

# FOCUS

THE BOSTON SUNDAY GLOBE • JULY 23, 1995

## URBAN AFFAIRS

# You can bank on it

Without the Community Reinvestment Act,  
Boston's neighborhoods would suffer

BY PETER DREIER

Since May, top officials at Fleet and Shawmut banks have been meeting regularly with community activists from Boston and around New England. The bankers hope to prevent community opposition that could scuttle their plan to merge and become the nation's ninth-largest bank.

It is unlikely the bankers' doors would be open to consumer groups without the Community Reinvestment Act, the federal law designed to prevent "redlining" and encourage banks to loan money to residents of minority neighborhoods.

The act gives community groups the right to challenge a merger plan if they believe lenders have neglected their neighborhoods. The law also requires that banks generally meet a community's credit needs. Banks that don't can be punished by, for example, being denied permission to buy other banks.

In the case of the Shawmut-Fleet merger, the act prompts well-heeled bankers to sit at the negotiating table with neighborhood residents demanding more banking services in poor and minority areas; for bankers to ignore their desires would jeopardize regulatory approval for the pending megamerger.

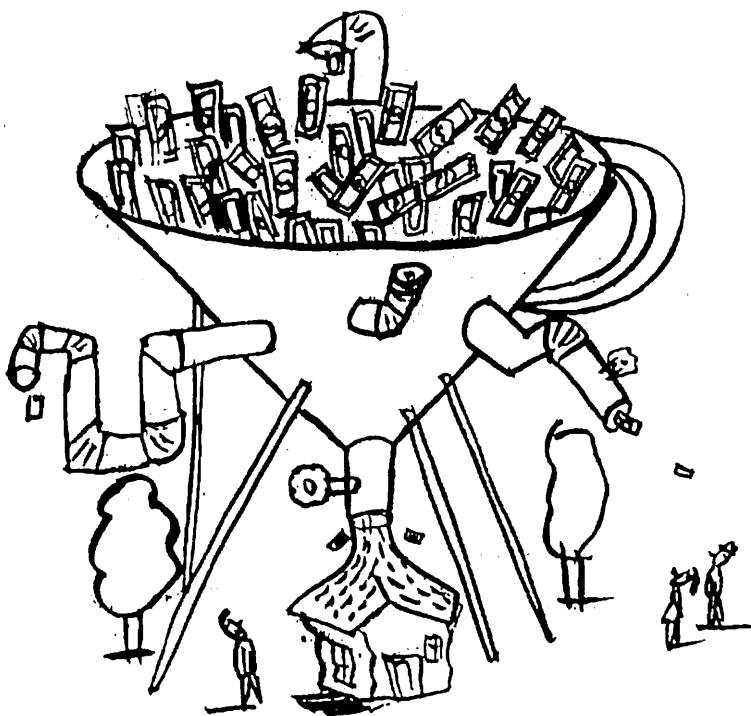


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As experience in Boston demonstrates, during the last 18 years, the act — known as the CRA — has been an unusually effective antipoverty and community-development tool. It has been the catalyst for more than \$60 billion in private investment in inner-city neighborhoods across the country.

But community groups in Boston and elsewhere now fear that the powerful banking industry — exercising its muscle with the new Republican majority in Congress — will succeed in urging the new Republican Congress to gut the CRA.

If those efforts are successful, the effects will be felt across the city: No longer would banks be nudged to provide services in disenfranchised neighborhoods, thus making it harder for families and businesses on the economic margin to get a loan or mortgage. This would stunt neighborhood revitalization. And, finally, the good will that has developed between Boston's downtown money interests and its varied neighborhoods would likely revert to racial and economic tension.

A bill sponsored by Rep. Doug Berester (R-Neb.), which passed the House Banking Committee last month, would exempt from the act banks with less than \$250 million in assets — an exemption that would apply to roughly 88 percent of the nation's lenders. It would also exempt all banks from challenges by consumer groups and local governments. Senators Richard Shelby (R-Ala.) and Connie Mack (R-Fla.) have filed a similar bill in the Senate.

Last March, 75 members of a national consumer group known as ACORN, which stands for the Association of Community Organizations for Reform Now, interrupted a Banking Committee hearing after being denied the opportunity to testify. Chanting "Save CRA," the activists were escorted from the hearing room by the Capitol Police. Several, including ACORN's national president, Maude Hurd of Boston, were arrested.

These fireworks are likely to be repeated at congressional hearings and local banking meetings across the country as the showdown over the CRA heats up.

The CRA battle represents a clash over the role of government in addressing social and economic disparities. Bankers view CRA as government intrusion into business, while community activists say it is needed to stop lenders from engaging in well-documented discriminatory practices.

During the 1960s and 1970s, redlining devastated urban communities across the country, contributing to much of the blight that still scars many neighborhoods. In response, community activists pressured Congress in 1975 to require that banks disclose the location of all loans. Two years later, the activ-

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ists won passage of the CRA, which outlaws discrimination in lending. Boston was a major center of anti-redlining activism, led by the grass-roots Jamaica Plain Mortgage and Banking Committee and consumer-oriented state banking commissioner Carol Greenwald.

In 1989, during a second wave of anti-redlining activism, Rep. Joseph Kennedy (D-Mass.) successfully sponsored amendments that gave community groups additional leverage. Banks must now identify the race, income and gender of all mortgage applicants, rather than just the location of loans made.

During the Reagan and Bush years, federal bank regulators barely enforced the law. Despite persistent findings of redlining, they gave more than 90 percent of all banks "satisfactory" or "outstanding" CRA ratings.

So when banks sought approval from regulators, community groups often resorted to noisy protests. Fearful that negative publicity might lead regulators to deny their approvals, many lenders forged "community reinvestment agreements" with consumer groups to expand lending to underserved areas.

In 1990, for example, after yearlong negotiations, Boston community activists and then-Mayor Ray Flynn pressured the Massachusetts Bankers Association to agree to a \$400 million agreement to expand lending and services in the city's poor neighborhoods that, according to studies by the Boston Redevelopment Authority and the Federal Reserve Bank of Boston, had been systematically redlined for years.

Since then, banks have opened new branches in Hyde Square, Grove Hall, Egleston Square, Fields Corner, South Bay, Mattapan Square and Codman Square. The Massachusetts Affordable Housing Alliance, ACORN and the Union Neighborhood Assistance Corp. have forged agreements with Boston's major banks to expand outreach, services and lending. As a result, Boston banks have significantly increased their approval rates for Hispanic and African-American applicants, according to Jim Campen, an economist at the University of Massachusetts at Boston.

Banks in Boston and other cities now work much more closely with neighborhood groups and nonprofit community development corporations.

Despite the claims of bank industry lobbyists, the act requires little bureaucracy and little paperwork. Federal Reserve Gov. Lawrence Lindsey noted that "the CRA accounts for \$4 to \$6 billion annually being invested in low-income areas without employing a large bureaucracy."

The CRA doesn't require banks to make loans to unqualified customers. Some bankers even acknowledge that the CRA has helped them tap into previously under-served neighborhoods, where they have found good customers. Studies show that banks make a good profit on so-called "CRA loans," whose default rates are similar to the rate for regular loans. These investments have created jobs, expanded homeownership and strengthened neighborhood stability.

The CRA certainly isn't battering banks' bottom lines. Commercial banks posted a record \$44.7 billion in profits in 1994. Ninety-six percent of all lenders, including those with less than \$100 million in assets, were profitable.

Despite its success, the CRA has not eliminated redlining in America. Banks still reject blacks and Hispanics for home mortgages about twice as often as whites with similar incomes, and provide fewer loans to minority neighborhoods than to white neighborhoods with comparable economic characteristics. This is compounded by commercial redlining making it difficult for small businesses to open or expand in inner city areas. And the absence of bank branches in poor areas has left a vacuum filled by scam artists and check-cashing stores that charge exorbitant fees.

The banking industry has argued that lending disparities are due to differences in "credit-worthiness" between minorities and whites. But an October 1992 report by the Federal Reserve Bank found that Boston banks still treated white and minority applicants differently even after they factored in wealth, employment and credit histories, and debt burdens.

President Clinton has been a much stronger supporter of anti-redlining laws than his predecessors. In 1993, for example, the Federal Reserve Board approved Shawmut Bank's application to acquire a small bank in New Hampshire only after it agreed to set up a \$960,000 fund for Black and Hispanic mortgage applicants. Last year, the Justice Department forced Chevy Chase Federal Savings Bank, the largest thrift in the Washington, D.C., area, to sign an \$11 million settlement to open more branches in minority neighborhoods and to offer below-market mortgages to black applicants.

In April, the Clinton administration unveiled new CRA regulations to require banks to report all their small business loans. Clinton also asked federal regulators to grade banks on their performance, not promises of improvement.

Indeed, for the act to be fully effective, it should be further extended to cover private mortgage companies - which now make almost half of all mortgage loans in the country - and insurance companies, whose redlining practices also deny home-ownership opportunities.

But the banking industry remains firmly opposed - although the CRA should have appeal to conservatives: It involves corporate investment rather than giving away federal funds. It expands homeownership and entrepreneurship. It requires little government bureaucracy, and it rewards community self-help.

The banking industry's opposition to the CRA is not simply the typical business complaint about regulation paperwork. New laws to permit interstate banking have triggered a new wave of mergers, including many in New England. By century's end, about a dozen "super-banks" will dominate the financial industry. The banking lobby does not want civil rights, consumer and community groups to use the CRA to obstruct banks' ability to consolidate its economic power.

Reflecting the banking industry's views, outgoing Federal Reserve Gov. John LaWare, a Bush-appointee who formerly headed Shawmut Bank, called Clinton's CRA efforts "social engineering by administrative fiat." Now, with the Republican takeover of Congress, industry lobbyists are confident they can turn back the clock on anti-redlining laws.

If they do, it could be a replay of the 1980s' frenzy of deregulation and speculation that brought us Boston's boom-and-bust real estate market and the disastrous Savings and Loan bailout.

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