestment and Home Mortgage Disclosure Acts in the 1970s, Congress called on financial institutions to identify and meet the credit needs of their local communities, including low- and moderate-income neighborhoods.

We've learned since then that the economic problems of our depressed inner-city communities cannot be solved by the lending institutions alone. If banks are to contribute fully to the economic development and revitalization of neighborhoods, they must be joined by nonbank institutions, governmental entities, local businesses, and community leaders.

Clearly, the most viable and lasting solutions to stemming the blight of inner-city neighborhoods will come from those closest to the problem. We must trust and encourage people in the states, cities, and communities across the nation to explore opportunities to improve local conditions. Recent trends have led to partnerships in which nonprofit agencies and local governments team up with for-profit banks and developers not merely in a spirit of altruism, but to create lasting change through mutual self-interest.

Federal Reserve Banks are in a strong position to facilitate community-based partnerships through their involvement with banking and civic organizations. Reserve Banks evaluate commercial banks' fair lending performance, support the activities of community affairs and economic development professionals, and directly partner with local banks and community-based organizations to improve neighborhood economic conditions.

The Greater Cleveland Residential Housing and Mortgage Credit Project, the subject of this year's annual report essay, is a fine example of the Federal Reserve's ability to build alliances among diverse constituencies.



A. William Reynolds, chairman; Jerry L. Jordan, president; Sandra Pianalto, first vice president; and G. Watts Humphrey, Jr., deputy chairman.

Like many good ideas, the “Cleveland project”—designed to ensure equal access to credit in the home buying process—started from a conversation between two individuals from different organizations but with a common goal in mind. From there, it blossomed into a successful partnership among the Cuyahoga County Department of Development, the Greater Cleveland Roundtable, the Ohio Civil Rights Commission, and the Federal Reserve Bank of Cleveland. Bringing together 140 representatives from the real estate, housing, and lending industries, the Cleveland project inspired candid dialogue about discrimination in the home buying process.

Those who conceived the Cleveland project realized that such a large gathering of racially and functionally diverse participants could engender vigorous, possibly discordant, debate about unequal treatment and access to credit. But it seemed to us that the process of well-intentioned people coming together could ultimately inspire tangible strategies for addressing the daunting problems of discrimination and disparate treatment in the mortgage lending and housing markets.

The Cleveland project did indeed generate numerous practical recommendations. To all those who participated, we thank you for your commitment and energy. As a result of your efforts, we have taken an important step toward improving the fairness of the lending process and the prosperity of our community. The project has also served as a model for programs in Cincinnati/Northern Kentucky and in five other Reserve Bank cities. We like to think of this groundbreaking effort as creating local solutions to effect lasting change, and we’re proud to highlight its history in the 1996 annual report essay.



In performing our central banking functions and providing financial services, the Federal Reserve Bank of Cleveland is guided by our 23 directors, to whom we extend our deepest gratitude. Our directors represent a variety of banking, business, labor, and consumer interests from throughout the District. Their valuable and dedicated service and guidance, as well as that of our Community Bank and Business Advisory Councils, are very much appreciated.

We are especially grateful for the leadership of A. William Reynolds, chief executive of Old Mill Group, who served as chairman of our Board of Directors from 1993 until his retirement at the end of 1996. Bill, who joined the Board in 1991, made far-reaching contributions to the Bank and leaves us in a stronger position to meet the challenges of the

future. We are indebted to him for his wise counsel, leadership, and dedication. G. Watts Humphrey, Jr., president of GWH Holdings, Inc., and a member of our Board since 1993, has been appointed chairman.

We also extend special thanks to those directors who have completed their terms of service on our Boards: Alfred C. Leist (chairman, president, and chief executive officer of The Apple Creek Banking Company) and Thomas M. Nies (president of Cincom Systems, Inc.), who served on our Cleveland Board; John N. Taylor, Jr. (chairman and chief executive officer of Kurz-Kasch, Inc.), who served as chairman of our Cincinnati Board; and Randall L.C. Russell (president and chief executive officer of Ranbar Technology, Inc.), Wesley W. von Schack (former chairman, president, and chief executive officer of DQE), and Sandra L. Phillips (former executive director of the Pittsburgh Partnership for Neighborhood Development), who served on our Pittsburgh Board.

The insight and dedication of our member of the Federal Advisory Council, Frank V. Cahouet (chairman, president, and chief executive officer of Mellon Bank Corporation and Mellon Bank, N.A.), will also be missed. Frank represented the Fourth District on the Advisory Council since 1994. Our directors have chosen Robert W. Gillespie (chairman, president, and chief executive officer of KeyCorp) to represent the District during 1997.



The officers and staff of the Federal Reserve Bank of Cleveland worked together to realize many accomplishments and innovations over the past year (outlined in the “Operational Highlights” section on pages 26-27). None of these achievements would have been possible without their energy, creativity, and commitment. I wish to extend my personal gratitude to all employees of this Bank for making 1996 a successful year.

Sincerely,

A handwritten signature in black ink that reads "Jerry L. Jordan". The signature is written in a cursive style with a large, prominent "J" and "L".

Jerry L. Jordan

President

THE GREATER CLEVELAND RESIDENTIAL HOUSING AND MORTGAGE CREDIT PROJECT



In late 1993, the Federal Reserve Bank of Cleveland joined with the Greater Cleveland Roundtable, the Cuyahoga County Department of Development, and the Ohio Civil Rights Commission in a groundbreaking effort to identify and eliminate potentially discriminatory practices in the home buying process.

Known as the Greater Cleveland Residential Housing and Mortgage Credit Project, the three-year effort involved nearly 140 representatives of various home buying industries, including real estate firms, lending institutions, appraisal companies, credit bureaus, and property and mortgage insurance firms.

While discrimination against minority mortgage loan applicants is clearly a national issue, the initiators of the Cleveland project shared the belief that America's best prospect of eliminating discrimination lies in the development of local solutions.

By bringing together a group of multidisciplinary, racially diverse professionals, the project's planners hoped to spark an open discussion that would spawn action steps for eliminating discrimination—whether inadvertent or intentional—in all phases of home purchasing. The project, through its seven task groups, produced 29 practical recommendations and strategies for combating potentially discriminatory actions. The Cleveland project's most enduring achievement, however, may have been its success in fostering ongoing dialogue among its various and disparate constituencies.

As the project participants searched for solutions to the complex issue of discrimination, they occasionally found themselves in seemingly unresolvable conflict. At those times, the Cleveland Fed, positioning itself as a facilitator, was called upon to restore a positive, constructive atmosphere.

Jerry L. Jordan, president of the Federal Reserve Bank of Cleveland, explained that the Bank served as a catalyst for action. "In no way were we an architect or engineer of the project. We didn't dictate the solutions. But we felt that our public/private role made it incumbent upon us to be part of the search for solutions. In a sense, we were like a gardener. We could prepare the soil, we could make sure there was adequate moisture, we could try to keep the crows out of the cornfield, but we couldn't guarantee anything else. Beyond that, nature had to take its course."

Formally concluded in April 1997, the Greater Cleveland Residential Housing and Mortgage Credit Project has earned widespread national recognition. Malcolm Bush, president of the Chicago-based Woodstock Institute, a nonprofit group that promotes economic development in low-income communities, has called the Cleveland project "a major achievement in promoting debate and action about disparate treatment in the housing market." According to Bush, the project was unique because "it was the first time, in the absence of racial strife in the community, that the civic leadership of a major city decided to tackle the problems of discrimination. There are very few examples of such intensive voluntary debate in American civic life."

This essay examines the genesis, process, and outcomes of the Greater Cleveland Residential Housing and Mortgage Credit Project, a community-based approach to achieving equality and fairness throughout the home buying process.

PLANNING COMMITTEE

*(includes employment
at time of Cleveland project)*

Malcolm Bush
President
Woodstock Institute

Rick Edlund
Manager, Appraisal Department
Ohio Savings Bank

Marsha Hughes
President
Northeastern Ohio League of
Savings Institutions

Shirley Mays
Fair Housing Administrator
City of Cleveland

Gregory Vincent
Regional Director
Ohio Civil Rights Commission

Donna Cotton
Community Affairs Director
Federal Reserve Bank of Cleveland

David Fynn
Corporate Compliance Officer
National City Corporation

Lionel Lewis
Vice President
A.J. Lewis & Associates

Jerry McClain
Senior Vice President
Society National Bank

Mary Davis
Fair Housing Officer
Cuyahoga County Department
of Development

Barbara Grothe
Program Manager
Greater Cleveland Roundtable

Tom LaRochelle
Executive Director
Cleveland Area Board of Realtors

Alan Reichert
Professor of Finance
Cleveland State University

CLEVELAND PROJECT SPONSORS

The Greater Cleveland Roundtable is a coalition of approximately 60 leaders from area business, education, labor, and government entities, as well as religious and philanthropic organizations. The Roundtable, which includes many of Cleveland's corporate CEOs, provides the City's senior executives with a forum for the discussion of sensitive community issues, including race relations, neighborhood housing, and workforce diversity.

The Cuyahoga County Department of Development promotes business growth, livable neighborhoods, community redevelopment programs, and employment opportunities for low- and moderate-income individuals. The County's Fair Housing Office has responsibility for ensuring equal access to housing choices and for enforcing civil rights laws.

The Federal Reserve Bank of Cleveland is one of twelve regional Reserve Banks that, along with the Board of Governors in Washington, D.C., make up the Federal Reserve System. As the nation's central bank, the Federal Reserve formulates monetary policy, regulates bank holding companies and state-chartered member banks, and provides payments services to financial institutions and to the U.S. government.

The Cleveland Bank, with its branch offices in Cincinnati and Pittsburgh, and its regional check processing center in Columbus, serves the Fourth Federal Reserve District, which includes Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia.

The Federal Reserve System's Community Affairs function is responsible for identifying local credit market opportunities in each District and for encouraging public/private community development partnerships.

The Ohio Civil Rights Commission is responsible for enforcing state laws against discrimination based on race, color, religion, sex, age, disability, and national origin. The Commission also conducts educational programs on civil rights and responsibilities.

— THE GENESIS —

Equal access to home mortgage credit is a fundamental economic goal in the United States. The proper flow of housing credit contributes significantly to the social and economic vitality of individual communities and to the health of the country's economy.

Historically, the primary capital asset for most people has been the equity in their homes, which can be used to finance children's college tuitions, fund retirements, and start businesses. In fact, the leading source of business start-up capital is loans against primary residences. Fair and equal treatment of all mortgage loan applicants is a precondition for a well-functioning marketplace. Lending bias, while patently unfair to individuals, is harmful in a much larger sense in that discrimination precludes a portion of our society from accumulating wealth in the form of home equity, thus hindering potential growth of our economy.

The presence of disparity in mortgage lending patterns has been documented in data made available through the Home Mortgage Disclosure Act. Recent data show that in 1995, 40.5 percent of all black and 29.5 percent of all Hispanic mortgage applicants were denied loans, compared with 20.6 percent of whites. And, in a 1992 study, the Federal Reserve Bank of Boston found that black and Hispanic applicants in the Boston area were more than 50 percent more likely to be denied a mortgage loan than whites, even if the minority applicants had the same income, wealth, and credit histories.

The controversial findings of the Boston study inspired housing advocates across the nation to call for similar studies in their cities. In Cleveland, representatives of the Greater Cleveland Roundtable and the Cuyahoga County Department of Development approached Donna Cotton, a community affairs director at the Cleveland Fed, about partnering with the Bank to replicate the Boston study.

Jerry Jordan, however, was not certain that replicating the Boston study in Cleveland would be particularly useful. "Many people, especially neighborhood and community groups, were saying that we needed to have a Cleveland study," Jordan recalled. "But we didn't need any more Boston-type studies. We needed action. It was obvious we had similar issues to address in Cleveland. I didn't want our economists to go out and spend a lot of time collecting and torturing data. All that would do is shift the focus from the real issue and delay the resolution of our problems. Rather than commission a similar study, I believed it made more sense to move forward and develop methods of identifying and eliminating discriminatory practices in our community."

Bolstered by Jordan's pledge of support, the Cleveland project's four sponsors came together in a unique alliance of free-market advocacy, corporate civic responsibility, and community activism.

In designing the Cleveland project, the sponsors recognized that there are numerous steps in the process of buying a house, and that discrimination at any step of the process could negatively impact a loan request. The project leaders, therefore, decided to address all aspects of the home buying process, not just the mortgage loan origination.

“One of the problems of the discrimination issue is that there are a lot of players in the home purchase process besides the lenders,” said Andrew “Bud” Burkle, Jr., a vice president at the Cleveland Fed. Burkle, who managed the Bank’s community affairs function when the Cleveland project was conceived, noted, “Since banks are highly regulated, they most often get the blame for discrimination.”

REGULATORY FRAMEWORK While many industries are involved in the purchase of a home, only lending institutions are overseen by federal regulators. During the 1970s, housing policy advocates became concerned that mortgage lenders were not adequately serving all segments of their markets. Addressing this problem, Congress passed the Home Mortgage Disclosure Act (HMDA) in 1975, which requires certain lenders to report, census tract by census tract, the number and dollar value of home loans they make in their communities each year.

“[THIS] PROJECT WAS UNIQUE BECAUSE IT WAS THE FIRST TIME, IN THE ABSENCE OF RACIAL STRIFE IN THE COMMUNITY, THAT THE CIVIC LEADERSHIP OF A MAJOR CITY DECIDED TO TACKLE THE PROBLEMS OF DISCRIMINATION. THERE ARE VERY FEW EXAMPLES OF SUCH INTENSIVE VOLUNTARY DEBATE IN AMERICAN CIVIC LIFE.”

—Malcolm Bush,
Woodstock Institute

Legislators next enacted the Community Reinvestment Act of 1977 (CRA), which encourages banks, through regulation, to meet “the credit needs of their entire community, including low- and moderate-income neighborhoods.”

In 1989, HMDA was amended to require certain urban-based lenders to collect and report loan applicants’ annual income, loan amount requested, gender, race, and census tract of the desired property. This expanded information is used to prepare public disclosure reports and to monitor lenders for compliance with both CRA and fair lending laws.

While annual HMDA data routinely show disparities in mortgage lending to minority neighborhoods versus white neighborhoods, HMDA data alone are inadequate to draw any meaningful conclusions about the presence of discrimination in the mortgage markets. Nevertheless, banks are often targets of criticism by community activists, who argue that HMDA data are evidence that banks neglect minority neighborhoods. In response, banking defenders attribute disparities in credit flows to differences in applicants’ creditworthiness.

SECURING PARTICIPATION

To attract the participation of lenders, as well as other industry professionals who might be especially sensitive to criticism, the sponsors resolved to maintain a nonjudgmental atmosphere throughout the project. “One of the project’s key elements was that we were going to concentrate on solving issues, instead of placing blame and pointing fingers at individual industries or entities,” said Burkle. “We couldn’t let it turn into a blame process. It had to be an improvement opportunity where everybody would win. If we got into shouting matches or finger-pointing, people would have walked away from the table.”

One lending professional, David Fynn, of National City Bank, commended the project organizers for their astute assessment of lenders’ sensitivity to criticism. “We wouldn’t have participated if we thought that we were going to be backed into a corner,” stated Fynn.

“Discrimination is a complex issue involving various industries. It’s a problem that banks can’t solve by themselves. The organizers had exactly the right idea in inviting a wide range of industry representatives.”

“I USED TO THINK IT WAS OTHER PEOPLE WHO DISCRIMINATED, BUT NOW I REALIZE THAT EVERYONE DOES. SOMETIMES IN THE LENDING PROCESS, APPLICANTS ARE JUDGED BY THEIR CLOTHES OR LOOKS. A LOT OF DISCRIMINATION IS UNINTENTIONAL. IF A LENDER IS INSENSITIVE, THEN ‘BUSINESS AS USUAL’ COULD BE DISCRIMINATORY.”

— Marie Gerace,
Prospect Title Agency

For assistance in garnering broad-based participation, the project’s planning committee turned to the chief executive officers of Cleveland-area banks, real estate firms, mortgage companies, and other home-buying-affiliated industries. “From our standpoint, it was important to get the senior-level executives on board, because that would send an encouraging signal down through the rank and file,” said Melvin Pye, Jr., who was the executive director of the Greater Cleveland Roundtable during the Cleveland project.

Barbara Grothe, Greater Cleveland Roundtable program manager, organized a breakfast meeting for 65 Cleveland-area CEOs. At the meeting, which was led by Lyman Phillips (at the time, chair of the Roundtable’s race relations committee), project planners explained the economic merits of addressing bias in mortgage lending. “We needed to sell the goals of the project in a pro-business light,” said Grothe. “We made a strong case that reducing discrimination would free up the marketplace, thus creating more opportunities and business for everybody.”

However, the commitment of business leaders was not finalized until the planning committee agreed to eschew publicizing the Cleveland project during its early phases. “There was a concern among the business sector that informing the media could have been risky,” said Burkle. “If we went out and tooted our own horn, the community might view the project as a self-promoting sham, and it would die a quick death from the resulting skepticism.”



Cleveland Project Principals

Mary Davis, fair housing officer,
Cuyahoga County Department of Development;
Barbara Grothe, program manager,
Greater Cleveland Roundtable;
Francis Smith, executive director,
Ohio Civil Rights Commission;
Andrew "Bud" Burkle, Jr., vice president,
Federal Reserve Bank of Cleveland.



Robert Morgan, Real Estate and
Property Insurance Task Groups;
Rosita Motton, Property Insurance Task Group;
Rick Edlund, Planning Committee
and Appraisal and Lender Task Groups.



Anda Cook, Private Mortgage Insurance Task Group;
David Fynn, Planning Committee and Real Estate and Credit Bureau Task Groups;
Tony Willis, Appraisal Task Group.



Lionel Lewis, Planning Committee and Private Mortgage Insurance and Real Estate Task Groups;
Marie Gerace, Lender Task Group.

— THE PROCESS —

By design, the Cleveland project had three phases. The initial phase began in October 1993 with a two-day conference facilitated by Malcolm Bush and attended by nearly 100 representatives of housing-related industries. During the conference, attendees—through plenary sessions and breakout groups—discussed likely areas of discrimination throughout the home buying process. Participants then established task groups to examine potentially discriminatory business practices in the following four home buying steps: The home purchaser's initial contact with the real estate agent; the home purchaser's initial contact with the lender; the lending institutions' interface with the secondary market; and the appraisal process.

Each task group was responsible for developing recommendations to reduce the occurrences of discrimination in its respective stage of the home buying process. The project's first phase concluded in mid-1994 when the four task groups reported their findings and recommendations to the full group of participants.

In the project's second phase, three additional task groups were formed. These groups developed strategies for eliminating potentially discriminatory business practices in the areas of property insurance, private mortgage insurance, and purchasers' interaction with credit bureaus. Like the original four task groups, these groups comprised representatives from various housing-related industries, including the industry targeted for scrutiny.

In November 1995, after the second set of task groups released its strategies for eliminating discrimination, the project leaders reviewed the recommendations of the seven task groups and initiated the final phase of the project: the cross-industry adoption and implementation of the strategies.

TRUE COLORS On day one of the initial two-day conference in 1993, participants gathered to watch the video "True Colors," a hidden-camera investigation of racial discrimination. Produced by the ABC newsmagazine *Prime Time Live*, "True Colors" tracks two young men—one white and one black—as they set out to establish themselves in St. Louis. The documentary reveals the vastly different treatment each received when applying for a job, buying a car, shopping in a mall, and renting an apartment.

The video's unabashed portrayal of discrimination markedly altered the tone of the conference. "Before the presentation of 'True Colors,' participants were engaged mainly in small talk," said Mary Davis, fair housing officer for the Cuyahoga County Department of Development. "After seeing the tape, people began to open up and share their thoughts about this sensitive issue."

"...WE DIDN'T NEED ANY MORE BOSTON-TYPE STUDIES. WE NEEDED ACTION. IT WAS OBVIOUS WE HAD SIMILAR ISSUES TO ADDRESS IN CLEVELAND. RATHER THAN COMMISSION A SIMILAR STUDY, I BELIEVED IT MADE MORE SENSE TO MOVE FORWARD AND DEVELOP METHODS OF IDENTIFYING AND ELIMINATING DISCRIMINATORY PRACTICES IN OUR COMMUNITY."

—Jerry Jordan, president,
Federal Reserve Bank of Cleveland

Marie Gerace, an account executive with Prospect Title Agency, added, “When the conference began, I suspected it was going to be just another boring two-day meeting. But after viewing the video, my attitude changed. As I looked around the auditorium, I saw that some people were shocked. The tape was very effective in showing that discrimination is often subtle. People rarely come right out and say, ‘I’m not going to rent to you because you’re black.’”

DIALOGUE After the video presentation, conference participants broke into multi-industry, racially diverse groups to discuss disparate treatment of minorities. “By showing ‘True Colors,’ we opened the door to a discussion of unfair treatment,” Burkle recalled. “The tape was a wake-up call. There was no longer a need to explain what the issues were.”

Although some individuals seemed unwilling to acknowledge the existence of unfair business practices, several black participants spoke openly about specific instances of racial discrimination. “Although I’ve experienced some discrimination as a woman in a corporate atmosphere,” said Gerace, “I was both surprised and sad to hear a black person say, ‘This is what happens all the time to me.’”

The openness and candor of the minority participants was crucial to the project’s success, noted Malcolm Bush. “Because the minorities spoke honestly about the issue of discrim-

ination, the other participants, in turn, responded with openness and honesty. This was very important because it was the first time, that I was aware of, where different ethnic groups came

“ONE OF THE PROJECT’S KEY ELEMENTS WAS THAT WE WERE GOING TO CONCENTRATE ON SOLVING ISSUES, INSTEAD OF PLACING BLAME AND POINTING FINGERS AT INDIVIDUAL INDUSTRIES OR ENTITIES. WE COULDN’T LET IT TURN INTO A BLAME PROCESS. IT HAD TO BE AN IMPROVEMENT OPPORTUNITY WHERE EVERYBODY WOULD WIN.”

—Andrew “Bud” Burkle, Jr.,
Federal Reserve Bank of Cleveland

together to discuss discriminatory actions in terms of their own behavior and their own business practices. In a sense, they were putting their bread and butter on the line.”

As Gerace listened to accounts of discrimination and disparate treatment, she began to understand that, “We all are guilty of discrimination. I used to think it was other people who discriminated, but now I realize that everyone does. Sometimes in the lending process, applicants are judged by their clothes or looks. A lot of discrimination is unintentional. If a lender is insensitive, then ‘business as usual’ could be discriminatory.”

On the second day of the conference, participants identified areas of the home buying process where discriminatory acts were most likely to occur. Typically, the purchase of a home involves the actions of about 20 allied industries. Because each of the industries has a role in gathering and sharing information with the others, discrimination and disparate treatment at any stage of the transaction can impact the outcome of the loan application. During their work sessions, participants considered potential areas of discrimination within their respective industries, as well as the consequences of discriminatory practices. After prioritizing the problem areas, participants selected seven of the areas for investigation by the task groups of phase 1 and phase 2.

TEST PROJECT: APPRAISING AN URBAN HOME

THE APPRAISAL TASK GROUP Among the seven task groups, the Appraisal group members were especially successful at identifying potential areas of discrimination in their industry. When the group first met, several participants expressed uncertainty about the existence of discrimination in the appraisal process. To address this issue, the members decided to conduct a test project to determine if properties in low-income neighborhoods were appraised accurately. Group members commissioned lending institutions to solicit four appraisals for a single-family house in Cleveland's Hough neighborhood. The results of the test project were startling: The appraised value of the property ranged from \$36,000 to \$83,500.

"This experiment revealed that appraisers may make mistakes because of perceived notions and lack of knowledge about Cleveland's neighborhoods," said Tony Willis, chair of the Appraisal task group. "Appraisers must be in touch with the neighborhoods they are appraising. The appraisers must also know which cycle a neighborhood is in. Vacant houses don't necessarily mean that a neighborhood is in dire shape. Next month, those houses may be gone, and a community rehabilitation project may have begun."

In Donna Cotton's view, a fair and consistent appraisal process is a crucial element of wealth creation. "If I can get the true value for my home, then I can pass that value on to whoever may come after me. But if I can't get a fair appraisal, then you have, in effect, taken away from my wealth."



THE REAL ESTATE AGENT TASK GROUP Several Cleveland project leaders, when queried, said that their most difficult challenge—and most gratifying accomplishment—was facilitating discussions between feuding representatives of Cleveland's minority and white real estate agencies.

There are two major associations of real estate professionals in the Cleveland area: The Cleveland Area Board of Realtors (CABOR), comprised mostly of white real estate agents, and the Cleveland Association of Real Estate Brokers (CAREB), which represents mainly minority agents. Historically, the two groups have maintained a discordant relationship. At the start of the Cleveland project, the members of CAREB (who are known as "realists") were involved in a lawsuit against CABOR over access to the Multiple Listing Service (MLS), which is controlled by CABOR and lists all properties currently for sale by members of the Board of Realtors.

The appraiser plays a major role in the home buying process. A lender balances the appraisal of a property against the potential buyer's mortgage needs and the market value of the house to determine the bank's risk. Housing activists have expressed concern that appraisers who are not familiar

with inner-city neighborhoods may inadvertently undervalue urban properties. As a result, lenders may determine that mortgage approval is too risky and deny the application. Undervaluation can also impact the overall neighborhood because the low appraisal report may be used as a comparable value for nearby home-

owners who are seeking to sell their homes or to obtain home equity loans.

In conducting the test project, the task group selected a well-kept, newly renovated, single-family home in the Hough area of Cleveland's East Side. Appraisers were not given a target housing value; however, they were informed that they were participating in a study.

The task group reported that the appraisals varied from \$36,000 (originally \$28,000 until a lender, in a phone conversation with the appraiser, expressed surprise at the low amount) to \$83,500. The task group also found that the appraisers' turnaround time was longer than average and, in one instance, the fee was considerably higher than the customary rate for nonurban appraisals. In response to the task group's findings, an appraiser subcommittee, led by Rick Edlund, developed an industrywide continuing education program. "It's important that appraisers be knowledgeable about the specific markets they are analyzing," said Edlund. "The test project helped reinforce the reality that the urban markets are constantly changing. We need to update our neighborhood data continuously to understand the values within that submarket."

The minority agents were displeased because, in order to receive the MLS, the CAREB members (who pay dues to that organization) also had to become dues-paying members of CABOR. (The two associations have since resolved their dispute, and the MLS is now available to members of CAREB.)

In addition to this conflict, the two groups clashed over the minority real estate agents' practice of pulling the credit reports of prospective home buyers before showing them properties. In discussions at the two-day conference, several nonminority real estate agents

expressed their view that pulling a potential buyer's credit report at an early stage in the buying process was potentially discriminatory. The nonminority agents claimed that the practice could be used to identify and screen out financially undesirable house

seekers. Minority agents, however, argued that they use the credit reports to provide credit counseling to prospective buyers who may have infrequent contact with lending institutions. Saying that their actions were being misconstrued as racist, the minority agents decided to boycott the task group sessions.

In response to the boycott, Bud Burkle, along with Mary Davis and Barbara Grothe, visited Robert Morgan, who was then president of CAREB. "Morgan felt that the nonminority agents were unfairly judging the African-American agents," explained Burkle. "I assured him that, 'If you come to the next task group meeting and anybody becomes accusatory or confrontational, I'll walk out of the meeting with you and we'll never go back.' Well, he and his group came back. And immediately, the meetings became extremely productive. He had a lot of experience with discriminatory issues, and I think he felt that the Cleveland project was a vehicle where he could finally express those frustrations."

"OUR GOAL, AS A COMMUNITY, IS TO MAKE MORTGAGE CREDIT AND AFFORDABLE HOUSING AVAILABLE TO ALL CREDITWORTHY INDIVIDUALS. THE CLEVELAND PROJECT, BY REDUCING DISCRIMINATORY PRACTICES IN THE HOME BUYING PROCESS, WILL HELP US TO REACH THAT GOAL. IF AMERICA IS GOING TO LIVE UP TO ITS IDEALS AND ELIMINATE DISCRIMINATION, THEN WE WILL NEED MORE COMMUNITY-BASED EFFORTS SUCH AS THIS."

—Tim Hagan,
Cuyahoga County Commissioner

— OUTCOMES —

When the Cleveland project was conceived in 1993, the sponsors realized that its success would require a concerted effort by the city's private and public sectors. "Without this partnership, the Cleveland project could not have worked," said Malcolm Bush. "One of the impressive things about the project was that the Cleveland Fed was in genuine participation with the Greater Cleveland Roundtable and Cuyahoga County. The Fed and the County brought the power of regulatory authorities, and the Roundtable brought the practice of activism. It was a very good combination. There was some good work done."

In terms of deliverable products, the Cleveland project's accomplishments are noteworthy: The seven task groups have overseen the development of continuing education programs for appraisers, real estate agents, and lenders; as well as four consumer education brochures and a reference directory for appraisers. The task groups also generated 29 recommendations for reducing discrimination in the housing market.

The project's final phase—implementation of the 29 recommendations—is a work in progress. "At this point, 16 of the recommendations have been implemented," said Barbara Grothe. "It's important that Cleveland civic and business organizations step forward to adopt the remaining recommendations and monitor their implementation. It's clear to me that we've started a process, but now that the Cleveland project has ended, we need some entities to follow through. I think that the individuals who participated in the Cleveland project took ownership of the issues, but that's a small percentage of all the people who are involved in the process of allocating mortgage credit. That's why it's so important for these recommendations to be integrated into the agendas of corporations and trade associations."

While acknowledging the Cleveland project's tangible accomplishments, many participants said the project's most significant benefit may have been its actual process. "There was tremendous value in the amount of discussion and learning that took place," said David Fynn. "Some participants had been business partners for years, but had never talked about how they did business. Overwhelmingly, the project was about gaining insight and understanding discrimination."

Robert Morgan credited the project with opening the lines of communication between Cleveland's minority and white real estate agents. "We're in the same industry, but we have different philosophies," said Morgan. "The Cleveland project brought us together for the first time. It created a situation where there was a consistent dialogue. It's important for real estate professionals to be proactive and deal with industry problems on our own, rather than having the solutions mandated to us by a governmental authority. But there are regulatory issues, economic issues, and political issues. We need to have the Federal Reserve involved in the process of eliminating discrimination. The Fed can help with its resources, expertise, and ability to create dialogue among the lending community that it regulates."



TASK GROUP ACCOMPLISHMENTS

After identifying seven likely areas of potential discrimination in the home buying process, participants formed task groups to study each area. The groups were expected to review and evaluate industry standards and practices, recommend methods and strategies for reducing discrimination, and develop educational resources for consumers, professionals, and industries.

[1]

THE HOME
PURCHASER'S
INITIAL CONTACT
WITH THE
REAL ESTATE
AGENT

- Task group members recommended that the term “conventional financing only” be omitted from Multiple Listing Service information because it may discourage buyers who are planning to utilize VA, FHA, and other nonconventional financing methods.
- The group agreed to urge the Ohio Real Estate Commission to adopt an additional article in its Canon of Ethics, stating that licensees shall not market property in a manner that indicates a preference for “conventional financing only.”
- The task group oversaw the development of a “Fairness in Lending” continuing education class for real estate professionals.
- As a result of the task group’s suggestion, the Cuyahoga Plan of Ohio, a nonprofit organization that promotes fair housing practices, has offered to facilitate future meetings between white and minority real estate organizations.

[2]

THE HOME
PURCHASER'S
INITIAL CONTACT
WITH THE
LENDER

- The “initial contact with lender” is a critical area of potential discrimination. Because insensitive or inconsistent treatment by loan originators can significantly impact the loan application process, the task group recommended the development of an industrywide training and certification program for lenders. Program curricula will include case studies on discrimination, instruction on fair lending laws and community reinvestment, and multicultural awareness and sales training.

[3]

THE LENDING
INSTITUTIONS'
INTERFACE
WITH THE
SECONDARY MARKET

- Firms that participate in the secondary mortgage market purchase a large percentage of residential loans from primary lenders. Since secondary-firm underwriting guidelines may differ from bank underwriting policies, the task group recommended ongoing training in secondary-market underwriting guidelines for primary lending institutions, underwriters, real estate agents, and community groups.
- The task group proposed that high schools implement academic curricula that educate students about the home buying process, mortgage loan programs, and the importance of a good credit rating and job history.

[4]

THE
APPRAISAL
PROCESS

- The task group proposed that lending institutions and professional appraisal associations coordinate the development of a training and evaluation program for appraisers of urban residential properties.
- The group oversaw the publication of a reference directory of Community Development Corporations (CDCs) and city planners.

[5]

PROPERTY
INSURANCE

- The task group recommended that insurers eliminate potentially discriminatory criteria from their underwriting requirements, including minimum insurance amounts, age of home, and location of home. Group members also proposed that insurance companies maintain uniform, consistent company practices regarding cancellation, nonrenewal, and rejection of policies.
- The task group developed an “Insurance Rights and Obligations” educational pamphlet for consumers.
- The group recommended elimination of credit reports as an underwriting consideration.

[6]

PRIVATE
MORTGAGE
INSURANCE

- Private mortgage insurance is designed to protect lenders against foreclosure. Task group members developed a brochure for consumers that explains the purposes of mortgage insurance and the consumer’s options to cancel the coverage.
- The task group proposed the development of a mortgage-insurance continuing education course for real estate agents.

[7]

CREDIT
BUREAU

- The group commissioned a consumer-oriented pamphlet that explains the function of the credit bureau and the importance of maintaining a good credit history.
- The task group urged area public utilities to report credit information to credit repositories so that low- and moderate-income individuals can demonstrate the regularity of their payments.

Anne Lulow, director of career development at Realty One, concurred with Morgan, saying, “We definitely need to sustain the dialogue that was started three years ago if we truly hope to eliminate discriminatory practices from our industry. The Cleveland project was a big step forward in the process of bringing real estate agents together. Now it’s up to industry professionals to continue educating ourselves on the important issue of discrimination.”

CONCLUSION The Cleveland project participants recognized early on that the project’s success could not be measured in quantifiable terms. Given its often-subtle and complex nature, discrimination is sometimes difficult to detect, let alone eliminate.

Ruth Clevenger, who participated in the Cleveland project first as a representative of a commercial bank and then in her role as manager of the Cleveland Fed’s Community Affairs function, explained, “We all knew that we couldn’t assess the project’s accomplishments in a quantifiable way because there were too many variables. The only way to measure our success is by how many recommendations have been implemented, by how many new relationships have been formed, and by what we learned about each other. And one of the most important things we learned is that many of the participants were willing to stick with this project all the way to its conclusion.”

Applauding the participants’ commitment, Cuyahoga County Commissioner Tim Hagan called the project “an unqualified victory.” According to Hagan, “Our goal, as a community, is to make mortgage credit and affordable housing available to all creditworthy individuals. The Cleveland project, by reducing discriminatory practices in the home buying process, will help us to reach that goal. If America is going to live up to its ideals and eliminate discrimination, then we will need more community-based efforts such as this.”

When the Cleveland project formally ended, Jerry Jordan was asked if its accomplishments would endure. After a pause, Jordan said, “That’s always been a critical question: Whether this would be a one-time, flash-in-the-pan sort of thing, or whether our efforts would be sustaining. At this point, it looks like the project’s achievements will be sustaining. But we will have to help ensure that the momentum is maintained.”

If the Cleveland project has a permanent legacy, stated Jordan, it will be the participants’ success in breaking down the barriers of communication. “The greatest value is in the community dynamics that were created. People got to know each other and communicate with each other in a different way. The Cleveland project enabled that process of interaction to occur, and, clearly, that process will be enduring.”



As of this writing, the Greater Cleveland Residential Housing and Mortgage Credit Project is being emulated by Federal Reserve Banks in Chicago, Boston, St. Louis, San Francisco, and New York. The Cleveland project is being used as a model for a similar program in Greater Cincinnati/Northern Kentucky. And in Akron, Ohio, a public/private partnership is planning to use the Cleveland project’s methodology to identify and remove the impediments to small business financing.

TASK GROUP MEMBERS

(includes employment at time of Cleveland project)

[1]

THE HOME
PURCHASER'S
INITIAL CONTACT
WITH THE
REAL ESTATE AGENT

Anne Lulow, Realty One, chair; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **Chris Burnett**, First Nationwide Bank; **Mary Davis**, Cuyahoga County Department of Development; **David Fynn**, National City Corporation; **Barbara Grothe**, Greater Cleveland Roundtable; **Mary Hudson**, Realty One; **Marion Johnson**, Bank One; **Lionel Lewis**, A.J. Lewis & Associates; **Terry McCafferty**,

Trans Union Corporation; **Jeff Mills**, Society Mortgage Company; **Robert Morgan**, Integrity Escrow & Title Agency; **Christy Penney**, Neighborhood Housing Services of Cleveland; **Jennifer Sladky**, First Nationwide Bank; **Maria Thompson**, Hillcrest Housing; **David Wilcox**, Cuyahoga Savings Association.

[2]

THE HOME
PURCHASER'S
INITIAL CONTACT
WITH THE
LENDER

Marie Gerace, Prospect Title Agency, chair; **Hector Allen**, Huntington National Bank; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **Ruth Clevenger**, Federal Reserve Bank of Cleveland; **Robert Dakdduk**, Commonwealth Mortgage Assurance Company; **Donald Dalton**, Dalton Mortgage Company; **Mary Davis**, Cuyahoga County Department of Development; **Rick Edlund**, Ohio Savings Bank; **Ron Goodin**, MGIC; **Barbara Grothe**, Greater Cleveland Roundtable; **Doris Honsa**, Living in Cleveland Center;

Al Lieberman, First Choice Mortgage Corporation; **Connie Mykytuk**, Realty One; **Jan O'Donnell**, MGIC; **Bobbie Peery**, Lutheran Housing Corporation; **Susie Rivers**, Urban League of Greater Cleveland; **Sue Roehl**, CBC Credit Services; **Renee Smith**, Trans Union Corporation; **Alex Staneff**, Charter One Bank; **Barb Stettinisch**, Park View Federal Savings Bank; **Stephanie Turner**, National City Bank; **Henry West**, Charter One Bank.

[3]

THE LENDING
INSTITUTIONS'
INTERFACE
WITH THE
SECONDARY MARKET

Dale Babin, Fifth Third Bank, chair; **Frank Bologna**, Ohio Savings Bank; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **James Caldwell**, Buckholz Caldwell & Associates; **Reese Dailey**, Prospect Title Agency; **Donald Dalton**, Dalton Mortgage Corporation; **Barbara Grothe**, Greater Cleveland Roundtable; **Ron Hongosh**, National City Bank; **Ernestine Jackson**, Bank One Mortgage Corporation; **Paula Jones**, Bank One Mortgage Corporation; **Loretta Kennelly**, Federal National Mortgage Association;

Lucy J. Loughhead, U.S. Department of Housing and Urban Development; **Lisa Marshall**, National City Bank; **Jeff Mills**, Society Mortgage Company; **Connie Mykytuk**, Realty One; **Derek Parks**, Society Mortgage Corporation; **Lorraine A. Poe**, National City Bank; **John Price**, Huntington National Bank; **Mary Jo Rawlins**, Cuyahoga County Department of Development; **Alan Reichert**, Cleveland State University; **Terry Robbins**, Horizon Savings Bank; **John Sabal**, Leader Mortgage Company; **Donald Willis**, Ohio Civil Rights Commission.

[4]

THE
APPRAISAL
PROCESS

Tony Willis, Tony Willis Real Estate Training Center, chair; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **Rick Edlund**, Ohio Savings Bank; **Maxine Greene**, Cleveland Neighborhood Development Corp.; **Barbara Grothe**, Greater Cleveland Roundtable; **Doris Honsa**, Living in Cleveland Center; **Jan Kearney-King**, U.S. Department of Housing and Urban Development; **Loretta Kennelly**, Federal National Mortgage Association; **Bracy Lewis**, Bank One; **Estella Loar**, City of

Cleveland; **John Lynch**, Lynch & Company; **Joseph Pawlitsch**, Society Mortgage Company; **Patricia Ramsey**, Star Bank; **Alan Reichert**, Cleveland State University; **John Sabal**, Leader Mortgage Company; **Mary Schwegler**, U.S. Department of Housing and Urban Development; **Gia Scianguila-Adeen**, Ohio Civil Rights Commission; **Henry Stoudermire**, McMullan Realty; **Annette Strawbridge**, Accurate Home Inspections; **Charles Thigpen**, Third Federal Savings & Loan.

[5]

PROPERTY
INSURANCE

Rosita Motton, RECA Realty, co-chair; **Sue Taylor**, Allstate Insurance Company, co-chair; **Mary Bonelli**, Ohio Insurance Institute; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **Rico Cora**, State Farm Insurance; **Donna Cotton**, Federal Reserve Bank of Cleveland; **Mary Davis**, Cuyahoga County Department of Development; **Tom Dawson**, State Farm Insurance; **Barbara Grothe**, Greater Cleveland Roundtable; **Roderick Hirsch**, Society Mortgage Company; **Doris Honsa**, Living in Cleveland Center; **Dan Kelso**, Ohio Insurance Institute; **Robert Kloepfer**, Insurance Board of Greater Cleveland; **Ellen Leslie**, Ohio Fair Plan; **Tony Love**, Ohio

City/Near West Housing Corporation; **Terry McCafferty**, Trans Union Corporation; **Jim McKendry**, JMI Reports; **Robert Morgan**, Integrity Escrow & Title Agency; **Andre Payten**, State Farm Insurance; **Christy Penney**, Neighborhood Housing Services of Cleveland; **Melvin Pye, Jr.**, Greater Cleveland Roundtable; **Terry Robbins**, Horizon Savings Bank; **Rosemary Schneider**, September & Associates; **Phil Starr**, Center Neighborhood; **Brian Walters**, Nationwide Insurance; **Ted Wammes**, Ohio Civil Rights Commission; **Diana Woodbridge**, FHC Housing Corporation.

[6]

PRIVATE
MORTGAGE
INSURANCE

Greg Foltz, Federal National Mortgage Association, co-chair; **Sue Ann Osterman**, PMI Mortgage Insurance Company, co-chair; **Roger Boch**, MGIC; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **Beverly Burks**, Garrett Square Neighborhood Development; **Diane Buxton**, Midland Title Agency; **James Colabianchi**, Republic Mortgage Insurance; **Anda Cook**, Living in Cleveland Center; **Don Dalton**, Dalton Mortgage Company; **Margie Deliz**, United Guarantee; **Mary Dennis**, Federal National Mortgage Association; **Cheryl DePalma**, United Guarantee; **Barbara Grothe**, Greater Cleveland Roundtable; **Eric Gunderson**, Metro Mortgage; **Ernestine Jackson**, Bank One; **Lionel Lewis**, A.J. Lewis & Associates; **Lucy Loughhead**, U.S. Department of Housing and Urban

Development; **Bryon McKinney**, First National Bank of Ohio; **Marcia Nolan**, National City Bank; **Christy Penney**, Neighborhood Housing Services of Cleveland; **Margo Petlowany**, National City Bank; **Sheila Powell**, United Guarantee; **Denise Redmond**, Federal Home Loan Mortgage Corp.; **Julie Ribar**, Bellaire-Puritas Development Corp.; **John Sabal**, Leader Mortgage Company; **Jeffrey Skelin**, G.E. Mortgage Insurance; **Alex Staneff**, Charter One Bank; **Barb Stettinisch**, Park View Federal Savings Bank; **Walter Stinson**, City of University Heights; **Sharon Szabo**, Triad Guaranty Insurance; **Ronald Thomas**, Cleveland Action to Support Housing; **Ginger Walters**, Federal Home Loan Mortgage Corp.; **Myra White**, Smythe, Cramer Company.

[7]

CREDIT
BUREAU

Sue Roehl, CBC Credit Services, chair; **Estella Benton**, Estrand Realty; **Gregory Brown**, Cuyahoga County; **Andrew Burkle, Jr.**, Federal Reserve Bank of Cleveland; **Chris Burnett**, First Nationwide Bank; **Iris Choi**, Ohio Civil Rights Commission; **Jeanne Ciammaichella**, Consumer Credit Counseling Service; **Dorothy Curtis**, Dollar Bank; **Carmela Dalton**, Dalton Mortgage Company; **Charlotte Drotar**, Key Mortgage Services; **David Fynn**, National City Corporation; **Barbara Grothe**, Greater Cleveland Roundtable; **John Hnancick**, Geotrac; **Myldred Boston Howell**,

Myldred Boston Howell Realty; **Gail Jackson**, Neighborhood Housing Services of Cleveland; **Paula Jones**, Bank One Mortgage Corporation; **Ken Lumpkin**, Federal National Mortgage Association; **Jeffrey Male**, Park View Federal Savings Bank; **Bryon McKinney**, First National Bank of Ohio; **Maelene Myers**, Hough Area Partners in Progress; **Sheri Porter**, Credco; **John Price**, Third Federal Savings; **Mary Jo Rawlins**, Cuyahoga County; **Roland Somerville**, Oasis Realty Company; **Michael Szaz**, Trans Union Corporation; **Joanie Toner**, Cuyahoga Plan of Ohio.

**OFFICERS
AND
CONSULTANTS**

As of December 31, 1996

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Sandra Planalto
First Vice President & Chief Operating Officer

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Senior Vice President
Cincinnati and Columbus Offices
Check, Marketing functions

Lawrence Cuy
Senior Vice President
Information Technology, Financial
Management Services

R. Chris Moore
Senior Vice President
Banking Supervision and Regulation,
Credit Risk Management, Data Services

Samuel D. Smith
Senior Vice President
Facilities, Protection, Business Continuity
Planning, Information Security

Mark S. Sniderman
Senior Vice President & Director of Research
Corporate Communications & Community Affairs

Harold J. Swart
Senior Vice President
Pittsburgh Office
Cash/Securities, Fiscal functions

Donald G. Vinsel
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Unisys IPS development, EEO Officer

Robert F. Ware
Senior Vice President
Cleveland Operations
ACH, Funds Transfer,
Electronic Delivery Services functions

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Vice President & Economist
Monetary Policy and Macroeconomics

Andrew J. Bazar
Senior Consultant
Information Technology Services

Terry N. Bennett
Vice President
Information Technology Services

Jake D. Breland
Vice President
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Andrew C. Burkle, Jr.
Vice President
Banking Supervision and Regulation

David P. Jager
Vice President
Cash, Securities/Fiscal, Custody Control

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Vice President
Banking Supervision and Regulation,
Credit Risk Management, Data Services

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Vice President
Check Collection, ACH, Funds Transfer,
Electronic Delivery Services

Edward E. Richardson
Vice President
Marketing

Terrence J. Roth
Vice President
Quality

Susan G. Schueller
Vice President & General Auditor

James B. Thomson
Vice President & Economist
Financial Services Research Group

Joseph C. Thorp
Vice President
Building

Robert Van Valkenburg
Vice President
Financial Management Services

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Vice President
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Vice President & General Counsel

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Vice President
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Cincinnati and Columbus Offices

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Consultant
Information Technology Services

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Assistant Vice President
Automation, Building, Cash, Protection
Pittsburgh Office

Michael F. Bryan
Assistant Vice President & Economist
Research

William D. Fosnight
Assistant Vice President &
Assistant General Counsel

Joseph G. Haubrich
Consultant & Economist
Research

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Protection, Registered Mail, EEO
Cincinnati Office

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Assistant Vice President
Banking Supervision and Regulation

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Assistant Vice President
Budget, Expense, Financial Planning

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Assistant Vice President
Check Collection

Laura K. McGowan
Assistant Vice President & Corporate Secretary,
Community Affairs Officer
Corporate Communications & Community Affairs

Stephen J. Ong
Assistant Vice President
Banking Supervision and Regulation

James W. Rakowsky
Assistant Vice President
Facilities, Business Continuity Planning,
Building Transition

Kimberly L. Ray
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Pittsburgh Office

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Information Technology Services

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Banking Supervision and Regulation

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Securities, EEO
Pittsburgh Office

William J. Smith
Assistant Vice President
Human Resources

Gregory L. Stefani
Assistant Vice President
Banking Supervision and Regulation

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Consultant & Economist
Financial Services Research Group

Henry P. Trollo
Assistant Vice President
Information Technology Services,
Deputy EEO Officer

Darell R. Wittrup
Assistant Vice President
Accounting, Billing

Consultants are highly skilled employees who contribute to attaining the Bank's goals through their specialized professional or technical skills.

FEDERAL RESERVE BANK OF CLEVELAND

DIRECTORS

As of December 31, 1996

CLEVELAND

A. William Reynolds
Chairman & Federal Reserve Agent
Chief Executive
Old Mill Group
Hudson, Ohio

G. Watts Humphrey, Jr.
Deputy Chairman
President
GWH Holdings, Inc.
Pittsburgh, Pennsylvania

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Chairman & CEO
National City Corporation
Cleveland, Ohio

David S. Dahlmann
President & CEO
Southwest National Corporation
Greensburg, Pennsylvania

Robert Y. Farrington
Executive Secretary-Treasurer
Ohio State Building and
Construction Trades Council
Columbus, Ohio

I.N. Rendall Harper, Jr.
President & CEO
American Micrographics Co., Inc.
Monroeville, Pennsylvania

Alfred C. Leist
Chairman, President & CEO
The Apple Creek Banking Co.
Apple Creek, Ohio

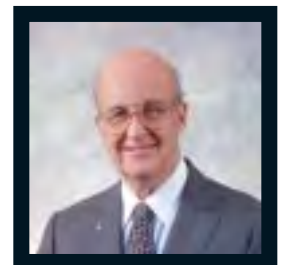
Michele Tolela Myers
President
Denison University
Granville, Ohio

Thomas M. Nies
President
Cincom Systems, Inc.
Cincinnati, Ohio

Frank V. Cahouet
Federal Advisory Council Representative
Chairman, President & CEO
Mellon Bank Corporation and
Mellon Bank, N.A.
Pittsburgh, Pennsylvania



A. William Reynolds, Alfred C. Leist, Robert Y. Farrington, David A. Daberko, I.N. Rendall Harper, Jr., David S. Dahlmann, and G. Watts Humphrey, Jr.



Frank V. Cahouet

CINCINNATI

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Chairman & CEO
Kurz-Kasch, Inc.
Dayton, Ohio

Judith G. Clabes
President & CEO
Scripps Howard Foundation
Cincinnati, Ohio

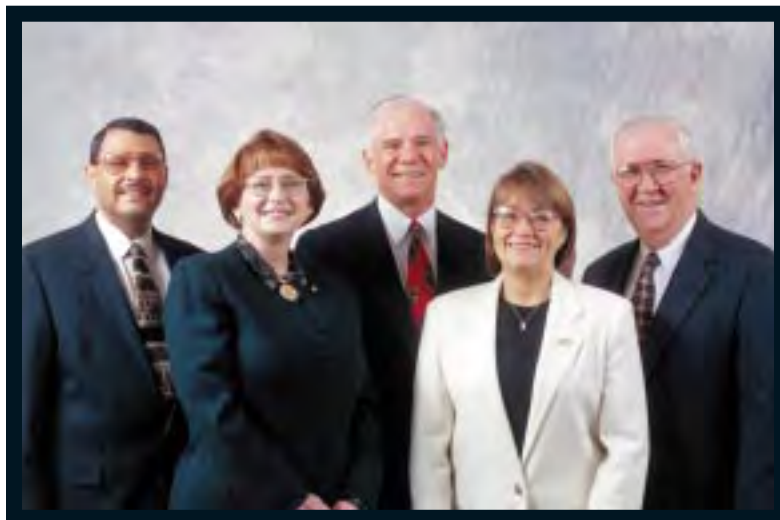
Phillip R. Cox
President
Cox Financial Corporation
Cincinnati, Ohio

Jerry A. Grundhofer
Chairman, President & CEO
Star Banc Corporation
Cincinnati, Ohio

Jean R. Hale
President & CEO
Pikeville National Bank and Trust Company
Pikeville, Kentucky

Thomas Revely III
President & CEO
Cincinnati Bell Supply Co.
Cincinnati, Ohio

Wayne Shumate
Chairman & CEO
Kentucky Textiles, Inc.
Paris, Kentucky



Thomas Revely III, Jean R. Hale, John N. Taylor, Jr.,
Judith G. Clabes, and Wayne Shumate

PITTSBURGH

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Chairman
Chairman, President & CEO
Mine Safety Appliances Company
Pittsburgh, Pennsylvania

Gretchen R. Haggerty
Vice President & Treasurer
USX Corporation
Pittsburgh, Pennsylvania

Thomas J. O'Shane
Chairman, President & CEO
First Western Bancorp, Inc.
New Castle, Pennsylvania

Sandra L. Phillips
Executive Director
Pittsburgh Partnership for
Neighborhood Development
Pittsburgh, Pennsylvania

Edward V. Randall, Jr.
President and CEO/Pittsburgh
PNC Bank, N.A.
Pittsburgh, Pennsylvania

Randall L.C. Russell
President & CEO
Ranbar Technology, Inc.
Glenshaw, Pennsylvania

Wesley W. von Schack
Former Chairman, President & CEO
DQE
Pittsburgh, Pennsylvania



Edward V. Randall, Jr., Sandra L. Phillips, Randall L.C. Russell,
John T. Ryan III, and Thomas J. O'Shane

COMPARATIVE FINANCIAL STATEMENT

**STATEMENT
OF
CONDITION**
(in millions)

	For the years ended:	
	December 31, 1996	December 31, 1995
ASSETS		
Gold certificates	\$ 624	\$ 621
Special drawing rights certificates	543	584
Coin	25	24
Items in process of collection	688	265
U.S. government and federal agency securities, net	23,173	22,014
Investments denominated in foreign currencies	1,257	1,476
Accrued interest receivable	209	224
Interdistrict settlement account	5,007	220
Bank premises and equipment, net	131	87
Other assets	23	19
Total assets	\$ 31,680	\$ 25,534
LIABILITIES AND CAPITAL		
Liabilities:		
Federal Reserve notes outstanding, net	\$ 29,861	\$ 23,524
Deposits:		
Depository institutions	856	1,161
Other deposits	15	11
Deferred credit items	280	232
Statutory surplus transfer due U.S. Treasury	37	0
Interest on Federal Reserve notes due U.S. Treasury	0	39
Accrued benefit cost	43	40
Other liabilities	10	9
Total liabilities	31,102	25,016
Capital:		
Capital paid in	292	259
Surplus	286	259
Total capital	578	518
Total liabilities and capital	\$ 31,680	\$ 25,534

**STATEMENT
OF INCOME**
(in millions)

	For the years ended:	
	December 31, 1996	December 31, 1995
Interest income:		
Interest on U.S. government securities	\$ 1,382	\$ 1,400
Interest on foreign currencies	29	55
Total interest income	1,411	1,455
Other operating income:		
Income from services	50	47
Reimbursable services to government agencies	23	22
Foreign currency gains (losses), net	(109)	70
Government securities gains, net	2	0
Other income	1	3
Total other operating income (loss)	(33)	142
Operating expenses:		
Salaries and other benefits	68	67
Occupancy expense	8	7
Equipment expense	9	9
Cost of unreimbursed Treasury services	2	2
Assessments by Board of Governors	34	33
Other expenses	43	43
Total operating expenses	164	161
Income before cumulative effect of accounting change	1,214	1,436
Cumulative effect of change in accounting principle	0	(4)
Net income prior to distribution	\$ 1,214	\$ 1,432
Distribution of net income:		
Dividends paid to member banks	\$ 16	\$ 16
Transferred to surplus	34	1
Payments to U.S. Treasury as interest on Federal Reserve notes	854	1,415
Payments to U.S. Treasury as required by statute	310	0
Total distributed income	\$ 1,214	\$ 1,432

**STATEMENT
OF CHANGES
IN CAPITAL**
(in millions)

	Capital Paid in	Surplus	Total Capital
Balance at January 1, 1995 (5,150,561 shares)	\$ 258	\$ 258	\$ 516
Net income transferred to surplus	—	1	1
Net change in capital stock issued (24,775 shares)	\$ 1	—	\$ 1
Balance at December 31, 1995 (5,175,336 shares)	\$ 259	\$ 259	\$ 518
Net income transferred to surplus	—	33	33
Statutory surplus transfer to the U.S. Treasury	—	(6)	(6)
Net change in capital stock issued (674,545 shares)	\$ 33	—	\$ 33
Balance at December 31, 1996 (5,849,881 shares)	\$ 292	\$ 286	\$ 578

These statements are prepared by Bank management. Copies of full and final financial statements, complete with footnotes, are available by writing the Corporate Communications & Community Affairs Department of the Federal Reserve Bank of Cleveland, P.O. Box 6387, Cleveland, OH 44101, or by calling (216) 579-2001 (key in 1-5-3).

1996 OPERATIONAL HIGHLIGHTS

CLEVELAND BUILDING PROJECT

- Progress continued on the Bank's Operations Center, with occupancy scheduled for the first quarter of 1997. Approximately half of the employees at the Cleveland office were relocated to temporary leased space in late 1996 for a two-year period while the historic main office building undergoes renovation.

CONFERENCES AND PUBLIC PROGRAMS

- The Bank sponsored conferences, educational initiatives, and outreach programs on a variety of topics, including the Electronic Federal Tax Payment System, regionalization and emerging markets, the dynamic effects of monetary policy, the Community Reinvestment Act, and other laws and regulations.
- Mary Ellen Withrow, Treasurer of the United States, formally introduced the new 1995 series \$2 bill in November. More than 1,000 people visited the Cleveland office over a two-day period for the opportunity to purchase uncut sheets of currency.
- President Jerry Jordan and other Cleveland Fed officers discussed issues of concern with bankers throughout Ohio and Pennsylvania as part of a bankers' meeting series instituted in 1996. More than 100 financial-institution executives attended these meetings to discuss local business and economic conditions, plans for new payments services technologies, and recent changes in banking regulation.

MONETARY POLICY/RESEARCH

- Our staff of Research economists had 17 papers or articles published or accepted for publication in leading U.S. and international scholarly journals.
- All of the Bank's Research publications, as well as information from our Banking Supervision and Regulation, Corporate Communications, Data Services, and Marketing areas, were made available to the general public on the Bank's home page on the World Wide Web: <http://www.clev.frb.org>.
- The Financial Services Research Group, which contributes research and economic analysis in support of the Federal Reserve System's Financial Services Policy Committee, continues to operate from the Cleveland Reserve Bank.

PAYMENTS SERVICES

- The Bank sponsored the World Series of Electronic Payments to update customers on pending changes in this area. Nearly 700 customers from throughout the District attended these sessions, where they received information on the electronic federal tax payment system, automated clearinghouse (ACH), wire transfer, and the Federal Reserve's new national book-entry system.
- The Cleveland Fed successfully implemented FedACH, the new standard software for automated clearinghouse transactions, with no disruption in service to customers. The Bank also successfully migrated its mainframe data processing operations to a communal environment at FRAS, the Federal Reserve Automation Services site in Richmond, Virginia.
- In cooperation with ACH associations, the Bank continued to champion the utility direct payment program. The 1996 campaign yielded more than 90,000 payment agreements, resulting in additional ACH volume of 1.1 million items. The program serves as a model for similar efforts in other areas of the country.

- As one of five regional processing sites and one of two regional print sites for issuing savings bonds, the Pittsburgh office continued to serve the U.S. Treasury, our largest customer. The Bank began to accept payroll savings bonds via electronic telecommunication (bulkdata) connections in response to customer requests.
- As the Unisys/FRBIPS project office, the Cleveland Fed assumed a lead role in partnering with Unisys to set the strategic direction and develop the requirements for the next-generation check processing system.
- The Bank continues to work with customers to better understand their needs and expectations. A number of new products, such as check imaging, were introduced directly in response to customer needs. Another example is the Bank's upgrade to a LAN-based operating system for Noncash items, which both reduced a lengthy backlog on return items and enhanced cost efficiencies.

QUALITY IMPROVEMENTS AND INTERNAL TRAINING

- Customers responded enthusiastically to the Bank's heightened focus on quality. The Quality Assessment Survey conducted in the spring showed solid improvement in the Bank's ability to meet and exceed customer expectations across all services.
- Employees' customer service and communications skills were enhanced through attendance at 79 "Superior Service" classes held throughout the year at our four offices. Employee facilitation teams were formed and trained in each office to ensure timely problem identification and effective resolution.
- In February, the Bank adopted a functional management structure across the four offices to strengthen our ability to achieve strategic objectives and to provide superior service to customers.

SUPERVISION AND REGULATION

- The Bank successfully carried out its supervisory responsibilities, adopting a risk-based approach, and the condition of the District's financial institutions remains superior.
- In conjunction with several other Reserve Banks, the Cleveland Fed actively participated in the development of the Joint Supervisory Protocol among the Federal Reserve System, the Federal Deposit Insurance Corporation, and state banking agencies to promote seamless supervision and reduce the regulatory burden on state-chartered banks.
- The Bank contributed to the development and implementation of the Examiner Workstation, designed to allow examiners to download information from a bank's computer system before and during commercial-bank field examinations.
- To ensure the Fourth District's readiness to respond to sweeping changes in interstate banking and branching laws, the Bank provided internal communication and training and solicited banks' input on the potential impact of the legislation. The Cleveland Fed continues its System leadership role in this initiative by helping to form and direct policy decisions and to provide useful tools for implementing those decisions.

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