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Redlining Cities: How Banks Color Community Development

Racially and geographically biased bank lending channeled investment away from cities and gave us urban blight. Now, with bank reform, government must secure equitable investment flows.

Headline-grabbing crises in the American banking and financial system vie with lurid coverage of urban decline as staples of our domestic news. The general public essentially perceives these as two separate areas of crisis. But they are interconnected, as this examination of the banking practice known as "redlining" reveals.

The health of America's cities depends on both public and private investment. The 1980s witnessed a decline in federal funds for cities and community development, forcing local governments and community organizations to seek private financing (developers, corporations, banks, and foundations) for community development projects. At the same time, government deregulation of the banking industry led to an orgy of speculation that destabilized both the industry and urban neighborhoods.

The savings-and-loan scandal, as well as the collapse and merger of many commercial banks, have recently put the arcane and complex topic of banking industry reform on the front pages and on the national agenda. Often lost in the crossfire between different sectors of the industry, government regulators, the Bush Administration, and Congress is the question of how banks serve (or don't serve) the poor and the urban neighborhoods in which they live.

An examination of "redlining"—the practice of discriminating against poor and minority neighborhoods in the provisions of bank lending and consumer services—illustrates this in sharp relief. Also, a review of grassroots activism across the country to pressure banks to invest in poor and working class areas, particularly urban minority neighborhoods, highlights the potential and pitfalls of community organizing around redlining during a period of dramatic change in both the nation's banking system and federal policy toward cities.

Urban fiscal crisis and redlining

Redlining emerged as a community organizing and political issue in older American cities in the late 1960s and early 1970s, when the ghetto revolts had subsided. Restructuring of both the global and national economies was changing the face of these cities, which were losing their manufacturing industries—and the jobs and tax base that those created. Cities were also experiencing a decline in overall population

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size, despite increases in their minority populations. White middle-class residents were fleeing to the suburbs in the wake of market forces (including the movement of jobs to these areas) and government policy (especially in federal transportation, defense, and housing). Widening economic disparity between suburbs and cities evolved, along with deepening fiscal crises in the nation's older cities.

Most pundits viewed these changes as a kind of natural law —the inevitable rise and fall of older cities. But in Baltimore, Boston, Chicago, Cleveland, New York, and elsewhere, neighborhood residents and small business owners began to discern a red pen in the invisible hand of the market—especially in the pattern of bank lending decisions. Banks were refusing to make home and business loans to certain neighborhoods, creating a self-fulfilling prophecy of neglect and deterioration. Moreover, these decisions were often based on subjective perceptions—bankers' views of certain neighborhoods as risky—rather than on objective reality. Stable working-class families, for example, were rejected for home improvement loans, despite their ability to pay. Small businesses were unable to obtain loans to start or expand their operation despite evidence of consumer demand for their products and services. Renters seeking mortgages to purchase a home were turned down, even though they had the downpayment and income to qualify.

Local activists concluded that their neighborhoods were experiencing systematic disinvestment, not isolated lending decisions by individual loan officers. These activists undertook local efforts to convince banks to revise their perceptions and lending practices. Some were simply education campaigns to change how bankers—often suburban residents with stereotyped images of city neighborhoods—viewed these areas. Other efforts involved organizing consumer boycotts—"greenlining" campaigns—of neighborhood banks that refused to reinvest local depositors' money in their own backyards. Most of these local efforts ended in frustration, although some neighborhood groups achieved small victories, including agreements between banks and community organizations to provide loans or maintain branches in their neighborhoods.

Eventually, activists from across the country, working on similar issues, discovered each other and recognized their common agendas. From these localized efforts grew a national movement—part and parcel of the burgeoning neighborhood activism of the 1970s—to address the problem of bank redlining.

Bank performance as a local issue

In response to this emerging "neighborhood movement," Congress (with the support of the Carter administration after 1976) sponsored a number of initiatives to promote community self-help efforts. These included two key pieces of legislation—the Home Mortgage Disclosure Act (HMDA) of 1975 and the Community Reinvestment Act (CRA) of 1977—designed to combat banks' redlining practices. HMDA required regulated lenders (thrifts, commercial banks and credit unions) to disclose the location, by census tract, of their home mortgages and home improvement loans. The CRA imposed an "affirmative" responsibility on lenders to meet the legitimate credit needs of all residents of their service areas from which they draw their deposits.

In combination, HMDA and CRA provided tools to pressure banks to invest in low-income and minority neighborhoods. HMDA provided the data needed to systematically analyze the banks' lending patterns (for housing, but not commercial loans). With this information in hand, community groups could use the CRA to challenge banks' applications to federal regulators to open or close branches, acquire or merge with other banks, or engage in other businesses, on the grounds that they have demonstrated geographic and racial biases in lending and have failed to meet community credit needs.

Over the years, federal bank regulators (Federal Reserve Board, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and the Federal Home Loan Bank Board, now replaced by the Office of Thrift Supervision) have not proven to be proactive in terms of enforcing the CRA. More than 90 percent of all regulated lenders have received either "outstanding" or "satisfactory" CRA ratings. In rating bank performance, the regulators have not undertaken their own analyses using the HMDA data. Until 1989, no major bank application was denied on CRA grounds.

It was thus left to community groups and some local governments to enforce the CRA. If community groups made a persuasive case and mobilized politically, they could pressure banks to make agreements to change their business practices, under the threat of embarrassment and potential denial of their applications. Using an array of community organizing strategies, neighborhood groups and coalitions wrested concessions from individual banks and consortia of banks, typically by negotiating "community reinvestment agreements."

Since regulators were usually not parties to these compacts, they did not feel obliged to enforce them. These agreements usually called for banks to retain or expand branch operations, create programs to expand home mortgages or home improvement loans, and make loans to community development corporations (CDCs). Some agreements addressed small business lending, multifamily housing loans, or local hiring issues.

During most of the 1980s, redlining controversies remained predominantly local issues—brushfire battles in a protracted war between community activists and lenders. Grassroots community groups became increasing adept at challenging bank applications on the grounds of poor CRA performance.

Banks differed in their resistance to making concessions to community groups, but the banking industry generally accepted the CRA as a cost of doing business and remaining legitimate. CRA agreements became the banks' way to demonstrate their social responsibility. Banks hired consultants (occasionally former activists) to help them win over community groups, craft agreements, and ballyhoo their accomplishments.

There is no single list or repository of the many CRA agreements crafted since 1977. The Center for Community Change (CCC), a Washington, D.C.—based organization, estimates that the CRA agreements have catalyzed over $10 billion in bank lending and services over the years.

Redlining reform tied to S&L bailout

In May of 1988 the Atlanta *Journal and Constitution* published a high-profile series, "The Color of Money," describing the redlining practices of that city's major banks. The series, written by reporter William Dedman, won a Pulitzer Prize and received national attention in newsweeklies and other media. Later that year, the Detroit *Free Press* published a comparable series on bank redlining practices in the Motor City. Both papers hired academic experts to analyze the HMDA data, while reporters used interviews and anecdotes to highlight the human and social side of redlining.

Growing grassroots organizing and media attention to the redlining issue drew some vocal members of Congress into the issue, most notably Rep. Joseph Kennedy (D-Mass.), who represented Boston, where a protracted CRA controversy was unfolding. Working with various public interest groups with considerable CRA experience, Kennedy sponsored legislation requiring financial institutions to disclose additional information and to put teeth into CRA enforcement.

Kennedy's initiative would not have gained much momentum except that he and activists linked the CRA issue to the unfolding savings-and-loan bailout crisis. A decade of federal deregulation had created a climate for S&Ls to engage in speculation and fraud. By 1989, the public was beginning to become aware of the consequences. S&Ls were failing at a record pace, leaving taxpayers to bail out their government-insured depositors to the tune of $300 billion. (Today, the size of this taxpayer bailout continues to grow.)

As Congress debated the merits and the magnitude of the bailout, and as the national media banner-headlined the issue (including the activities of the "Keating Five," U.S. Senators alleged to have done favors for Arizona S&L owner Charles Keating, a major campaign contributor), CRA crusaders saw an opportunity to demand a *quid-pro-quo*. This effort was led by the Financial Democracy Campaign, a coalition of community and consumer groups, unions, and public figures such as Rev. Jesse Jackson, Jim Hightower, and Boston Mayor Ray Flynn. The key players in the coalition included the Association of Community Organizations for Reform Now (ACORN), Public Citizen (a Nader group), and the Center for Community Change, drawing on the network of local groups across the country—which had mushroomed to include church-based, civil rights and fair housing groups, neighborhood associations, community-action (antipoverty) agencies, and community development organizations. Against enormous odds they successfully tied CRA reforms to the S&L bail-out legislation, in the Financial Institutions Reform, Recovery, and Enforcement Act (FIREAA) of August 1989. The sweeping bill incorporated several of Kennedy's proposals, including revising the CRA rating system, requiring disclosure of CRA ratings and evaluations, and expanding information required by HMDA to include the race, income, and gender of all mortgage applicants and borrowers by census tract.

At the same time, the growing attention to redlining issues began to resonate with regulators.

Federal regulators beef up CRA

The Senate Banking Committee held hearings in April 1988 to review the effectiveness of regulators in enforcing CRA. In early 1989, the Federal Reserve Board began discussing a new CRA policy statement, that was

adopted later that year. The new statement specified the kinds of practices on which banks would be evaluated, correcting the vague standards often criticized by lenders and community activists alike. The statement also encouraged banks to meet CRA responsibilities on an ongoing basis, rather than waiting until an application is pending to correct any deficiencies.

At the same time—perhaps to demonstrate to Congress that it took CRA seriously—in the first decision of its kind, the Federal Reserve Board denied (by a 4–2 vote) a bid by a bank-holding company to acquire another bank based on its failure to meet its CRA responsibilities. The Fed's ruling rebuked Continental Illinois (which sought to acquire a small Arizona bank) for its "important deficiencies" in upholding CRA, including "a misunderstanding on the part of the bank staff and management of the requirements of CRA," specifically citing the bank's ongoing failure to make serious efforts to ascertain community credit needs in the Chicago area. Continental's application to purchase the Arizona bank was initially challenged by the Amalgamated Clothing and Textile Workers Union, which criticized the bank's decision to terminate its retail banking services. The challenge triggered an investigation of Continental's lending record, about which—in the changing political climate—the Fed decided to make an example.

The fact that the bank was one of the nation's largest sent shockwaves through the banking industry. It also established the important precedent that the Fed would examine a bank's past performance—not simply promises to improve—in evaluating its CRA track record. This forced banks to look at the CRA more closely. Until then, most banks viewed CRA as similar to corporate philanthropy—good public relations—and relegated low-level executives to tend to it. In the new climate of increasing bank mergers and interstate banking—and thus growing opportunity for grassroots challenges to banks' expansion plans—the CRA became a more serious concern.

The banking industry engineered a two-pronged response. Across the country, banks began to participate in meetings to learn more about CRA as well as to hire additional staff to develop CRA programs and meet with community groups. At the same time, industry lobbyists in Washington began to attack CRA and HMDA. Stung by the successful efforts to strengthen these bills as part of the S&L bailout bill in 1989, they filed legislation to gut both provisions as part of President Bush's bank restructuring proposals in 1991. Community activists, unions, clergy groups, consumer advocates, and big-city mayors mounted a counteroffensive during the summer, and successfully derailed the anti-CRA amendments for the time being, but the industry is not likely to give up. In fact, in his farewell address to bankers (October 7, 1991), outgoing FDIC Chairman L. William Seidman said that laws requiring banks to invest in their local communities were "no longer required, or affordable."

Boston: one city's telling experience

From late 1988 to mid-1990, while redlining was grabbing attention at the national level, it emerged as a major issue in Boston. A protracted struggle over lending discrimination—engaging the banks, community groups, and Mayor Raymond Flynn and his administration—dominated the headlines during that entire period.

Boston had already experienced a redlining controversy in the late 1960s and early 1970s. Back then, twenty-two banks created the Boston Banks Urban Renewal Group (BBURG) to channel federally insured mortgages into Boston neighborhoods. But unscrupulous lenders and brokers engaged in widespread redlining, blockbusting, and steering, and transformed the racial composition of several neighborhoods almost overnight. U.S. Senate hearings in Boston in 1971 brought these practices to light, helping to pave the way for the federal Community Reinvestment Act in 1977 and, two years later, the first state CRA in Massachusetts.

During the late 1970s and through most of 1980s, as Boston's economy experienced a dramatic turnaround, redlining almost disappeared as a public issue. The city's role as a high-tech, medical industry, and higher education center led to significant public and private investment both in Boston's downtown and its outlying suburbs. The city's changing downtown skyline, along with its spiraling housing prices, reflected this new prosperity. By 1984, Boston had the lowest unemployment rate, as well as the highest housing prices, of any major American city. But the economic boom ignored the city's low-income and working-class neighborhoods, particularly its minority areas. This disparity helped fuel political sentiment that led the sixteen-year Mayor Kevin White to step down in 1983. Populist City Councillor Ray Flynn pledged to "share the prosperity" of Boston's downtown with its working-class neighborhoods, and won the fiercely contested election.

Under Flynn, the city government carried out a "linkage" policy requiring downtown commercial developers to contribute funds (over $30 million in the administration's first seven years) to a neighborhood housing fund; expanded city support for neighborhood-based nonprofit housing developers, utilizing long-dormant city-owned land and vacant buildings to build housing for poor and working class people; and strengthened the city's tenants' rights laws to protect renters from skyrocketing rent increases and conversion of affordable apartments to high-priced condominiums.

Still, city housing officials and housing developers noticed that many developers, as well as many working-class homebuyers, were finding it difficult to obtain financing from local banks. Lenders seemed to have more confidence in (and made lending easier for) speculative market-rate condos in the suburbs than affordable housing in Boston's neighborhoods—even though the delinquency rate was much higher for the upscale housing. (Many of the banks and S&Ls that financed these speculative investments—including the Bank of New England, the region's largest bank—soon collapsed, requiring massive taxpayer-funded bailouts.) Banking services in minority and low-income areas (branches, hours, ATMs) were inadequate, forcing community residents to turn to usurious check-cashing stores and private mortgage corporations. Community housing groups pointed out that bank mortgage products and underwriting criteria did not meet the needs of their local neighborhoods' households. For example, the typical Boston renter already paid 40 percent of his/her income for housing, but lenders limited buyers to spending 28 percent of income to purchase a home.

Systematic studies of lending practices

Mayor Flynn asked the Boston Redevelopment Authority (BRA)—the city's planning agency—to undertake a systematic analysis of lending practices in Boston's neighborhoods. In January 1989, the BRA hired Charles Finn, a University of Minnesota economist, to do this study. Because Finn had worked on similar studies in Atlanta and Detroit—and the release of his findings had created controversy in both cities—the act of hiring Finn itself made Boston's banks nervous.

Shortly after the BRA proposed hiring Finn, the *Boston Globe* published the preliminary results of a study by the Federal Reserve Bank of Boston showing significant disparities on the basis of race and geography in bank mortgage lending in Boston's neighborhoods. The Federal Reserve Bank complained that the study (which had apparently been leaked to the *Globe*) was only an early draft, but—from the banks' perspective—the damage had been done: The redlining controversy was squarely at the center of public debate in Boston.

The response of the banking industry to these events went through several stages. At first, industry spokespersons engaged in damage control—denying that "redlining" was a problem, trying to discredit Finn's credibility as a researcher, and hoping that the issue would disappear. Then, acknowledging lending disparities *did* exist between black and white neighborhoods, the banks argued that the disparities were due to differences in the demand for mortgages, or to housing market discrimination, but not to racial bias by banks. Next, when it became clear that the controversy would not go away, the banks took steps to review past practices and find solutions. Through the Massachusetts Bankers Association (MBA), the banks began meeting among themselves, with government officials, and with community activists.

In addition, the MBA and the Federal Reserve Bank sponsored a series of well-attended public forums to discuss the issues and possible remedies. Meanwhile, community activists brought their concerns to the boardrooms. The Community Investment Coalition (CIC)—composed of several community development corporations, the hotel workers union, a Roxbury-based community group, and the Massachusetts Homebuyers Union, an advocacy group organized by the Massachusetts Affordable Housing Alliance (MAHA)—was formed to represent community advocates. They protested and picketed bank offices and the homes of bank officials; a few even were arrested. They invited bank officials to community meetings—and wound up meeting face-to-face with the heads of the major banks at public meetings and private negotiations.

Mayor Flynn and city officials met regularly with bankers and neighborhood activists. They prodded the banks to develop an industrywide plan and to work closely with city programs and neighborhood-based CDCs and consumer groups in developing their solutions.

While the MBA was devising its own response, the Flynn Administration and the CIC each developed a detailed proposal for a comprehensive community reinvestment plan. To work out its own plan, the MBA established several committees, each with bankers, city and state officials, and community activists. When the MBA eventually unveiled its statewide plan, it contained

many elements of both the Mayor's and CIC's proposals. Mayor Flynn also enacted a "linked deposit" policy. Under this plan, the city would regularly examine the banks' track records on home mortgages, affordable housing development, hiring practices, neighborhood branches, small business loans, and participation in city-sponsored housing and neighborhood improvement programs. These evaluations would be made public, to inform consumers and local organizations about their banks. City funds would be invested only in those banks that demonstrated their commitment to the city's neighborhoods. (About a dozen cities now have some kind of linked-deposit policies.)

Around the same time, Congressman Joe Kennedy brought the U.S. House of Representatives Banking Subcommittee (including chairman Rep. Henry Gonzalez) to Boston to hold hearings at the Federal Reserve Bank on the redlining issue—including Rep. Kennedy's proposed legislation to strengthen the federal CRA.

Meanwhile, MAHA sponsored a bill in the state legislature to toughen the state's CRA, linking it to a proposed interstate banking law supported by most Massachusetts banks. (Both eventually passed.) MAHA also kept the heat on by challenging (on CRA grounds) the applications of two major Boston banks that sought approval to open new branches—one in Japan and another in a predominantly white Boston neighborhood.

Findings of official studies

The Federal Reserve Bank and the Boston Redevelopment Authority released the official versions of their studies in August and December 1991, respectively. These long-awaited reports each generated front page news for several days and heightened the pressure to reach a solution. Both studies, using HMDA and other data, found significant disparities in mortgage lending between predominantly white and predominantly black neighborhoods.

The final Federal Reserve Bank report, written by two bank economists and a Wellesley College professor, looking at data for 1982–87, was an aggregate analysis of all bank mortgage lending in Boston. It did not break down its findings by individual banks. It also went to great lengths to avoid attributing disparity to bank practices alone, or to suggest that it was due to conscious policy. The study found that:

> housing and mortgage credit markets are functioning in a way that hurts black neighborhoods in the city of Boston. One indication is that the ratio of mortgage loans to the potentially mortgageable housing stock is substantially lower in predominantly black neighborhoods than in white neighborhoods. This pattern persists even after taking into account economic and other non-racial characteristics that could be responsible for differences between neighborhoods.

Adjusting for such factors, the study showed that white neighborhoods still had 24 percent more mortgage loans than black neighborhoods.

The imprimatur of the Federal Reserve Bank of Boston was important in providing credibility to the statements of community activists and city officials. In fact, BRA officials waited to release the Finn report until after the Fed had published its study. They wanted to use Finn's study for its maximum leverage, when negotiations were stalled and a new burst of media attention could break the logjam.

Finn's study for the BRA, covering 1981–1987, was much more hard-hitting. It compared neighborhoods with similar income profiles and discovered that commercial banks and S&Ls provided more than *three* times the number of mortgages in white neighborhoods than in similar minority neighborhoods. This wider disparity than the Fed study was due to differences in method: Finn eliminated federal and state government-insured loans (which require no bank risk and are disproportionately located in minority areas), and used a slightly different definition of minority neighborhood. To demonstrate that there was no lack of consumer demand in these neglected neighborhoods, Finn showed that in the absence of lending by government-regulated lenders, other financing sources—private mortgage companies, credit unions, and individual sellers—provided mortgages. In perhaps the most controversial section of the report, Finn listed the lending ratios (comparing mortgage lending in white and minority neighborhoods) for each bank and S&L. Finn also noted that while Boston's banks were disinvesting from minority areas, they were fueling the 1980s wave of speculative condominium conversions in working-class white neighborhoods, leading to gentrification and displacement. He also noted that while Boston-based banks had increased the number of branches in the metropolitan area, the number located in Boston's minority neighborhoods had declined significantly.

Community reinvestment plan

The reports, protests, the linked-deposit policy, and the numerous meetings turned out to be catalysts for action.

In January 1990—in the midst of rising racial turmoil triggered by the Carol Stuart murder case—bankers, community activists, black clergy and developers, and city and state government officials announced a $400 million community reinvestment plan at a press conference in Mayor Flynn's office.

The banks agreed to provide $200 million in financing and investment for subsidized housing projects and another $60 million for minority small business enterprises. They also agreed to provide over $30 million in below-market mortgages for working-class homebuyers using flexible underwriting standards (such as 5 percent downpayment). Banks and government agencies agreed to cosponsored "homebuying fairs" to encourage consumers to take advantage of the new products. Banks also pledged to expand their hours and services, and to add seven new branches in minority neighborhoods. They also agreed to cash government checks (welfare, Social Security) for noncustomers—a long-held grievance demanded by antipoverty agencies, so they would no longer have to rely on rip-off check-cashing stores.

To implement the plan, the MBA created three new institutions—a consumer advisory council, a Housing Investment Corporation (to pool bank financing for subsidized housing projects), and a minority enterprise corporation (to handle commercial ventures and provide technical assistance). Bankers, community activists, and government officials served on the boards of each organization.

Despite delays in carrying out some of their promises, the banks have made progress in changing the ways they do business in low-income and minority neighborhoods in Boston. A year later, the city's analysis of bank lending patterns showed a more equal distribution of mortgages in black and white neighborhoods. Five new bank branches had already been opened or sited; Boston is one of the few cities where banks are actually expanding their branches in minority areas.

Lessons from the Boston experience

1. Recognizing the importance of allies. Certainly the militancy of the activists—their willingness to engage in direct action, get arrested, mobilize neighborhood residents—played a crucial role in the eventual success. But their strength and legitimacy was enhanced significantly by the support of key allies, particularly Mayor Flynn and Rep. Kennedy.

The CIC was a fragile coalition at best. It had no full-time staff, relying primarily on volunteer leaders and the part-time work of MAHA staff. Only the hotel workers' union had a large membership that could be mobilized for public meetings and protests. This weakness was illustrated by the poor turnout at a public "accountability" meeting in Roxbury attended by several top-level bankers but only a handful of community residents. Within CIC, there were serious disagreements over strategy and tactics, as well as over how much to emphasize the racial (as opposed to class) issues involved in pitting banks against neighborhood groups. CIC members also differed over how much to trust the "good faith" of the bankers as well as how closely to work with city officials, whom some CIC members believed would steal the credit for any successful agreement, depriving the community group of a hard-won victory.

The CIC's credibility was enhanced by the fact that it had no competition. None of the major mainstream groups in the black community—churches, the NAACP, fraternal associations, business groups—joined the CIC or even participated in the debate. In some cities, but not Boston, these groups have been part of community reinvestment struggles.

In most cities engaged in this controversy, banks seek to engage the moderate voices within the black community to undermine the more militant activists. Boston's banks made a half-hearted effort to adopt this strategy, but without much success. The only moderate voice to play this part was a lone black minister who sought to play a mediating role between the banks and the CIC.

In reviewing the factors responsible for the $400 million community reinvestment agreement, *The Boston Globe* highlighted "Mayor Flynn's stubborn insistence on below-market mortgage rates" as well as "the (Flynn) administration's effort to direct public opinion against the bankers, and the documented inequities in lending practices." Moreover, Flynn became a chief ally of national groups fighting the S&L bailout and pushing for stronger CRA reform.

As a member of the House Banking Committee, Kennedy played a key role in several ways. By holding Congressional hearings in Boston during the local redlining controversy, Kennedy kept the pressure on banks. When the CIC released its recommendations, Kennedy said he endorsed them and later published an op-ed column in the *Globe* criticizing the banks.

The leak of the preliminary Fed study to the *Globe* made the Federal Reserve Bank of Boston an unwitting ally. Once put in this position, FRBB President Richard

Syron sought to play a neutral, mediating role—for example, by sponsoring a series of forums during the summer of 1989 that brought the bankers, community activists, and government officials together and kept the issue in the news.

2. Optimizing the role of the media. Throughout this period, Boston's news media gave thorough—almost daily—coverage to the redlining controversy. The public forums, the direct action by community groups, several meetings between Mayor Flynn and the top bankers, the Congressional hearings, the CRA challenges, and the various proposals by industry, city and community groups all became grist for the journalists' mills. This media attention encouraged the bank industry to resolve their public relations crisis.

City officials and community activists utilized the competition between Boston's two major dailies, *The Globe* and *The Herald*, to keep the story in the news. Stories about the controversy in the national press—industry publications as well as *The New York Times*—encouraged Boston reporters and embarrassed local bankers by putting them in the national spotlight. The neighborhood weeklies also gave the story top billing.

The CIC collected information on the top bank officials—their salaries, the location and value of their homes, their institutional ties with other business, social, and civic groups. Some of this information found its way into newspaper columns, contrasting the lifestyles of the bankers with the needs of community residents in neighborhoods redlined by lenders.

Both major Boston dailies wrote frequent editorials, chiding the banks for redlining practices, prodding them to improve, calling on Congress and the state legislature to strengthen their CRA laws and enforcement. Editorial cartoonists for both papers also commented on the redlining controversy. Dan Wasserman of *The Globe* drew a cartoon welcoming to Boston South African leader Nelson Mandela, applauding him as a hero in the fight against racism, but warning him: "Just don't bother applying for a mortgage."

3. Understanding the banking industry. Community activists and city officials took advantage of the strengths and weaknesses of Boston's banking industry—particularly the need of top bank officials, and certain banks, for legitimacy in the eyes of the public, regulators, and their industry peers.

But despite the months of debate and controversy, the negotiation process was made easier by the fact that government officials, community activists, and leading bankers—chairmen and presidents, not simply community affairs officers—were already involved in a number of common public-private partnership ventures, such as the Boston Housing Partnership and Boston Neighborhood Housing Services. There were often serious differences of opinion, but the discussions never broke down entirely.

Boston's banking industry is highly concentrated. In 1989, the five largest banks—Bank of Boston, Bank of New England, Shawmut, State Street, and BayBanks—accounted for more than 42 percent of the deposits in the state's three hundred and thirty-four commercial banks and thrifts. The activists and city officials focused their efforts on these large institutions, recognizing that any significant remedy would require their cooperation. But the activists and city officials also used the divisions within the banking industry to their advantage.

The banking industry sought to address the controversy collectively through the MBA. However, each of the larger banks recognized that it would be a target of controversy and, on occasion, sought to act independently, particularly when it believed it could create a competitive advantage in terms of good publicity.

The community activists and city officials knew that top bank executives differed over whether and how solve the problem on an industrywide or individual bank basis, to meet with community activists, and to accede to their demands. During various points in the negotiations, the activists and city officials used this information to embarrass specific bankers, identifying their recalcitrance as the key roadblock to an agreement. For example, when the Bank of Boston, on its own, announced a special mortgage program, activists picketed the announcement, claiming the program was inadequate and demanding an industrywide solution. The activists also used the willingness of some top bankers to admit wrongdoing and meet with activists as leverage to pressure more reluctant bankers to do the same.

Similarly, once the small Bank of Commerce, the city's only black-owned bank, agreed to make below-market fixed-rate mortgages, the larger banks could no longer argue that such a program was unprofitable and unrealistic.

4. Setting a positive agenda. During the negotiations, both CIC and the Flynn administration put constructive, detailed proposals on the table. They could not be portrayed simply as criticizing bank practices, because they offered banks a positive way to remedy the problems they identified. Although the Flynn Administration and

community activists offered separate plans, the city officials and CIC worked together in developing these recommendations. They differed in some specifics and in magnitude, but they were parallel in terms of the categories of remedies. Both plans suggested a detailed, working knowledge of bank programs and policies, utilizing the experience of CDC staff, city officials, antipoverty agencies, and others.

When the MBA first outlined its proposed CRA program at a public meeting in September 1989, it essentially adopted the framework recommended by the Flynn Administration and CIC, differing only in the level of funds it proposed to commit. As a result, the next few months involved negotiations over details and funding levels, not the overall design of an agreement.

Throughout the controversy, both community activists and city officials repeated that what they wanted was investment, not charity. They emphasized that banks could make a profit by doing business in low-income and minority neighborhoods. They wanted any agreement to be a replicable ongoing program, not one-time "conscience" money.

5. Relying on consumer-oriented legislation. A key ingredient in reaching a successful resolution in Boston was the federal and state Community Reinvestment Acts (CRA) and Home Mortgage Disclosure Act (HMDA). These laws gave the public access to the information to reveal the banks' lending patterns; it also gave the city government and community groups the clout to bring banks, concerned about federal regulators, to the negotiating table.

These laws made possible the public reports sponsored by the Flynn administration and the Federal Reserve Bank, the community groups' CRA challenges, the city's linked-deposit policy, and other key components of the Boston effort. The ongoing public debate over the federal CRA—and the prominent role played by several Massachusetts Congressmen and Mayor Flynn (through his leadership in the U.S. Conference of Mayors)—helped keep the local issue alive while reminding the local players of the wider importance of their actions.

Concerns for the immediate future

The 1990s will witness the most significant transformation, consolidation, and shakeout of the industry in a generation. The number of failed banks and S&Ls will continue to grow, while major banks merge with each other as well as gobble up smaller institutions. The pace of interstate and regional banking will quicken. Nonfinancial institutions will seek to engage in banking. Banks increasingly will be seeking approvals from federal and state regulators. At the same time, they will be seeking to change the laws governing the banking industry.

In this environment, community activists and their allies will have an unprecedented opportunity to use existing tools, and create new tools, to make the financial industry more accountable and responsive to community and consumer needs. They can seek to strengthen both CRA and HMDA as well as expand other consumer protection laws in order to bring greater democracy to the nation's banking industry. Obviously, the banking industry has enormous clout in Congress and among state legislatures, but the industry itself is quite fragmented, with each sector speaking with a different voice and a different self-interest.

By the end of the decade, the nation's banking industry will look very different from what it is now. Whether it will be more responsive to inner cities, communities of color, and working class people remains to be seen. Much depends on the ability of the community reinvestment movement to take advantage of this political opportunity.

The CRA and HMDA have not put an end to bank redlining in America's cities. Recent studies in a number of cities—including Atlanta, Baltimore, Boston, Chicago, Cleveland, Dallas, Detroit, Hartford, Memphis, Milwaukee, New York, Oakland, Philadelphia, Rochester, San Antonio, Trenton, and Washington, D.C.—demonstrate that banks continue to discriminate in their lending practices and branch locations. A new national survey by the Federal Reserve, scheduled for release in October 1991, reveals that minorities are two to four times as likely to be rejected for bank mortgages as whites with comparable incomes. But these laws have provided community groups and progressive local governments leverage to push banks to invest in inner cities, to hold state and federal regulators accountable, and to unveil the symbiotic ties between the industry and its regulators. Equally important, these laws help expose to public scrutiny the inner workings and logic of bank decisionmaking, stripping away much mythology about the efficiency and rationality of the private sector.

Obviously, community reinvestment policies cannot, on their own, solve the fundamental problems facing America's cities. But they do help raise the larger issues of how the flow of private capital—including banks—can be influenced by political pressure and government action.