Leadership Conference on Civil Rights
Leadership Conference Education Fund

BUILDING HEALTHY COMMUNITIES

CRA

Community Reinvestment Act

and the Financial Modernization Movement

"The Community Reinvestment Act made bankers take a close look at the communities around them and what they found were bright entrepreneurs, responsible homeowners and people with a vision of how to build the spirit and infrastructure of their communities."

Wade Henderson, Executive Director, LCCR

ACKNOWLEDGEMENTS

This report is a joint initiative of the Leadership Conference on Civil Rights and the Leadership Conference Education Fund. In releasing this report our goals are to highlight the important role the Community Reinvestment Act has played in keeping capital investments flowing into the inner cities, and to applaud the organizations and individuals that have been at the center of that movement. In addition, we want to support the advocacy of the movement today to modernize the CRA so it can continue to be an important tool in ensuring that the financial services industry does not neglect the needs of low- and moderate-income communities.

We would like to thank Judith Brown at the Advancement Project who wrote the initial draft of the report; Deborah Goldberg of the Center for Community Change for her review and thoughtful suggestions; Amy Wilkinson and Lisa Jacobs who assisted in the research, writing and editing; and Highwheel Design Group for the design and layout.

Finally we would like to thank the Ford Foundation for its financial support of our work.

Wade Henderson, ED, LCCR
Karen McGill Lawson, ED, LCEF

COMMUNITY REINVESTMENT ACT TIME LINE 4

I. EXECUTIVE SUMMARY 10

II. INTRODUCTION 11

III. THE HISTORY OF THE CRA AND THE STRUGGLE AGAINST REDLINING AND DISINVESTMENT 13

Government and Private Sector Roles in Fostering Disinvestment 13

Passage of the Fair Housing Act Does Not Prevent Discrimination by the Financial Industry 16

Studies Document Redlining 17

Federal Programs Exacerbate Urban Deterioration 18

Communities Protest Discriminatory Housing and Redlining Practices 18

Governments Address Redlining 20

Studies Confirm and Publicize Discriminatory Lending Practices 24

Lending Discrimination Persists Despite Laws 28

IV. FULFILLING THE PROMISE OF CRA 30

Federal Regulatory Agencies Lax in Enforcing the CRA 30

Enforcement of the CRA By Civil Rights and Community Organizations 32

Civil Rights Organizations Partner with Banks 37

V. CRA SUCCESS STORIES 40

Raul Yzaguirre Charter School For Success, Houston, Texas 40

Ming Walker, Business owner, New York, New York 40

Deborah Randle, Homeowner, Indianola, Mississippi 41

Broadway Area Community Development Corporation, Gary, Indiana 41

Borinquen Plaza, Philadelphia, Pennsylvania 41

South Shore Bank 42

VI. FINANCIAL MODERNIZATION: WHAT IS IN STORE FOR CRA? 43

Negative Impact of Mega-Mergers on CRA 43

Financial Services Modernization Act of 1999 45

VII. CONCLUSION 48

GLOSSARY OF ACRONYMS 49

BIBLIOGRAPHY 51

COMMUNITY REINVESTMENT ACT TIME LINE

1910	Baltimore City Council passes ordinance enforcing separate neighborhoods for whites and blacks.
1917	U.S. Supreme Court declares Baltimore's ordinance unconstitutional.
Mid 1920s	The National Association of Real Estate Board's Code of Ethics cautioned realtors against "introducing into a neighborhood members of any race or nationality … whose presence will clearly be detrimental to property values in the neighborhood." The Code of Ethics contained this language until 1950.
1927	The National Association of Real Estate Board created a model race restrictive land covenant to prevent African American expansion into white neighborhoods. (Metzger, 1999.)
1933	Homer Hoyt, a University of Chicago economist, ranks racial and ethnic groups by their influence on property values – English, Germans, Irish and Scandinavians are ranked first (most positive) and "Negroes" and Mexicans are ranked last (most negative).
1934	The Federal Housing Commission ("FHA") is created to promote private sector housing construction and loans by insuring mortgages. The FHA hires Homer Hoyt to develop underwriting criteria for federally insured home loans. The FHA develops a rating system to determine which mortgage loans it will insure. Neighborhoods rated as "C" (neighborhoods that were identified as declining and being infiltrated with undesirable groups) receive few FHA insured loans and those that are issued have restrictive terms. Neighborhoods rated as "D" (neighborhoods that were identified as populated by undesirable groups) are denied FHA insured loans altogether. From the mid-1930s to the early 1960s the FHA insures the majority of homeowner loans and the majority of the FHA insured loans go to white suburbanites.
1948	The U.S. Supreme Court outlaws race restrictive land covenants in *Shelley v. Kraemer*.
1966	The Chicago Freedom Movement is formed and protests housing and lending discrimination.

1968 Congress enacts the Fair Housing Act prohibiting discrimination in housing on the basis of race, color, national origin, gender and religion. (The Fair Housing Act is amended in 1988 to add persons with disabilities and families with children as protected classes.)

1968 U.S. National Commission on Urban Problems issues a report on the redlining practices of lending institutions, fire institutions and the FHA.

1968 The FHA and the Veterans Administration ("VA") begin insuring loans in urban areas. Because they quickly foreclose on low-income borrowers, instead of providing counseling and/or refinancing support, there are a significant number of foreclosures. Extensive abandonment in urban low-income communities occurs.

1970 The National Urban League and the Center for Community Change ("CCC") publish a study, The National Survey of Housing Abandonment, which documents the extent of redlining in heavily minority areas in seven cities.

1972 South Shore National Bank announces its intention to relocate out of Chicago's south side. The community successfully protests the relocation and the Comptroller of the Currency denies the relocation application. In 1973, the Federal Reserve Bank Board approves the neighborhood development corporation, the Illinois Neighborhood Development Corporation, as a holding company. The Illinois Neighborhood Development Corporation then gains ownership of South Shore National Bank, which begins investing heavily in low-income neighborhoods.

1970s The City of Chicago passes an ordinance requiring banks and savings and loan associations to disclose residential, commercial and consumer loans and deposits by census tracts. The State of Illinois passes a similar disclosure law that also prohibits discrimination in lending on the basis of race, gender and geographic area. California, New York, Ohio, Michigan, New Jersey, Massachusetts, Wisconsin and Missouri sponsor anti-redlining legisation and research. The City of Cleveland passes a disclosure law.

1974 The Housing and Community Development Act helps accelerate the trend of urban disinvestment by reallocating federal urban renewal funds to suburbs and sunbelt regions and repealing the requirement that cities contribute local matching funds.

1974 The Organization of the NorthEast ("ONE"), an advocacy organization comprised of residents, and the Bank of Chicago enter into an "Understanding," which is the first written agreement in which a bank agrees to give priority to making loans to depositors and residents within the targeted neighborhoods and to establishing lending goals based on deposit levels in those areas.

1974 Congress passes the Equal Credit Opportunity Act ("ECOA"), which prohibits discrimination in the extension of credit based on race or color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), the applicant's receipt of income derived from any public assistance program and the applicant's exercise in good faith of any right under the Consumer Credit Protection Act.

1975 Congress passes the Home Mortgage Disclosure Act ("HMDA"), which requires banks and savings and loan associations with assets in excess of $10 million to report to federal regulators and subsequently to the public the number and dollar amount of home mortgages and home improvement loans by zip code or census tract.

1976 The National Urban League and other national civil rights organizations sue the federal bank regulators under the Fair Housing Act for failing to enforce the fair lending provisions of the law. Under the settlement agreement reached to resolve the litigation, the federal bank regulators are required to take various steps, including collecting and analyzing HMDA data and providing training for regulatory examiners.

1977 Congress passes the Community Reinvestment Act ("CRA"), which requires banks and savings and loan associations to meet the credit needs of the low- and moderate-income neighborhoods in the communities in which they operate. The CRA also allows third parties to challenge bank applications based on poor CRA performance. This provision allows civil rights and community groups to serve as "watch dogs" to ensure that financial institutions are satisfying their duty to reinvest in all communities.

1978 A uniform interagency regulation implementing the CRA is adopted. It emphasizes communication and process rather than credit allocation or specific lending targets.

1979 The Federal Deposit Insurance Corporation ("FDIC") issues its first branch application denial under the CRA as a result of South Brooklyn Against Investment Discrimination's challenge to New York Savings Bank's branch application.

1979

Cleveland's Mayor, Dennis Kuchinich, challenges a savings and loan association's application for approval to open a branch in a white neighborhood after closing a branch in a predominantly black area a few months earlier. In response to the challenge, the savings and loan association agrees to allocate $15 million for urban revitalization in Cleveland.

1982

Congressional oversight hearings are held to focus on federal bank regulators' failure to enforce the CRA. Because federal bank regulators are lax in enforcing the CRA, community organizations enforce the law by challenging bank applications to open/close branches and to acquire other banks, highlighting the banks' failure to comply with the CRA. The challenges result in a number of CRA agreements, both with community organizations and unilaterally announced by banks.

1980s

New laws are passed eliminating interstate banking restrictions. Bank mega-mergers result. The increasing number of merger applications give community organizations multiple opportunities to negotiate CRA agreements and because bank mergers are much larger transactions involving far more money than applications for branch openings and closings, community organizations have greater leverage in challenging merger applications on the basis of poor CRA performance. Thus, a number of multi-year, multimillion dollar CRA agreements have been negotiated and implemented that provide for lending and other reinvestment tools to low- and moderate income urban communities.

1987

The Federal Reserve approves SunTrust's application to buy another bank even though SunTrust had a record of disinvestment and admits it is not serving minority communities.

1988

The "Color of Money" series is published in the Atlanta Journal Constitution. It details discriminatory lending patterns of Atlanta's largest financial institutions.

1988

Prompted by the "Color of Money" series, the Senate Banking Committee holds oversight hearings. The federal bank regulators admit that they had denied only eight of the 40,000 applications that were subject to the CRA.

1989

The Federal Reserve issues a joint statement on behalf of the federal bank regulators on the enforcement of the CRA. The statement discourages the use of CRA agreements and encourages compliance through establishing subsidiary community development corporations and community lending programs. It also states the belief of the federal bank regulators that the CRA does not require them to enforce privately negotiated agreements.

1989 The Boston Federal Reserve Bank issues a study finding that "blacks are 60 percent more likely to be rejected than whites with identical records, debt histories, income and other financial characteristics." The study prompts the formation of the Community Investment Coalition, which negotiates a $400 million five-year lending program with Boston's ten largest banks.

1989 Congress enacts the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), which amends HMDA and the CRA. It expands HMDA to require reporting by mortgage companies and to require disclosure of the race, gender and income of households that apply for mortgage loans and the outcome of the applications. It requires the federal bank regulators to make public the CRA ratings and evaluations of financial institutions. It also changes the CRA rating system from a numeric code to a set of more expressive categories – outstanding, satisfactory, needs to improve and substantial noncompliance.

1992 The U.S. Department of Justice files a lawsuit against Decatur Federal Savings and Loan Association ("Decatur Federal") after its investigation, sparked by the "Color of Money" series reveals that Decatur Federal had pursued a sales and marketing strategy for home loans that intentionally avoided black neighborhoods solely because of race. The case was settled with Decatur Federal agreeing to implement remedies modeled on the CRA principles.

1995 A new federal regulation regarding the enforcement of the CRA is issued. Generally, the community organizations are not happy with the regulation, which does not include a number of enforcement tools that had been included in the 1993 proposed rule. The 1995 regulation establishes a new three-tiered rating system – service rating, investment rating and lending rating. An institution must receive a satisfactory lending rating in order to receive an overall satisfactory rating. The 1995 regulation also includes a new option, "the strategic plan," which allows banks to substitute their own CRA evaluation criteria. However, the strategic plan must be developed in consultation with community groups and approved by the bank's regulator. Unlike traditional CRA agreements, which the federal bank regulators have refused to enforce, the strategic plan is legally binding and enforced by federal bank regulators.

1998

HMDA data shows that between 1993 and 1997 home mortgage loans increased by 62% to African Americans, by 58% to Latinos, by 30% to Asian Amercians and by 25% to Native American Indians. However, this HMDA data also shows denial rates for conventional mortgages of 54% for African American applicants, 52% for Native American Indians, 39% for Latinos, 26% for whites and 12% for Asian Americans. It also shows that upper-income African American and Latino applicants were denied conventional mortgages more than twice as often as whites at that income level.

1999

Congress passes the Financial Services Modernization Act of 1999, which permits banks to merge with insurance companies and securities firms and for insurance companies and securities firms to provide banking services. Efforts to modernize the CRA so that it covers insurance companies and securities firms providing banking services fail.

2001

Community Reinvestment Act of 2001 introduced in the 107th Congress to update the CRA to cover all loans and lenders including not only mortgage companies, but also insurance companies, investment firms and other affiliates of banks that will increasingly be offering loans and basic banking products in the new financial world.

I. EXECUTIVE SUMMARY

Enacted in 1977, the Community Reinvestment Act ("CRA") was the fourth in a series of laws which were collectively focused on combating discrimination in housing and the extension of credit on the basis of race, color, religion, sex or national origin. Its predecessors were the Fair Housing Act, the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act.

Discrimination in housing on the basis of race and national origin had become a part of the American landscape with the migration of African Americans to the northern U.S. at the beginning of the 20th century. As minority populations in large northern urban centers grew, whites fled these areas and housing discrimination, frequently fostered by the public and private sector, flourished. Only after the riots of the late '60's and pressure from Civil Rights and community organizations did the federal government first act to bar housing discrimination by passing the Fair Housing Act of 1968. Nevertheless, various forms of housing discrimination, including redlining and disinvestment continued.

With consistent pressure and determination, Civil Rights and community groups have used the CRA to stem disinvestment and redlining in minority communities as well as to partner with banks to increase the level of homeownership in those communities. According to the National Community Reinvestment Coalition , CRA agreements between banks and community groups have yielded more than $1 trillion in loans and investments for working class and minority communities. (NCRC, 2001). Despite these monumental achievements, 24 years after passage of the CRA, much remains to be done. But the CRA needs to be revamped to keep pace with the realities of modern lending.

The "Community Reinvestment Modernization Act," (H.R. 865) has been introduced in the U.S. House of Representatives. It contains a number of needed improvements to the CRA, including extending CRA to independent mortgage companies, insurance firms and securities companies.

This report details the CRA's origins in the Civil Rights Movement. It further documents the continuing need for the CRA and its vigorous enforcement, and celebrates the CRA's achievements.

II. INTRODUCTION

In 1977, Congress passed the Community Reinvestment Act (the "CRA") to combat redlining, banks' practices of disinvestment and refusal to make loans in certain neighborhoods based on their racial composition, or national origin.[1] The CRA obligated banks to provide services and invest in low- and moderate-income neighborhoods and to make loans to the residents of these neighborhoods.

Redlining results in the neglect of communities where people of color reside. For those seeking to buy homes in or already living or doing business in redlined neighborhoods, obtaining mortgages, home improvement loans or capital to sustain or expand business is at best extremely difficult and more costly than in non-redlined neighborhoods. At worst it is impossible to obtain such loans. "When lenders refuse to lend or do so only on more stringent terms in designated neighborhoods, regardless of the expected yield or loss in those areas, the personal costs to those families become social costs to the broader metropolitan area as entire neighborhoods are threatened. These problems are compounded when the principal issue is race." (Squires, 1992.) The solution is reinvestment in those communities. The CRA has been a critical tool in rescuing communities once neglected by financial institutions by requiring those institutions to invest in the neglected communities.

In addition to obligating banks and savings and loans associations to service and to help meet the credit and lending needs of low- and moderate-income communities, the CRA requires that:

- federal bank regulators examine the efforts of depositing institutions to meet the needs of low- and moderate-income borrowers and neighborhoods;
- depository institutions post CRA notices in their offices and make available to the public information about their CRA performance;
- the public be permitted to submit comments about institutions' CRA efforts and that those comments be made public and considered during federal regulatory examinations;
- federal bank regulators consider an institution's CRA record in determining whether to approve its application for a federal bank or thrift charter of FDIC deposit insurance, to relocate or open a branch, and to merge or acquire another depository institution.

Although, the CRA is more widely known as a community development law, it is rooted in the Civil Rights Movement. The CRA was passed in response to evidence of the banks' failure to lend in communities because of their racial composition. It has the promise of all other civil right laws - - equity. Its success is largely attributable to civil rights and community activists who worked to gain

[1] The term "redlining" derives from lending institutions' and insurance companies' practice of drawing red lines around certain neighborhoods within cities to designate the areas in which they would not issue loans or insurance. Disinvestment has been defined as "[t]he abandonment of large cities by people and businesses moving to newer outlying sections of metropolitan areas as well as other regions and nations … a process facilitated by the actions and preferences of financial institutions." (Metzger, 1999.)

its passage and continue to work to enforce the CRA. Through organizing, protesting and collaborating, concerned citizens and organizations have made financial institutions accountable to communities. The CRA has resulted in more than $1 trillion of loans and credit being committed to individuals and businesses and to housing development in low- and moderate-income neighborhoods. (NCRC, 1999.)

Unfortunately, the CRA's continued success in spurring community development has been threatened. In the fall of 1999, Congress passed the Financial Modernization Act, which permits banks, securities firms and insurance companies to merge by repealing the law that had prohibited such mergers for decades. Attempts by CRA advocates to amend the CRA to apply to insurance companies and securities firms providing banking services and to revise it so that it keeps pace with financial modernization failed. While CRA opponents succeeded in preventing the strengthening of the CRA, their attempts to weaken considerably the CRA also failed.

It is important to understand that the debate over CRA is not just a fight about community development, it is also a civil rights fight. The history of the movement that lead to the passage of the CRA demonstrates that while the CRA may not explicitly address discrimination on the basis of race or national origin by lenders, discriminatory lending practices were the intended target. The section of the CRA that sets forth the congressional findings and statement of purpose provides that:

> Congress finds that -- (1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business; (2) the convenience and needs of communities include the need for credit services as well as deposit services; and (3) regulated financial institutions have continuing and affirmative obligations to help meet the needs of the local communities in which they are chartered.12 U.S.C. § 2901(a).

Lending discrimination and community disinvestment are inextricably tied to each other, and part and parcel of the same struggle for civil rights: to remedy the continuing problem of inequitable access to credit and capital. Institutionalized and wide-scale discriminatory lending results in redlining and perpetuates, in effect, what W.E.B. Dubois in 1903 prophesied would be the "problem of the twentieth century" -- "the color line." Unless the CRA is updated to permit it to continue to hold the banking/lending industry of the 21st century accountable as it has in the past, this color line will continue to hamper the efforts of low- and moderate-income communities to revitalize, modernize and prosper.

The "Community Reinvestment Modernization Act," (H.R. 865) has been introduced in the U.S. House of Representatives. It contains a number of needed improvements to the CRA, including: 1) extending CRA to independent mortgage companies, insurance firms and securities companies, 2) enhancing federal data disclosure requirements, 3) requiring a notice and comment period for mergers between banks, insurance and investment companies, and 4) prohibiting insurance companies that violate fair housing consent decrees from affiliating with banks.

III. THE HISTORY OF THE CRA AND THE STRUGGLE AGAINST REDLINING AND DISINVESTMENT

"CRA has helped enhance all Americans', including African Americans', access to economic opportunity, which is the cornerstone of communities', individuals', and groups' ability to meaningfully participate in American society."

Hugh B. Price, president of the National Urban League,
May 10, 1999: "Banking on Equal Opportunity"

The CRA was passed in response to a grassroots movement against redlining practices in cities throughout the country. Communities challenged bank disinvestment based upon the racial composition, income level and inner city location of neighborhoods. Ultimately, such disinvestment resulted in the decay of predominantly black and Hispanic neighborhoods.

Government and Private Sector Roles in Fostering Disinvestment

Black Migration Yields Housing Discrimination And Disinvestment

Housing discrimination has always plagued American society. At the turn of the 20th Century, African-Americans migrated in large numbers from the South to industrialized cities in the North and Midwest. From 1950 to 1970 New York, Chicago and Detroit each experienced an approximate 120% growth in their black population. Boston's black population grew by 161% and Milwaukee's by 383%. (Metzger, 1999.) This growth was accompanied by extensive white flight from these cities and an increase in discriminatory housing practices.

Housing discrimination on the basis of race and national origin was manifested through racial steering, blockbusting, discriminatory lending and appraisal practices and insurance and mortgage redlining. As a result of these discriminatory actions, neighborhoods throughout the United States remain highly segregated. Not only have segregated housing patterns caused social isolation, but they have also created great disparities in wealth between whites and non-whites. Landowners, realtors, appraisers, banks, mortgage and insurance companies and federal, state and local governments have all played a role in promoting racial segregation in housing.

City Ordinances Promote Segregated Housing

In 1910, the Baltimore City Council passed an ordinance enforcing separate neighborhoods for blacks and whites thus legally sanctioning the prevalent practice of racial segregation. Similar laws were adopted in other cities until 1917, when the United States Supreme Court declared such ordinances unconstitutional. (Christiano, 1995.)

Notwithstanding the Supreme Court decision, the real estate market continued to be influenced by the discriminatory practices of the real estate industry. In 1922, the Chicago Commission on Race Relations, created in response to the 1919 Chicago race riot, found that:

> An important factor in the housing problem is the low security rating given by real estate loan concerns to property tenanted by Negroes. Because of this, Negroes are charged more than white people for loans, find it more difficult to secure them, and thus are greatly handicapped in efforts to buy or improve property…Most large real estate firms and loan companies decline to make loans on property owned or occupied by Negroes.
>
> In fact, in the prior year, the Chicago Real Estate Board prohibited its members from making available housing in white areas to African Americans; the Board believed that introducing blacks into white areas resulted in a decline in property values. In 1927, the Chicago Real Estate Board developed model race restrictive covenants that could be used by property owners and homeowners' associations. Such covenants were not outlawed until 1948 when the U.S. Supreme Court ruled they were unconstitutional in *Shelley v. Kraemer*. (Metzger, 1999.) The real estate industry did not act alone in denying equal housing opportunities.

The Federal Government's Role in Disinvestment

In the past, the federal government and the private sector have operated hand-in-hand to explicitly use race and class as criteria to preserve racially homogenous neighborhoods. Federal agencies played a role in legitimizing the actions of the real estate industry. For example, the Home Owners Loan Corporation ("HOLC"), created by the federal government to provide refinancing to homeowners facing foreclosures, developed a universal appraisal system that sanctioned discrimination. This appraisal system rated properties in part based upon the racial composition of the neighborhood. "A" properties were in neighborhoods that were new, in demand and homogeneous i.e., white, with no Jews or minorities. (Christiano, 1995.) Neighborhood ratings declined as the population became more integrated. This appraisal system was later adopted by the financial industry.

In 1933, University of Chicago economist Homer Hoyt published a theory that property values correlated with race. The ranking of racial and ethnic groups by their (positive to negative) influence on property values, ran as follows:

1. English, Germans, Scotch, Irish, Scandinavians
2. North Italians
3. Bohemians or Czechs
4. Poles
5. Lithuanians
6. Greeks
7. Russians, Jews (lower class)
8. South Italians
9. Negroes
10. Mexicans

(Hoyt, 1933.)

Hoyt was later hired by the Federal Housing Administration (the "FHA") to develop underwriting criteria for federally-insured home loans. In 1938, four years after the FHA was created to promote private sector housing construction and loans by insuring mortgages, the FHA warned the industry:

> Areas surrounding a location are to be investigated to determine whether incompatible racial and social groups are present, for the purpose of making a prediction regarding the probability of the location being invaded by such groups. If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values.
> (Metzger, 1999.)

The FHA used discriminatory measures to determine whether to insure mortgage loans. The ratings system, like the HOLC appraisal system, ranked neighborhoods from "A" to "D". "A" neighborhoods were homogeneous. "C" neighborhoods were declining, heterogeneous and infiltrated by "undesirable" groups. These neighborhoods received few loans and only on restrictive terms. "D" neighborhoods, defined as populated by "undesirable" groups, were denied FHA loans altogether. (Metzger, 1999.)

The FHA insured the majority of mortgages nationwide between the mid-1930's and the early 1960's. Less than 2 percent of those loans went to blacks. The vast majority of the FHA loans went to white suburbanites during this period. (Squires, 1992.) Thus the FHA effectively subsidized suburban growth while perpetuating racial segregation in metropolitan areas. (Metzger, 1999.) The racist assumptions that were institutionalized as a result of public policy made discriminatory lending a significant problem, had a destructive effect on neighborhoods and had a lasting effect on American civic society.

Sector's Discriminatory Appraisal Policies

Likewise the private sector continued to institute policies that presumed that the race of residents has a negative effect on property values. (Christiano, 1995.) From the mid-1920's to 1950, the National Association of Real Estate Board's code of ethics stated:

> A realtor [sic] should never be instrumental in introducing into a neighborhood members of any race or nationality, or any individual whose presence will clearly be detrimental to property values in the neighborhood. (Quoted in Squires, 1992.)

The appraisal industry's policies also contributed to segregated housing patterns, as appraisers devalued homes in racially integrated neighborhoods. In fact, a heavily relied-upon textbook by the lead trade group American Institute of Real Estate Appraisers instructed appraisers that "the value of the property being appraised should be adjusted downward if the ethnic composition of the neighborhood to which it belonged was not homogeneous." (Schwemm, 1993.) This discriminatory policy remained intact into the 1970's and predictably caused and perpetuated housing segregation and restricted minority access to credit and capital.

Passage of the Fair Housing Act Does Not Prevent Discrimination by the Financial Industry

These discriminatory policies were a focus of the Civil Rights Movement. As the Civil Rights Movement progressed through the 1960's, the African-American community became more agitated with the slowness with which our country responded to the cry for equal justice.

For example, in 1963, a coalition of Chicago civil rights groups, the Coordinating Council of Community Organizations, protested inadequate public education available to black children in Chicago. Three years later, these organizations joined Dr. Martin Luther King, Jr. to create the Chicago Freedom Movement, which protested housing and lending discrimination. The Chicago Freedom Movement called on realtors to support equal housing opportunities and on financial institutions to make "public statements of a non-discriminatory policy so that loans will be available…without regard to the racial composition of the area…a policy that takes into account years of discrimination against Negro borrowers." (Metzger, 1999.) The Chicago Freedom Movement also supported a federal fair housing law and federal intervention to discourage redlining by federally insured banks and savings institutions and encouraged citizens to withdraw their savings from institutions engaged in redlining practices.

Peaceful attempts to achieve change were resisted and led to frustration. This frustration culminated in civil disorder in many cities throughout the country. In 1968, President Johnson appointed the National Advisory Commission on Civil Disorders, which became known as the Kerner Commission. The Kerner Commission issued a report which concluded that the nation was "moving toward two societies, one black, one white - separate and unequal..." (National Advisory Commission on Civil Disorders, 1968.)

In 1968, Congress passed the federal Fair Housing Act, which prohibits discrimination in housing on the basis of race, color, national origin, gender and religion.[2] Federal bank regulatory agencies took the position that they were not required to enforce the Fair Housing Act. Thus, they took no enforcement actions against the financial industry, which continued to limit or deny loans on the basis of race and national origin despite the unlawfulness of such actions. Where neighborhoods experienced "white flight," new residents (and those whites who remained) were unable to obtain home mortgages or home improvement loans or to refinance their mortgages, or were given unreasonable terms and conditions for borrowing, which often led to foreclosure. Furthermore, banks often closed branches located in "changing" neighborhoods. To the extent banks remained in these neighborhoods, they continued to accept deposits from the neighborhood residents while refusing to issue them loans. In sum, access to credit followed white residents to newly created white-segregated suburbs. The dearth of capital investment in integrated and minority communities eventually fostered the deterioration of these communities.

[2] The Fair Housing Act has since been amended to prohibit discrimination against persons with disabilities and families with children.

Studies Document Redlining

"An important breakthrough" in the struggle to recapture inner-city investments was a 1970 study by the National Urban League and the Center for Community Change ("CCC"), which documented the extent of redlining in heavily minority areas in seven cities. (Metzger, 1999.) This study, "The National Survey of Housing Abandonment," found that the racial change of neighborhoods and subsequent discriminatory exploitation of the real estate market (through blockbusting and panic selling) and disinvestment by financial institutions resulted in large-scale housing abandonment and decay of American cities. (National Urban League and Center for Community Change, 1970.)

The information uncovered on the role of financial institutions was startling. In St. Louis, for example, mortgage lenders admitted to cutting off all funds for the city, with the exception of one all-white neighborhood. This redlining was extended to the heavily black suburbs. Similarly, conventional mortgage lending in East Cleveland, which in 1965 had over 90% of the city's black population, ceased in the 1960's. The policy proposals recommended by the National Urban League and Center for Community Change included requiring financial institutions doing business in central cities to invest in housing there, and providing tax or other benefits to encourage such investment. (National Urban League and Center for Community Change, 1970.)

A separate study of Baltimore further illustrated the extent of redlining. The study concluded that:

> There is abundant evidence that the financial superstructure plays an important role in the organization of local housing markets and that many of the "urban problems" with which we are familiar – racial and class segregation, housing abandonment, neighborhood decay, speculative change, fiscal inequalities between cities and suburbs, inequality of access to services… are in some way tied to residential differentiation in cities which is, in turn, tied to the way in which investment is channeled into local housing markets. (Metzger, 1999.)

Similarly, in Chicago, in an increasingly African-American neighborhood with 300,000 residents, not one savings association existed, and home repair loans were available only at a surcharge. Minority businesses in low- and moderate-income urban areas were also shut out of the financial services market. "Banks were ... unlikely to lend money to businesses operating in communities where they had closed branches, and often discriminated outright against minority-owned communities." (Metzger, 1999.)

In 1968, the United States National Commission on Urban Problems confirmed the redlining practices of financial institutions. The Commission's report found that, "[t]here was evidence of a tacit agreement among all groups – lending institutions, fire insurance companies, and the FHA – to block off certain areas of cities within 'red lines,' and not to loan or insure within them." (Metzger, 1999.)

Federal Programs Exacerbate Urban Deterioration

After the 1968 riots in urban areas and disinvestment by conventional lenders, the federal government sought to replace private investment in urban areas with FHA and Veterans Administration ("VA") loans. While conventional lending institutions, which offered lower interest rates, avoided redlined communities, mortgage bankers and brokers, which offered higher interest rate loans and an "unregulated flow of FHA/VA supported loans" provided financing within redlined communities. (Bradford and Cincotta, 1992.) With "[t]he exploitation of racial fears to encourage white flight," white families moved out of the changing communities into new communities where conventional financing was available and minorities were steered into changing communities "with the promise of FHA and VA loans." (Id.) FHA and the Veteran's Administration did a poor job of monitoring properties insured by them. Unsophisticated homebuyers purchased defective homes or homes they could not afford. (Id.) The federal government's policy was to quickly foreclose on low-income borrowers, rather than provide them with counseling or refinancing support. (Metzger, 1999.) As a result, the federal government's programs resulted in a significant number of foreclosures and extensive abandonment, exacerbating deterioration of redlined areas. (Metzger, 1999; Christiano, 1995; Bradford and Cincotta, 1992.)

In 1974, the Housing and Community Development Act further accelerated the trend of urban disinvestment by reallocating federal urban renewal funds to suburbs and the sunbelt regions, and repealing requirements that cities contribute local matching funds. In addition, federal community development block grant funding, which should have improved conditions, was allotted according to a discriminatory classification. The classification, developed by the Real Estate Research Corporation, a Chicago-based group that advised the real estate and financial industries, outlined a five-step process of neighborhood decline. (Metzger, 1999.) The steps were: stage one – healthy; stage two in which the "influx of middle-income minorities" reflected "incipient decline of a neighborhood;" stage three in which there were signs of a "clearly declining" neighborhood such as "decrease in white in-movers;" stage four in which there was a "heavy decline with increasing housing abandonment and property tax delinquency;" and stage five – in which the neighborhood had been abandoned. (Metzger, 1999.) The classification became a self-fulfilling prophesy; it anticipated urban "decline" by assuming that increasing numbers of minorities in cities necessarily initiated a "cycle" of deterioration. (Metzger, 1999.) As a result, communities with growing minority populations were deemed high-risk communities for financial investment, thus providing yet another government-backed justification for disinvestment in those areas.

Communities Protest Discriminatory Housing and Redlining Practices

In response to this pattern of disinvestment, community advocates throughout the country organized in the 1960's and 1970's to stop discriminatory housing and redlining practices that were destroying their communities. Several members of these civil rights organizations later became important leaders in the Community Reinvestment Movement. (Metzger, 1999.)

The Community Reinvestment Movement

The Community Reinvestment Movement, similar to the Civil Rights Movement, was an inter-racial, inter-faith movement of community-based organizations, churches, civil rights groups, and labor unions. In the Community Reinvestment Movement, black, white and Latino residents who were living in redlined communities saw past their differences and joined together to fight a common problem. "The tensions between working-class whites who remained in their old communities as more affluent whites escaped to the suburbs and blacks moving [sic] into these same communities as they aspired to improve their lives was nothing but a time bomb waiting to explode in racial violence." (Bradford and Cincotta, 1992.) However, through building coalitions between white, minority and racially changing communities, organizations such as the National People's Action ("NPA"), which was headquartered in Chicago -- and a leading force in the reinvestment movement -- changes were achieved. The NPA "challenged conventional wisdom by organizing in racially changing neighborhoods and forming diverse coalitions, with more emphasis on developing resident leaders as decision makers rather than relying upon the political skills of white male organizers." (Metzger, 1999.) "The forces that forged reinvestment into a national movement emerged from a reaction to the exploitation of racial change by members of the real estate industries and the disinvestment in these communities by the private sector as minorities moved into previously white communities." (Bradford and Cincotta, 1992.) The people in these communities were simply demanding that the banks that had taken their deposits re-invest those dollars in the community instead of giving them to white-suburban communities.

Early Efforts In Fight Against Redlining

In many ways, Chicago was the birthplace of the movement against redlining practices. Several coalitions between white and minority civic organizations were formed in Chicago in the late 1960's to fight redlining which impacted residents of integrated urban areas. (Christiano, 1995.) In 1972, at the prompting of the Real Estate Research Corporation, which contended that the area was no longer a "profitable market" despite steady income levels, the South Shore National Bank decided to relocate out of Chicago's south side. The South Shore Commission, a community organization, mobilized and protested the relocation. As a result, the Office of Comptroller of Currency denied South Shore National Bank's application to relocate on the grounds that the bank had failed to provide an adequate reason for abandoning the area. (Metzger, 1999.) A small victory for local activists – the decision had resonating symbolic influence.

In 1973, another Chicago based group, the Citizens Action Program ("CAP"), published an anti-redlining pamphlet, which was widely distributed. This pamphlet stated:

> The local financial institutions have an obligation to their communities - - the people in the neighborhood are the principle depositors. When they cut off money from a neighborhood, and invest only in the suburbs, they are stabbing the community in the back. They are using the community's money to make profits elsewhere while they discriminate against their own community.

CAP demanded that banks and savings and loans open their records for public inspection. (Christiano, 1995.)

Other civil rights groups, such as the National Urban League, the Center for Community Change, and religious organizations were also involved in this movement. For example, the Catholic Church assisted by providing financial support for organizing efforts in Chicago, Boston, Cincinnati, and Washington, D.C. through the Campaign for Human Development of the U.S. Catholic Conference. Civil rights leader Monsignor Geno Baroni of Washington, D.C. was instrumental in raising awareness within the church about redlining. Other local parishes and churches assisted in coalition-building. (Metzger, 1999.) Communities crossed traditional lines of separation because they understood the long-term ramifications of disinvestment.

Governments Address Redlining

This anti-redlining movement created the impetus for governmental action. In 1974, responding to pressure from Chicago community groups, the Federal Home Loan Bank Board published a survey of federally insured banks in Cook County, Illinois, which revealed the extent of redlining in the Chicago area. The survey showed that several neighborhoods were receiving back only one penny in loans for every dollar deposited by residents. (Metzger and Weiss, 1988.)

Soon thereafter, Chicago activists successfully urged the City of Chicago to pass a law requiring banks and savings and loan associations to disclose residential, commercial and consumer loans and deposits by census tract. The State of Illinois subsequently passed a similar law requiring such disclosure and a law prohibiting discrimination in lending on the basis of race, gender and geographic area. (Christiano, 1995.)

California, New York, Ohio, Michigan, New Jersey, Massachusetts, Wisconsin and Missouri subsequently sponsored anti-redlining legislation and research. Cleveland adopted a disclosure law similar to Chicago's ordinance. These legislative actions were prompted by community organizations involved in the anti-redlining movement. (Metzger, 1999.)

The success of community activists on local levels set the stage for action by the federal government. National civil rights groups had already conducted a survey with the U.S. Justice Department and the U.S. Department of Housing and Urban Development to document the problem of lending discrimination. In People Building Neighborhoods: Final Report to The President and the Congress of the United States, by the National Commission on Neighborhoods, it was revealed that "almost 1000 lending institutions in 50 cities with the largest minority populations admitted that they used racial characteristics of a neighborhood as a factor in evaluating loan applications." (Christiano, 1995.) In response to overwhelming evidence of lending discrimination, in 1974 Congress enacted a series of laws beginning with the Equal Credit Opportunity Act (ECOA) in 1974.

The Equal Credit Opportunity Act

ECOA prohibits discrimination in the extension of credit based on race or color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to contract), the applicant's receipt of income derived from any public assistance program and the applicant's exercise in good faith, of any right under the Consumer Credit Protection Act. The next step for civil rights and community groups was to secure legislation that would document the extent to which lending institutions engaged in redlining.

The Home Mortgage Disclosure Act

In 1975, Senator William Proxmire (D-WI) sponsored and Congress passed the Home Mortgage Disclosure Act ("HMDA"). HMDA required banks and savings and loan associations with assets in excess of $10 million to report to federal regulators and subsequently to the public the number and dollar amount of home mortgages (and home improvement loans) by zip code or census tract. During the Senate hearings, leading national civil rights organizations and groups affiliated with the NPA presented testimony and surveys documenting discrimination and supporting the need for legislation requiring disclosure of mortgage data. As a result, HMDA passed. This legislation would equip community groups with the information needed to confirm that financial institutions were redlining minority areas. These groups were energized by their legislative success but clearly understood that there was more work to be done to combat redlining. (Christiano, 1995.)

Federal Bank Regulators Sued to Enforce Fair Housing Act

After HMDA passed, civil rights and community organizations continued their quest to stop redlining practices. In 1976, national civil rights organizations, led by the National Urban League, sued federal bank regulators under the Fair Housing Act for failing to enforce the fair lending provisions of the law. The regulators had continued to take the position that they were not required to enforce the Fair Housing Act. These cases were settled. Under the settlement agreement, the regulators were required to take various steps, including collection and analysis of race and gender data of approved and rejected mortgage applications, analysis of HMDA data and providing training for regulatory examiners. (Metzger, 1999.) As a result of this litigation and HMDA, banks and savings and loan associations were required to submit information regarding their loan application procedures to the federal bank regulators. With this information the regulators could perform their oversight responsibilities and uncover discrimination.

This litigation and additional redlining studies released by the NPA and Ralph Nader (consumer activist) supported the need for expanded regulation of financial institutions. During HMDA oversight hearings in the mid-70s, Ron Brown of the National Urban League, (who later served as Secretary of Commerce under President Clinton), testified that disclosure of lending patterns was only one step toward stopping disinvestment. The National Urban League recommended among other things, that "permission to establish a branch should be withheld when it is determined that the applicant institution has failed to adequately address the mortgage needs of the area in which it is presently located." (Metzger, 1999.)

The Community Reinvestment Act

In 1977, two years after HMDA was passed, the next step toward ensuring reinvestment was taken -- passage of the Community Reinvestment Act as part of Title VIII of the Housing and Community Development Act of 1977. The CRA imposed on banks and savings and loan associations an affirmative duty to help meet the credit needs of the low- and moderate-income neighborhoods in the communities in which they operated. The legislation recognized that banks benefit from federal "deposit insurance, access to central bank credit, government examinations and seals of approval. They exist not just to siphon money out of communities, but to put the money back in." (Kuttner, 1997.) For the first time, financial institutions were required to consider the social impact of their lending practices. (Christiano, 1995.)

The CRA provided bank regulators with the authority and responsibility to consider the community lending record of an institution when the institution submitted an application to relocate, expand or merge. One of the most crucial and fruitful provisions of this legislation allows third parties, namely civil rights and community-based organizations and non-profit housing developers, to challenge bank applications based upon poor CRA performance. This provision has allowed civil rights and community groups to serve as "watch dogs" to ensure that financial institutions are satisfying their duty to reinvest in all communities.

The federal bank regulators and bank trade groups opposed the CRA. They argued that the CRA objectives could be fulfilled through existing programs and regulations. They were also extremely concerned "that the use of 'primary service areas' and loan-to-deposit ratios would create a rigid system of regulatory credit allocation that would not account for differences between larger banks with regional and national markets, and smaller locally oriented financial institutions." (Metzger, 1999.) In 1977 in response to these and other concerns, Gale Cincotta of NPA explained during her testimony at hearings convened by Senator William Proxmire on the proposed CRA that:

> The Community Reinvestment Act correctly assumes that there is a demand for mortgage credit in every community. Discouraging this demand has been a prime activity of financial institutions who would rather invest depositors' and public monies in real estate investment trusts, or marketing loan packages for suburban tract developments. Exploding the myth of 'lack of demand' should be another prime concern of the reinvestment act.
>
> Senators, what we are talking about when we say reinvestment is not requiring financial institutions to purchase homes, apartments, or businesses or make bad loans, but to make sound loans on equitable terms to neighborhood investors. One of the most insidious forms of discouraging reinvestment is the variance of terms, conditions or appraisal standards from one area to another. (Metzger,1999.)

The 1978 Regulation Implementing the CRA

A regulation implementing the CRA was adopted in 1978. The CCC took the lead role in influencing the rulemaking process by convening a working group consisting of community and civil rights organizations, housing and civic groups and state and local government officials. The working group created "citizens' regulatory guidelines," which urged the federal bank regulators to implement "annual examinations of all regulated institutions…, substantive public involvement, and clear and enforceable performance standards and procedures." (Metzger, 1999.) On the other hand, the financial trade associations sought to minimize record keeping requirements, limit application of the CRA only to institutions seeking expansion approvals and exempt smaller and rural lenders. The final "uniform interagency regulation emphasized communication and process…, rather than credit allocation or specific lending targets." (Id.) Small and rural lenders were not exempted. However, the regulation provided that the CRA ratings and exemptions would be kept confidential. (Id.)

The Financial Institutions Reform, Recovery and Enforcement Act

In 1989, the CRA was amended by The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). FIRREA required regulators to make CRA ratings and evaluations of financial institutions public. It "also changed the rating scheme from a numeric code to a set of more expressive categories – outstanding, satisfactory, needs to improve, and substantial noncompliance." (Schwartz, 1998.) In addition, the legislation expanded HMDA to require reporting by mortgage companies and to require disclosure of the race, gender and income of households that apply for mortgage loans and the outcome of the applications.[3] This information provided a more accurate picture of who was impacted by redlining and other discriminatory practices.[4]

The 1995 Federal Regulations Enforcing the CRA

In 1993, President Clinton directed the federal bank regulators to rewrite the CRA enforcement regulation. His goal was to ease banks' compliance burden and improve lending performance by strengthening the enforcement system. (Metzger, 1999.) The Comptroller of the Currency was designated the lead agency in drafting the new regulation.

A proposed rule was published in 1993, which generated 6,700 comments. A revised proposed rule was issued in 1994 and it generated 7,300 comments. In 1995, the new final regulation enforcing the CRA was adopted. Generally, community organizations were not happy with the new regulation because it did not include enforcement tools that had been included in the 1993

[3] HMDA was amended again in 1996 to raise the threshold for HMDA reporting from $10 million to $50 million. As a result, smaller institutions do not have to report HMDA data.

[4] In 1991, a "safe harbor" proposal to exempt financial institutions with a rating of satisfactory or better and all small banks from challenges to their applications was pursued. ACORN and other community organization networks mobilized a successful protest and the proposal was defeated. The mobilization effort led to the creation of the National Community Reinvestment Coalition ("NCRC") "to build local and national support for the [CRA], and serve as a clearinghouse for information and coordination on local activities and regulatory policies." (Metzger, 1999.)

proposed rule. (Metzger, 1999.) The new regulation focused on banks' service delivery, especially their lending records while the previous regulations focused more on procedures such as marketing efforts and efforts to assess community needs. (Schwartz, 1998.)

The 1995 regulation established a new three tiered rating system. The service rating involves an examination of the geographic pattern of branch locations and the availability of other financial services, including community development services. The investment rating involves an assessment of direct community development investments other than loans. The lending rating is the most important of the three ratings in a weighted point matrix system. An institution must have a satisfactory lending rating in order to receive an overall satisfactory rating. (Metzger, 1999.)

The new regulation also established a streamlined evaluation process for smaller institutions. They are rated based on more general performance based criteria instead of based on the three tiered system. (Metzger, 1999.)

The 1995 regulation also included a new option, "the strategic plan," which "allows any bank to substitute its own CRA evaluation criteria for those established by its federal regulator. The strategic plan option must be developed in consultation with community groups and be approved by the bank's regulator. These plans must specify the bank's lending, investment and service goals and the standards for assessing their achievement." (Schwartz, 1998.)

Studies Confirm and Publicize Discriminatory Lending Practices

The passage of the Fair Housing Act, the ECOA, HMDA, and the CRA increased lending in low- and moderate-income and minority neighborhoods, but did not put a wholesale end to redlining practices. Redlining practices continued to be documented and challenged. In the late 1980's a series of studies by journalists about unfair lending practices turned the country's attention once again to the unsolved problem of redlining.

"The Color of Money"

The most acclaimed study, "The Color of Money," published in the Atlanta Journal-Constitution in 1988, revealed discriminatory lending patterns of Atlanta's largest financial institutions. The study written by Bill Dedman, concluded that "race -- not home value or household income -- consistently determined" the lending decisions of these institutions. (Dedman, 1988.) "The Color of Money" reported that:

- "Banks and savings and loans [in Atlanta] return[ed] an estimated 9 cents of each dollar deposited by blacks in home loans to black neighborhoods. They return[ed] 15 cents of each dollar deposited by whites in home loans to white neighborhoods."

- Offices where financial institutions took loan applications were concentrated in white neighborhoods.
- Several of the banks studied had closed branches in areas that had shifted from white to black and some banks had shorter office hours in black neighborhoods than they had in white neighborhoods.
- Two of the lenders studied rejected applications from blacks four times as often as applicants from whites.
- A black-owned bank in Atlanta, which made home loans almost exclusively in all-black neighborhoods, had the lowest default rate of any other institution its size.

The study's findings indicated that while these large institutions were making money from deposits made by residents of African-American communities, they were not investing in these communities. Rather, these deposits were used to benefit white communities.

The findings also suggested that race, not risk, was the cause of these lending patterns. For example, the Atlanta Journal-Constitution found compelling evidence of racially disparate lending patterns in two Atlanta neighborhoods, Gresham Park and McLendon. In mostly-black Gresham Park, residents "make a little more money, are better-educated and stay in the neighborhood longer" than their mostly-white counterparts in McLendon. Banks and savings and loan associations made only 25 home-purchase loans from 1981 to 1988 in Gresham Park, an area of 1,728 single-family structures. In contrast, the same institutions made 176 loans in predominantly white McLendon, a neighborhood of 1,438 single-family structures. Additionally, of the homes that were sold, banks and savings and loan associations financed 31 percent in McLendon, while they financed a mere 4 percent in Gresham Park. Blacks turned down by traditional lending institutions were also charged higher rates for their loans – from finance companies or unregulated mortgage companies – than would be charged by banks and savings and loan associations. (Dedman, 1988.)

The most disturbing implication of "The Color of Money" series was that because banks were more likely to invest in white neighborhoods and families, those whites were more likely to accumulate wealth faster than their black counterparts of comparable economic standing. Whites owned homes more often, and their homes were more likely to grow in value faster. Reverend Craig Taylor, a white minister and Southside Atlanta developer, commented that it "takes money to make money. The problem we have in the black community is there is no base with which to make money." (Dedman, 1988.) By directly supporting growth in white neighborhoods while failing to invest in comparable black neighborhoods, financial institutions in Atlanta promoted growth and disinvestment, simultaneously, along the color line.

Unfortunately, disinvestment is cyclical and self-perpetuating. Atlanta neighborhoods could not be improved because financial institutions refused to provide credit for mortgages and home improvement, which in turn caused property values to plummet. Over the course of two decades, black Atlantans learned firsthand the social repercussions of economic disinvestment – without banks that will invest in families who want to buy or renovate their homes or businesses, property values drop, wealth declines, and neighborhoods deteriorate over time.

Series Prompts Investigation of Decatur Savings & Loan

"The Color of Money" series prompted a renewal in public interest in fair lending issues for the first time since the passage of the CRA. The series also prompted the U.S. Department of Justice's (DOJ) subsequent investigation of Decatur Federal Savings and Loan Association ("Decatur Federal"), one of the largest providers of home mortgages in the Atlanta area. An analysis of HMDA data showed that an overwhelming majority (over 97 percent) of Decatur Federal's mortgage loans were made in majority white census tracts. Computer mapping also showed heavy concentrations of loans in white neighborhoods throughout the Atlanta area, but no loans or very few in majority-black areas. (Ritter, 1995.)

Furthermore, in defining the boundaries of its service area outside the city of Atlanta, Decatur Federal followed the tracks of a railroad that had historically separated white and black residents. The white areas north of the tracks were included, and the black areas south of the tracks were excluded. Decatur Federal was found to have excluded most of the black neighborhoods of Atlanta from its service area, as delineated under the CRA, resulting in the exclusion of almost 75 percent of the black population of Fulton County from the bank's service area. (Ritter, 1995.)

DOJ also found that only one of Decatur Federal's 43 branches and 8 mortgage offices had been built originally in a black neighborhood. This branch was closed after only three years of operation. The only other full-service branch that had been closed was in an area that had changed from a predominantly white to a predominantly black neighborhood. In addition, DOJ found that Decatur Federal's account executives almost exclusively solicited realtors and builders in white neighborhoods, that Decatur Federal had rejected recommendations to market to a broader segment of its service area, and that few blacks or minorities were employed in jobs involving outreach, mortgage loan solicitation or underwriting. The evidence in its entirety indicated overwhelmingly that for years Decatur Federal had pursued a sales and marketing strategy for home loans that intentionally avoided black neighborhoods, solely because of race. (Ritter, 1996.) The publicity regarding DOJ's 1992 lawsuit against Decatur Federal renewed concern about inequitable access to credit and capital.

DOJ settled the case against Decatur Federal, implementing remedies that closely modeled the principles of the CRA. The consent decree obligated Decatur Federal to provide $1 million in relief to 48 black individuals whose home mortgage loan applications had been rejected between 1988 and 1992; to expand its lending territory to include all of Fulton County; to advertise extensively in black-oriented newspapers and radio stations and to target sales calls to real estate agents and builders active in black neighborhoods; to make future decisions regarding branch locations only after considering their obligation to meet the credit needs of low- and moderate-income neighborhoods; and to open a regional loan office in south Fulton County, a predominantly black area of Atlanta.

"The Race for Money"

> "Access to Credit and Capital is a Basic Civil Right."
>
> National Community Reinvestment Coalition.

The Detroit Free Press published a series similar to "The Color of Money" entitled, "The Race for Money," which reviewed lending patterns in Detroit. This series of articles found that financial institutions in the Detroit-metro area extended home mortgages in white middle-income neighborhoods at three times the rate for similar black neighborhoods. (Blosson, Everett, Gallagher, 1988.)[5] After the series was published, the Ad Hoc Coalition for Fair Banking Practices, which included housing groups, union and civil rights organizations, churches and a powerful civic organization, formed to negotiate with local lenders. (Squires, 1992.) After the Commissioner of the Michigan Financial Institutions Bureau denied the application of the second largest bank in Michigan, Comerica, Inc., to purchase a Texas bank because of a poor CRA record, the banks began to negotiate with the Ad Hoc Coalition. The negotiation led to seven banks agreeing "to a total of $2.9 billion over three years in a combination of housing, business and consumer loans." (Id.)

Washington Post Investigative Articles Lead to Investigation of Chevy Chase Savings

A set of investigative articles in the Washington Post resulted in DOJ's investigation of, and subsequent lawsuit against, Chevy Chase Federal Savings Bank ("Chevy Chase Federal") and its mortgage company, B.F. Saul Mortgage Company ("B.F. Saul"), one of the major mortgage lenders in the Washington, D.C. area. Like Decatur Federal, Chevy Chase Federal conducted business in a large metropolitan area (Washington, D.C.) with a black population concentrated in clearly delineated areas of the District and Prince George's County in Maryland. Like Atlanta, the Washington D.C. area exhibited a history of disinvestment of the city's black neighborhoods. The history was documented in a 1977 report by the Washington, D.C. Commission on Residential Mortgage Investment, which found that lenders in the area refused to make loans in "changing" neighborhoods; by the 1950s the District had two separate housing markets and sources of lending. (Ritter, 1995.)

Chevy Chase Federal was found to have perpetuated this pattern. The evidence against Chevy Chase Federal showed that the geographic distribution of its loans from 1976 to 1993 had consistent race-based patterns similar to Decatur Federal's. The disparities of lending between black

[5] Studies also demonstrated that banks failed to maintain branches in minority areas, thus accelerating disinvestment. In 1993, in Rochester, New York for example, there were 4.7 branches per 10,000 residents in mostly white areas, but only .6 per 10,000 residents in mostly minority areas. In Miami, there were 16.2 branches per 10,000 residents in white areas and 5 branches per 10,000 resident in minority areas. (Loeb, Cohen and Johnson, 1995.)

and white neighborhoods could not be explained by a lower demand for mortgage loans in majority black areas. Additionally, Chevy Chase Federal had 77 branches and 18 mortgage offices throughout the District's metropolitan area, but only four of those branches were in majority-black census tracts and two of those four were not opened by Chevy Chase Federal. Only one of the 18 mortgage offices was in a majority-black census tract, and it was opened in May 1993 after considerable public attention to the issue of redlining. (Ritter, 1995; U.S. v. Chevy Chase.)

Furthermore, the evidence showed that Chevy Chase Federal had taken affirmative steps to disinvest from Washington, D.C. In 1989, Chevy Chase Federal removed Washington, D.C. entirely from its service territory. Not until Chevy Chase Federal was criticized in 1992 by bank regulators did it begin to do business in D.C. again. Even then, Chevy Chase Federal limited its service by investing in only the predominantly white northwest part of the District. As a result, more than 80 percent of the District's black population was excluded from its market. (Id.)

The settlement between DOJ and Chevy Chase Federal required the bank to take substantial steps to invest in the communities that it had once neglected. These steps brought Chevy Chase Federal and its mortgage company, B.F. Saul, into compliance with the CRA. Chevy Chase Federal agreed to open three mortgage offices in black neighborhoods, expand its marketing efforts in black neighborhoods, and open branches in black neighborhoods in the Washington, D.C. metropolitan area. In addition, Chevy Chase Federal agreed to invest $11 million over a five-year period in the African-American neighborhoods of the Washington, D.C. metropolitan area in the form of subsidized lending programs and the opening of branches and mortgage offices. Again, allegations of mortgage lending discrimination were resolved by requiring a financial institution to invest in the redlined community -- a goal advanced by the CRA.

Boston Federal Reserve Bank Study

In 1989, the Boston Federal Reserve Bank researchers examined over 3000 applications with 131 lenders in the Boston community. They found that "blacks are 60 percent more likely to be rejected than whites with identical credit records, debt histories, income, and other financial characteristics." (Squires, 1992, citing Murrell, et al., 1992.) This study prompted six community organizations to form the Community Investment Coalition. This coalition, with assistance from Boston Mayor Raymond Flynn, negotiated a $400 million five-year lending program with Boston's ten largest banks. (Squires, 1992.)

Lending Discrimination Persists Despite Laws

Despite the passage of the Fair Housing Act, the ECOA, HMDA, and the CRA, access to credit and capital remains inequitable. HMDA data for 1998, shows denial rates for conventional mortgages of 54% for African-American applicants, 52% for Native Americans, 39% for Latinos, 26% for whites, and 12% for Asian-Americans. Disparities exist even where income levels are comparable. In 1998, upper-income African-American and Latino applicants were denied conventional mortgages more than twice as often as whites at that income level. (Scheesele, 1998.) Accordingly, homeownership rates for African-Americans (45.3%) and Latinos (43.9%) were lower than those of whites (72.5%). (Id.) African-American and Hispanic businesses also suffer. Recent studies show that African-American-owned businesses are two to two-and a half times more likely to be denied loans as compared to white-owned businesses. These disparities remain despite similar characteristics. (Bostic and Lampani, 1999; Cavaluzzo, Cavaluzzo and Wolken, 1999.) Furthermore, there is evidence that lower-income and minority areas continue to suffer from low lending rates. (Immergluck, 1999.) [6]

Studies of mortgage lending patterns continue to document that the promise of CRA has yet to be realized. In May 2000, the Public Justice Center in Baltimore, Maryland, released "Crisis in Deja Vu: A Profile of the Racial Patterns in Home Purchase Lending in Baltimore, Maryland," which indicates that discriminatory lending persists. Similar to pre-CRA studies, "Crisis in Deja Vu," concluded that African-Americans purchasing homes in predominantly African-American or racially changing neighborhoods are denied loans at significantly higher rates (up to four times higher) or on less favorable terms than whites or purchasers in white areas. The study further concluded that "these practices needlessly contribute to boarded up and abandoned housing and a blight in a city struggling with distressed neighborhoods." (Public Justice Center, 2000.)

Similar conclusions have been drawn about the lending industry's failure to accommodate the needs of Latinos. In its recent Issue Brief, "Financial Services and Hispanic Americans," the National Council of La Raza ("NCLR") concluded that Latinos are a "flourishing economic force;" however, because they "continue to have less access than other Americans to wealth-building vehicles, Latino families remain economically immobile and financially insecure." (Kamasaki and Arce, 2000.) Latinos are more likely to be rejected for mortgages or receive less favorable terms than comparable whites. In addition, Latinos are over-represented in the sub-prime lending market, which provides access to credit at higher interest rates. NCLR further concluded that "to the extent market penetration rates reflect responsiveness to consumer demand, the industry is not doing an adequate job meeting the distinct financial services needs of many Latinos." (Kamasaki and Arce, 2000.) Unfortunately there is a dearth of research that specifically examines the impact of the CRA on predominantly Latino and Asian neighborhoods. However, evidence from HMDA data indicates that focused efforts are needed to address the needs of these communities. Other reasons for focusing on Latinos and Asian-Americans are the growth of their populations and housing segregation patterns, similar to those of African Americans, that create opportunities for redlining their neighborhoods.

[6] Recent revisions of CRA regulations require large banks to report small-business lending by census tract. This data was first collected in 1996. The data has significant limitations. For example, lenders are not required to report the race of business owners. In addition, the data does not give an accurate picture because it omits data regarding loan applicants who are no longer in business or were never able to obtain start up capital.

IV. FULFILLING THE PROMISE OF CRA

Notwithstanding the persistence of discrimination in housing, the CRA has had an enormous impact on communities of color. It has helped to increase economic opportunities for and the accumulation of wealth by people previously excluded from America's bounty. Between 1993 and 1997, home mortgage loans to African-Americans increased by 62 percent. In the same time frame, mortgage loans increased by 58 percent to Latinos, by 30 percent to Asian Americans, and by 25 percent to Native Americans. "In 1990, banks made 18% of their home mortgage loans to low- and moderate-income borrowers. By 2000, banks made 29% of their mortgage loans to these borrowers." (NCRC, 2001)

The U.S. Department of Treasury estimates that between 1993 and 1998, CRA-regulated institutions increased home loans in low- and moderate-income areas by 80% to total $135 billion. (Litan, Restinas, et. al, 2000.) The CRA has also provided more capital for businesses in low- and moderate-income neighborhoods. CRA-regulated institutions loaned more than $32 billion annually to small businesses in low- and moderate-income neighborhoods during the period 1996 to 1998.

Despite the lax federal enforcement discussed in the next section, the CRA has been the key to these achievements. The CRA's success can be attributed to activists throughout the country who understand that the CRA can be an effective tool for change.

Federal Regulatory Agencies Lax in Enforcing the CRA

> "[T]he least we can expect is that poor people are protected, that people are not discriminated against because of the color of their skin and that communities making deposits in institutions can expect to have loans made in those neighborhoods."
>
> Former Rep. Joseph Kennedy (D-MA), Boston Globe (July 27, 1989).

The Federal Reserve Board (the "Federal Reserve"), the Comptroller of the Currency, the Federal Deposit Insurance Corporation (the "FDIC") and the Office of Thrift Supervision (the "OTS") are responsible for enforcing the CRA. Their enforcement efforts after the passage of the CRA were generally lax. In fact, the Comptroller of the Currency and the Federal Home Loan Bank Board adopted a policy of granting conditional approvals rather than denying applications for failure to comply with the CRA.[7] The Federal Reserve resisted enforcement of the CRA because of its concerns about credit allocation. By 1980 the Federal Reserve, which rated financial institutions on five tiers (outstanding, good, satisfactory, needs improvement and unsatisfactory), had rated 97% of the 894 banks it regulated satisfactory or better. (Metzger, 1999.)

[7] OTS has replaced the Federal Home Loan Bank Board.

In 1982, Congressional oversight hearings focused upon federal regulators' failure to enforce the CRA. The hearings examined the CRA records of four New York banks: Chase Manhattan, Chemical Bank, Citibank, and Manufacturers Hanover Trust. These four huge institutions were closing branches and disinvesting in neighborhoods located in Brooklyn and the Bronx, where significant numbers of low- and moderate-income families resided, while expanding services in wealthier New York City suburbs. Between 1977 and 1984, these banks closed 92 branches in the city; the majority were closed during 1983-1984. Despite CRA protests by community groups regarding the expansion of Citicorp (the bank holding company for Citibank) into Delaware and Maryland, the Federal Reserve approved the expansion, and in 1984 it approved Citicorp's expansion into California, Illinois, and Florida. (Metzger, 1999.) Because federal regulators failed to enforce the CRA, these institutions were permitted to ignore their CRA obligations without repercussion.

Similarly, the 1987 application of SunTrust to buy another bank demonstrates the problem of lax enforcement. Community groups protested the acquisition by SunTrust because of the institution's record of disinvestment. The bank provided only one mortgage product, which was not attractive to minorities, and closed several neighborhood offices soon after they became minority communities. (Bradford and Cincotta, 1992.) In fact, SunTrust acknowledged in a letter to the Federal Reserve that it understood that its mortgage product was not marketable in older, stable areas and that, as a result, it was not serving minority communities. Despite this admission of failure to comply with the CRA, the Federal Reserve approved SunTrust's application. Two years later, notwithstanding evidence that SunTrust continued to close branches in minority communities, the Federal Reserve approved another SunTrust application for expansion. (Id.)

In 1988, the Senate Banking Committee held oversight hearings, which were prompted by the racially discriminatory patterns revealed in "The Color of Money" series. (Bradford and Cincotta, 1992.) During the hearings the Federal Reserve, the Comptroller of the Currency, FDIC, and OTS reported that since the passage of the CRA in 1977, they had denied only eight of the 40,000 applications that were subject to the CRA. (Schwartz, 1998.) Not until 1989 did the Federal Reserve deny an application based upon an inadequate CRA rating. That year, in response to a protest by the Amalgamated Clothing and Textile Workers Union, the Federal Reserve denied Continental Bank of Chicago's application for an acquisition. (Squires, 1992; Metzger, 1999.) There was also mounting pressure for enforcement of fair lending laws as a result of public attention drawn to the issue by the 1988 "The Color of Money" series in the Atlanta Journal-Constitution.

Even though many institutions have lacked affirmative reinvestment or fair lending programs and have been cited by federal regulators for violations of the Fair Housing Act, and despite protests by civil rights and community organizations, they have received high CRA ratings and their applications have been granted by regulators. On the other hand, the Federal Reserve denied the application of Chicago's Continental Bank and gave Chicago's Harris Bank a failing CRA rating even though both were "involved in major community reinvestment and lending programs that have been extremely effective at guiding conventional funds back into minority communities in Chicago for both single family and multifamily housing." (Bradford and Cincotta, 1992.) In addition, the Comptroller of the Currency issued a "needs to improve" rating to LaSalle National Bank even though it had begun to finance lines of credit for low-income housing development corporations through the Chicago Neighborhood Lending Programs in 1989. After making the decision to deny Continental Bank's application, the federal bank regulators issued a joint statement in 1989 discouraging the use of CRA agreements and encouraging compliance through establishing subsidiary community development corporations and community lending programs. (Metzger, 1999.)

In 1993, the Federal Reserve denied Shawmut National Corporation's bank acquisition application notwithstanding the bank's new mortgage lending initiatives using flexible underwriting and targeting minorities and low- and moderate-income home buyers and data showing that its 1993 denial of home loans to African Americans was significantly lower than it had been in 1990. (Metzger, 1999.) The federal bank regulators' actions led some to conclude that "not only do the regulators endorse the dual housing market, but they are willing to penalize those institutions that take aggressive steps to overcome conventional lending discrimination and act affirmatively on fair housing." (Bradford and Cincotta, 1992.) Because of lax enforcement by federal regulators, civil rights and community organizations have had to spearhead efforts to enforce CRA.[8]

Enforcement of the CRA By Civil Rights and Community Organizations

Although federal regulators have failed to vigorously enforce the CRA and other fair lending laws, civil rights and community organizations, with assistance from several national organizations including the National Training Institute, ACORN and the Center for Community Change, have sought enforcement of these laws by challenging the expansion of financial institutions, effectively using publicity and building cooperative and lasting relationships with financial institutions. (Schwartz, 1998.) Some examples of these efforts, which have resulted in the flow of investment dollars back into their communities, revitalizing businesses, homes and schools, follow.

Enforcement Through Agreements

Civil rights and community organizations have worked with financial institutions throughout the country and entered into agreements in which institutions pledge to lend and invest money and resources in low- and moderate-income and minority communities. Financial institutions have entered into such agreements when seeking regulatory approval for expansion and when seeking to affirmatively comply with the spirit of the CRA.

[8] The public disclosure of CRA ratings required by FIRREA resulted in an increase in the number of bank community development corporations (from 30 in 1989 to 47 in 1991) and focused attention on the enforcement policies of federal regulators. The number of banks receiving a satisfactory rating declined from 97% in 1988 to less than 90% during 1990-91. (Metzger, 1999.)

The contents of CRA agreements vary but typically set forth the "bank's goals or commitments toward improving its services to minority and low-income households and/or neighborhoods" and almost always include home mortgage lending provisions. (Schwartz, 1998.) CRA agreements may also include: (1) a selection of mortgage products (described in varying amounts of detail); (2) flexible underwriting standards; (3) participation in public programs or loan pools and consortiums; (4) small business loan provisions; (5) permanent mortgages; (6) constructions loans; (7) home improvement loans; (8) lines of credit for community development corporations; (9) investments in low-income housing financed with low-income housing tax credits; (10) grants to community-based organizations; (11) pledges not to close bank branches; (12) marketing and outreach; (13) formation of community advisory councils to help banks meet their lending targets and other goals; and (14) goals for hiring more minority employees and purchasing more goods and services from minority-owned firms. (Schwartz, 1998; Metzger, 1999.) Thus, by virtue of the CRA agreements, banks have been forced to change their policies, procedures and products.

The CRA agreements that result from challenges or threatened challenges to bank mergers or acquisitions are known as negotiated agreements. (Schwartz, 1998.) Not all CRA agreements are negotiated. In fact, the majority are unilateral agreements by banks, which are sometimes announced by banks as pre-emptive strikes against challenges. The unilateral agreements are known as voluntary agreements. (Id.)

CRA agreements between civil rights and community organizations and banks have contributed to the CRA's success.[9] A recent study examining the effectiveness of CRA agreements concluded that, "[b]anks with CRA agreements appear to be more responsive than other banks to the credit needs of minority and low-income households and neighborhoods..." (Schwartz, 1998 (HDP). These banks had significantly larger market shares of mortgage approvals for minority and low-income households and areas. Further, these institutions posted significantly lower mortgage denial rates for black households than other lenders. They also "approve[d] a higher proportion of conventional mortgages across all market segments."[10] (Schwartz, 1998.)

Even before the passage of the CRA, community groups began to develop cooperative relationships with financial institutions in an effort to recapture investment dollars. The first written agreement, an "Understanding," was entered into between the Bank of Chicago and the Organization of the NorthEast (ONE), an advocacy organization comprised of residents, three years before the passage of the CRA. This milestone was the result of community organizing and protests and the lender's desire to avoid potentially bad publicity. While the bank did not commit to a particular

[9] Whether CRA agreements are legally binding has yet to be tested in court. However, the federal regulators have not monitored banks' compliance with their CRA agreements and have not required the agreements to be a factor in assessing a bank's compliance with the CRA. (Schwartz, 1998.) Indeed, the 1989 interagency policy statement issued by the Federal Reserve states that the CRA requires the agencies to assess an institution's record of helping meet the credit needs of its communities, not to enforce privately negotiated agreements. As a result, it has been the position of the federal regulatory agencies that an institution's record of fulfilling CRA agreements was not an appropriate CRA performance criterion. (Metzger, 1999.) Agreements entered into under the "strategic plan option" (see above) are legally enforceable. (Id.)

[10] Although FHA loans require smaller down payments, they typically require higher origination fees and private mortgage insurance. Conventional mortgages may provide credit on more favorable terms. (Schwartz, 1998.)

dollar amount of loans, it did agree to give priority to making loans to depositors and residents within the targeted neighborhoods and to establish lending goals based on deposit levels in those areas. (Pogge, 1992.)

Challenging Bank Branch and Merger Applications

After the CRA passed, civil rights and community organizations began to use it to challenge the expansion of financial institutions that failed to invest in their communities. In 1979, South Brooklyn Against Investment Discrimination filed a challenge to Greater New York Savings Bank's branch application because the bank failed to make mortgage loans. As a result, the FDIC issued its first branch application denial under the CRA. (Metzger, 1999.) That same year, Cleveland's mayor, Dennis Kuchinich, used the CRA to challenge an application of a savings and loan association for approval to open a branch in a white neighborhood after closing a branch in a predominantly black area a few months earlier. As a result, the savings and loan association agreed to allocate $15 million for urban revitalization in Cleveland. (Id.)

NPA affiliates were very active in bringing application challenges after the passage of the CRA. They brought several challenges against Ameritrust, then the largest commercial bank. Although the Federal Reserve did not deny the bank's applications, Ameritrust was required to "maintain a loan application register, expand employee training and home credit counseling programs, and publicize its appraisal and lending practices." (Metzger, 1999.) Ultimately, the bank agreed to establish a community advisory council. (Id.)

Before the mid-1980s, banks submitted applications primarily for approval of new branches. During the 1980s, new laws were passed which eliminated interstate banking restrictions. The laws now permit interstate banking and regional compacts. The result has been mega-mergers of banks. For example, in 1986, Wells Fargo acquired Crocker National Corp., making it the third-largest California bank, with $48.5 billion in assets, 623 branches and 1,200 automated teller machines. (Amparano, 1986.) This trend of mega-mergers continued throughout the 1990's. Consequently, CRA applications have shifted from branching applications to applications for mergers and acquisitions. (Metzger, 1999.)

Challenges Increase Number and Impact of Agreements

Between 1981 and 1987, the number of bank mergers increased from 359 to 649. There was a concomitant increase in the number of protests of bank applications during those years. For example, at the Federal Reserve alone, protests of bank applications increased from 4 in 1981 to 36 in 1987. The restructuring of the financial services sector also gave community groups multiple opportunities to negotiate CRA agreements. Because bank mergers were much larger transactions involving far more money than the opening and closing of branches, merger applications involved much higher stakes. Where a bank's compliance with the CRA was less than stellar, community groups challenging merger applications had a significant amount of leverage. Banks had to confront their compliance with the CRA and had to address the assertions made by community groups. Many financial institutions in the midst of a merger or acquisition, in response to community challenges, acknowledged that they had done little, if anything, to meet the credit needs of minority communities and that this failure could stand in the way of their proposed expansion. Thus, partnering with communities for reinvestment initiatives was in their best interests. (Schwartz, 1998.) CRA agreements evidenced banks' commitments to improving their services to minority and low-income households and neighborhoods.

The negotiation of CRA agreements has resulted in the development of long-term relationships between civil rights/community organizations and financial institutions. Many financial institutions have invested millions of dollars into low- and moderate-income areas and relied upon their community partners for disbursement of funds, or advice regarding community credit needs. Examples of these partnerships appear below.

<u>*Chicago*</u>

The Chicago Neighborhood Lending Programs are an example of successful long-term relationships between banks and community groups. In 1984, the Chicago Reinvestment Alliance, comprised of thirty-five neighborhood and city-wide organizations, and First Chicago Corporation (in the midst of a merger between its subsidiary, First National Bank of Chicago and American Bank of Chicago, two of the ten largest Chicago banks), announced a community reinvestment agreement committing the First National Bank to invest $120 million over five years for single and multi-family housing, mixed-use buildings, and commercial/industrial loans to small businesses. (Pogge, 1992.) In May of the same year, the Chicago Reinvestment Alliance made a second agreement with Harris Trust and Savings Bank for $35 million, and in June, a third agreement with Northern Trust company for $18 million, for a total of $153 million in commitments. In 1989, all three banks announced that they would extend the agreements for an additional five-year commitment total of $200 million. These banks also committed to allocate corporate foundation grants to build the capacity of involved community organizations. These agreements have served as models for community and bank partnerships in other cities.

<u>*Pittsburgh*</u>

In 1988, the Pittsburgh Community Reinvestment Group (PCRG), a coalition of 27 neighborhood organizations, initiated an agreement with the Union National Corporation ("Union National"). Union National agreed to provide $109 million in loans over a five-year period because it perceived PCRG to be a "partner" that would help it achieve its lending goals. As a result, PCRG held regular meetings with bank officials, participated in credit counseling initiatives, and assisted in increasing the bank's community outreach efforts. Union National agreed to increase the diversity of its personnel, train its personnel about CRA obligations and increase home mortgage, commercial real estate and minority business development loans. (Squires, 1994.)

California

In 1998 in anticipation of the pending merger of Norwest and Wells Fargo, Wells Fargo renewed its CRA agreement with the California Reinvestment Committee (CRC) by making a new $15 billion, three-year California CRA Lending Leadership Pledge. The pledge included a $2.5 billion mortgage commitment for low-income and/or minority borrowers, $8 billion in small-business loans, $2.5 billion in mortgage lending, $3.5 billion in community development lending, $1 billion in low-income consumer loans, and renewed commitments to access and outreach, as well as increased "diversity in the workplace." CRC's previous agreements with Wells Fargo provided the basis for a local partnership between the banks and community developers in Oakland, California. Wells Fargo also provided $7.8 million in construction loans to the East Bay Asian Local Development in order to redevelop and rebuild Swan's Marketplace in downtown Oakland. The market had opened originally in 1917 and for over fifty years had been the household goods store in downtown Oakland until it closed in 1983. The reconstructed Marketplace included the Museum of Children's Art, eighteen affordable apartments, twenty co-housing condominiums at market rate, three new restaurants, a deli, and a bakery. (PolicyLink, 1999.)

ACORN's Multi-State Efforts

ACORN used the public release of the expanded HMDA disclosure data to contest several mega-mergers. It succeeded in negotiating multi-state lending agreements with Chemical Bank and NationsBank. The agreement with Chemical Bank covered New York, New Jersey and Texas. The agreement with NationsBank was "national in scope and the largest of its kind, as the North Carolina-based commercial bank committed $10 billion over ten years to position itself for regulatory approval of future regional and national expansion." (Metzger, 1999.)

In the 1980s, the ACORN Housing Corporation was established. It provided loan counseling and packaging and property services to low-income individuals. ACORN became involved in the New York Mortgage Coalition, "a community-based home purchase credit counseling program created and funded by Chemical and other local banks." (Metzger, 1999.) Chemical Bank used this counseling program to increase its conventional home loans to lower income African American and Latino home owners in metropolitan New York from 14.1% in 1992 to 30.6% in 1995. ACORN did not limit its efforts to New York. Using the CRA, it negotiated "lending programs with approximately 40 banks across the country that often involved bank-funded community-based loan counseling and marketing efforts." (Id.)

CRA-Driven Lending Agreements Bear Fruit

Because of the CRA, community organizations and lenders from Boston to Oakland have signed over 360 agreements totaling more than $1 trillion in reinvestment dollars to minority and low-income neighborhoods. In the last two years alone, lending institutions committed $901 billion or 87 percent of the total since 1977. (NCRC, 1999.) Many would argue that, dollar amounts aside, the behavior and approach of many lending institutions have changed considerably since the passage of CRA in 1977, and even more so in recent years. With every renewed commitment to community reinvestment, it seems that both banks and community groups have become more comfortable with the process of forging agreements, and arguably, have a better understanding of the kinds of approaches that "work" to achieve community reinvestment.

According to at least one study, community reinvestment loans (mortgage and multi-family development loans) have, in fact, performed very well in comparison to loans not directed at low- and moderate-income neighborhoods. A 1993 study conducted by Northwest University economists, the Woodstock Institute and the National Association of Affordable Housing Lenders concluded that the national delinquency rates for single-family loans are approximately seven or eight times as great as community reinvestment loan delinquency rates.[11] (Metzger, 1999.) Ultimately, institutions with agreements and those voluntarily complying with the CRA have captured new markets, once neglected, and have found that new business to be profitable.

CRA agreements have resulted in banks reevaluating the credit worthiness of low-income borrowers, who frequently have less money available for down payments, frequent job changes and no credit history. The CRA has also provided the impetus for encouraging Fannie Mae and Freddie Mac to change their underwriting policies. For example, in the late 1980s, "the National Training and Information Center worked with Fannie Mae and the General Electric Mortgage Insurance Companies (a leading private mortgage insurer) to create the Community Home Buyers Mortgage Program, which enabled financial institutions to make low down payment conventional home mortgages using private mortgage insurance." ACORN assisted Fannie Mae in creating a twelve city pilot program and Fannie Mae "agreed to issue mortgage-backed securities (backed by Community Reinvestment Act loans) for sale to non-bank investors such as Allstate." (Metzger, 1999.) Fannie Mae also developed homeownership programs targeting immigrants.

Finally, according to the U.S. Treasury Department, home mortgage lending to low- and moderate-income communities is higher in areas in which banks undergo CRA examinations and in areas in which they have CRA agreements and partnerships with community groups. (NCRC, 2001)

Civil Rights Organizations Partner with Banks

Traditional civil rights groups have continued to be involved in the Community Reinvestment Movement since the CRA passed in 1977.

[11] However, the Mortgage Guaranty Insurance Corporation disputed the results of this study. It contended that "its own comparative analysis of portfolio performance found higher rates of loan delinquency and default among low-and moderate-income home buyers." Freddie Mac supported the Mortgage Guaranty Insurance Corporation’s findings stating a program it had created to purchase low down payment home loans had significantly higher delinquency rates. (Metzger, 1999.)

The National Urban League

The National Urban League currently has partnerships with Bank of America and Chase Manhattan Bank.[12] Bank of America funds the National Urban League's Housing Development Capacity Initiative, through which the National Urban League provides training and assistance to affiliate organizations interested in constructing single and multifamily housing. Affiliates in 20 cities have participated in this program. The Homeownership Development Project, another National Urban League program, funded by Chase Manhattan Bank, is a three-year initiative to increase the home-ownership rates in communities of color. Participants in the program, which exists in three cities, receive assistance during the mortgage lending process.

NAACP

Similarly, the National Association for the Advancement of Colored People (the "NAACP"), the country's oldest civil rights organization, has built relationships with banks to promote reinvestment in minority communities. Jeannine Auerbach of the NAACP believes that the CRA has been a vital tool in fostering economic development in African-American communities and in creating a level playing field for borrowers in these communities. (Interview with Jeannine Auerbach, March 2000.) As part of its reinvestment strategy resulting from its $10 billion agreement with ACORN, NationsBank formed a partnership with the NAACP and provided funding for the NAACP to operate service centers that would act as liaisons between the community and the bank. Another bank, Bank One, also joined NAACP in this endeavor.

As a result, until recently, the NAACP operated Community Development Resource Centers (CDRCs) in eight states: Florida, Georgia, Maryland, North Carolina, South Carolina, Indiana, Virginia and Texas. Each center ran five programs: Affordable Housing; Consumer Lending; Community Economic Development; Business Development Services; and Youth Entrepreneurial Institute. The CDRCs' work included: workshops for first-time homebuyers; credit counseling; and advocacy on behalf of consumers to lenders to bolster consumers' chances of obtaining financing. Ultimately, as Milton Smalls, Director of Center Operations of the Columbia, South Carolina CDRC explained, CDRCs served as conduits by providing assistance to individuals and making them 'bankable,' and by helping banks design products (loan programs, etc.) best suited for the market. (Interview with Milton Smalls, March 2000.) For example, the Gary, Indiana CDRC helped an African-American man obtain a $351,000 loan to finance the opening of an automobile oil and lube business. The NAACP's CDRC representative helped the entrepreneur with his business plan, compiled information the bank would require and assisted in the presentation of the loan package to the bank. (Interview with Delores Lampley, Director of Center Operations, NAACP CDRC Indiana, March 2000.) The CDRCs are CRA initiatives that have made a real difference in the lives of many African Americans.

[12] The National Urban League also has partnerships fostering homeownership with FannieMae, FreddieMac, and the U.S. Department of Housing and Urban Development.

NCLR

The National Council of La Raza ("NCLR"), the largest constituency-based national Hispanic organization, has long been involved in the community reinvestment movement and was a founding member of the NCRC (see footnote 4). NCLR has been actively involved in forming partnerships with financial institutions committed to the CRA. Charles Kamasaki, Senior Vice President of NCLR, explains that ten years ago, financial institutions were not interested in reinvestment; the CRA provided the impetus for them to be receptive to lending in untapped markets, and [their experience in complying with the CRA] convinced them that these efforts could be profitable. (Interview with Charles Kamasaki, March 2000.)

NCLR has worked to ensure that Latino communities are not ignored by financial institutions. NCLR worked with FannieMae to develop mortgage underwriting criteria that take into account cultural differences of Latino borrowers that may result in their not meeting "traditional" credit standards. In Arizona, NCLR formed a partnership with First Interstate Bank of Arizona, FannieMae, the State of Arizona and the Arizona Affordable Housing Alliance (a coalition of community organizations), to create and implement the Home to Own Program. First Interstate initiated this partnership because it had received an "unsatisfactory" CRA rating and because it needed to improve its record of lending to racial and ethnic minorities. (National Council of La Raza, 1996.) By August 1995, the Home to Own Program had committed $10 million in loans targeted for low-income households. This program promotes homeownership through the use of flexible mortgage underwriting criteria, down payment assistance and credit enhancements and counseling services for low-income families. During 1994-95, more than 220 loans were made to very low-income (50-60% of median income) families in Arizona through this Program; more than 80% of the families were Latino. (Id.)

Bank of America is another NCLR partner. In July 1999, NCLR and Bank of America announced the commitment of $20 million for a Latino community economic development initiative. The HOPE Fund, the only national Latino Community Development Financial Institution (CDFI) certified by the U.S. Department of Treasury, committed to provide loans to community development projects in Hispanic communities, such as low-income housing, employment training centers, and charter schools. Bank of America's commitment marked one of the single largest capitalizations of a CDFI.

V. CRA SUCCESS STORIES

"Our future is based in economic opportunity. If people of color are to continue moving into the middle-class, they must have the same opportunity to buy a home, to start a small business, to send their children to safe daycare centers as their suburban neighbors do. The CRA made bankers take a close look at the communities around them and what they found were bright entrepreneurs, responsible homeowners and people with a vision of how to build the spirit and infrastructure of their communities."

Wade Henderson, "Community Reinvestment Act Under Attack," San Francisco Bay View, June 30, 1999 p.3.

CRA has significantly improved the lives of people living in low- and moderate- income neighborhoods. The following are a few CRA success stories.

Raul Yzaguirre Charter School For Success, Houston, Texas

Using community reinvestment funds made available by CRA, the Tejano Center for Community Concerns built the Raul Yzaguirre Charter School for Success. The school is designed to meet the special needs of high risk Hispanic students from low-income families. Before receiving CRA funds, the Tejano Center operated out of warehouses, arts buildings and even a dance hall. Because of the CRA, the Center was able to purchase a facility for its Charter School, which housed 400 students in 1999 with the capacity to house an additional 250 students in future years. A consortium of Houston banks helped purchase the $2.1 million school facility, which has seven and a half acres of land and 80,000 square feet of space, including a gymnasium, a cafeteria, an auditorium and 25 classrooms.

Ming Walker, Business owner, New York, New York

In 1977, Ming Walker, a Chinese-American woman in New York City's Chinatown, tried to start a new wholesale/retail business in women's fashions. Ms. Walker had trouble getting credit to finance inventory. Because of the CRA and with help from the Renaissance Economic Development Corporation, a community-based assistance group, Ms. Walker was able to obtain three bank lines of credit to start her business, Eternal Love. Renaissance provided Ms. Walker with individual counseling necessary to present a strong loan application, and ultimately brokered the deal with members of its Financing Partnership Program. As a result of this additional financing, Ms. Walker's business has grown dramatically. With sales increasing from $200,000 in 1997 to $600,000 in 1998, Ms. Walker hired an additional employee, and provided opportunities for many others through her increased orders to production companies.

Deborah Randle, Homeowner, Indianola, Mississippi

Deborah Randle, who lives in the rural Delta region of Mississippi, endured years of living in a rat-infested, run down apartment because she was repeatedly turned down for a home loan. She now owns her own home, an achievement that was made possible because of funds provided as a result of the CRA. With the support of Delta Housing Development Corporation, a local community development organization backed by CRA funds, Ms. Randle was able to build her own three-bedroom house for herself and her child. Owning her own home has made a dramatic difference in Ms. Randle's life: "My self-esteem went high. It made me feel special, like a dream come true. It was exhilarating."

Broadway Area Community Development Corporation, Gary, Indiana

Due to disinvestment, Gary, Indiana suffered from a high crime rate, abandoned commercial buildings and fire-gutted structures. In 1997, with funds made available because of the CRA, the Broadway Area Community Development completed the first significant residential development built in Gary since the late 1960's. Madison Avenue Townhomes, which is part of the larger Broadway Corridor Equity Development Project, consists of 80 three-bedroom rental units on a seven-acre site donated by the city's development agency. Funding for the housing development, a $2 million mortgage, was provided by a consortium of six banks: Bank One, NBD Bank, People Bank, Calumet National Bank, Mercantile Bank and Citizens Financial Services. This redevelopment has inspired massive development throughout Gary. Subsequent projects in the pipeline include a three-story, rent-assisted elderly facility and the renovation and development of the historic Louis J. Bailey Library to be used as a multi-service facility providing pre-school and job training programs. Through the continued support and substantial commitments made by the banking community because of the CRA, the neighborhood revitalization of Gary will improve the quality of life for residents as well as strengthen the local business community.

Borinquen Plaza, Philadelphia, Pennsylvania

Borinquen Plaza is part of a ten-year, $43 million strategic plan unveiled in 1994 to revitalize one of Philadelphia's poorest neighborhoods. Because of the vision of Asociacion de Puertorriqueños en Marcha Inc., a non-profit neighborhood developer serving the Latino community, a blighted area in North Philadelphia will see a new day. Wilmington Trust Bank of Pennsylvania provided $2.2 million in loans to anchor the deal to develop Borinquen Plaza. CRA provided the incentive for the bank to reinvest in this area. Additional financing was provided by FannieMae, Pew's Fund for Urban Development, the William Penn Foundation and the U.S. Department of Health and Human Services. As a result, Borinquen Plaza will host a 44,000 square-foot Brown's Thriftway Supermarket (complete with a sit-down café, an in-store bakery, and an animaltronics theater to provide music for customers), a coin laundry and a fast food franchise.

South Shore Bank

> "We're willing to bet the bank on the neighborhood. Always have been and always will be."
>
> Milton Davis, Co-Founder Shorebank Corporation.

As banks disinvested from racially changing areas in the 1970's, South Shore National Bank attempted to move its bank from Chicago's South Shore neighborhood, which had become a predominantly black neighborhood, to downtown Chicago. In an unprecedented move, federal regulators denied the application to move the bank. The owners then sold the bank to "activists who had a plan to defend disinvested communities by economic means — and a community of people who needed nothing more than a fighting chance." (Shorebank, 1999.) The bank's name changed to South Shore Bank. It subsequently became Shorebank, a holding company that continues to invest heavily in low-income neighborhoods, and does so profitably.[13] "Shorebank creates opportunity by identifying local needs and developing market-based responses. It does so not only through banking, but also by consulting, brokering locally-made products, helping residents obtain jobs, offering support services to families, and building houses." (Id.)

Some of South Shore Bank's successes include: (1) slowing the trend of multi-family housing abandonment in its initial distressed target area; (2) a 45% increase in the number of employees in private sector businesses headquartered in the South Shore during the years 1975 to 1989 compared to an overall decline of 4% in private sector employment throughout Chicago; and (3) a five-fold increase in employment by construction companies based in South Shore between 1975 and 1989.

James Trice, a young African-American man, was able to purchase and renovate a building in Chicago's South Shore community with a loan from Shorebank. Now, he has renovated an additional seven apartment buildings with loans from Shorebank. (Shorebank, 1999.)

Jimmi Smith grew up in a Detroit housing project and had a vision of making a better life. Smith became a master electrician and started his own business with less than $500. When Smith wanted to expand his business to be able to bid on large contracts, traditional banks would not help him -- they wanted 3-5 years experience with large contracts. Shorebank recognized Smith's talent and determination and provided him with the financing he needed. As a result, Smith's business has grown from eight to 28 full time employees, many of whom Smith employed through a job-training program. (Shorebank, 1999.)

[13] According to Metzger, "the Illinois Neighborhood Development Corporation was approved by the Federal Reserve as a holding bank company in 1973 and then gained ownership of South Shore National Bank." CCC was one of several of the initial investors in the Illinois Neighborhood Development Corporation. Ronald Grzywinski, who created the Illinois Neighborhood Development Corporation as part of his plan to create a neighborhood development corporation became president of the holding company and Milton Davis, a South Shore resident who headed the Urban Development Division of Hyde Park Bank, was named president of the bank.

Melvin Pye's family owned a nursing home in Cleveland's Fairfax neighborhood for 25 years. Although other nursing homes had left the neighborhood, Pye was committed to continuing to serve the Fairfax area. With financing from Shorebank Cleveland, Pye expanded his nursing home by purchasing the homes surrounding the nursing home and renovating them for use as assisted housing and housing for visiting families. He also built a state-of-the-art facility, rehabbed 20 homes and doubled his staff. (Shorebank, 1999.)

VI. FINANCIAL MODERNIZATION: WHAT IS IN STORE FOR CRA?

The financial industry has undergone extensive changes in the past twenty years. Beginning in the 1980's and continuing through the present, there has been a significant increase in the number of bank mergers and acquisitions, as laws prohibiting interstate banking were repealed. Most recently, the law that required separation of banks, insurance companies and securities firms was repealed, opening the floodgates for mergers and acquisitions to create mammoth financial conglomerates. There is great concern that these changes in the financial industry will turn back the clock on the progress made in revitalizing low- and moderate-income and minority communities as a result of the CRA.

Negative Impact of Mega-Mergers on CRA

Mega-mergers of financial institutions have resulted in the consolidation of bank operations and a corresponding trimming of extra-capacities of these institutions. Many CRA advocates are concerned that the downsizing is occurring at the expense of low-and moderate-income neighborhoods.

Reduction of Bank Staff and Elimination of Branches

In 1986, Wells Fargo acquired Crocker National Corporation to become the third-largest bank in California. As a result of the merger, Wells eliminated 5,000 jobs and more than 175 branches. (Frantz, 1988)

In 1996, Chemical Bank and Chase Manhattan Bank ("Chase Manhattan") in New York created a bank with about $300 billion in assets. The merger resulted in the loss of 12,000 jobs and 100 branches. (Kramer, 1996.) More recently, Fleet Financial Group and BankBoston Corp.'s $16 billion merger has caused it to sell off 270 branches throughout New England. (Browning, 1999.)

CRA advocates are concerned that the consolidations will result in branch closures in low- and moderate-income neighborhoods. Inner City Press/Community on the Move, a CRA advocacy group, for this precise reason, protested the merger of Chase Manhattan and Chemical Bank. Inner City Press sued to overturn or modify the Federal Reserve's approval of the merger because the group feared that the branch closures would take place in low-income areas. (The banks had disclosed that 7 branch closures would occur in low- and moderate-income areas. The locations of an additional 86 branches targeted for closure, were not publicly disclosed.) (Kramer, 1996.) While Chase Manhattan and Chemical Bank pledged $18.1 billion over 5 years for low-income borrowers, Inner City believed that the pledge was not concrete and was therefore hollow, and believed that the banks' lending records showed weak commitment to reinvestment. (For example, Chase Manhattan made only $1.5 million in small business loans in low-income areas of the Bronx, compared to $34 million in Manhattan.) (Lavelle, 1996.)

Banks Less Responsive to Minority and Low-Income Neighborhoods

CRA advocates are also concerned that mega-banks will not be responsive to the needs of low- and moderate-income neighborhoods. As stated by Reverend Joseph Washington, Chairman of the Organization for New Equality, and Tamara Olsen, Vice President of the Organization for New Equality, after the merger of Bank of Boston and Fleet Financial, "Fleet Boston, would be the single largest provider of banking services – from loans to ATMs to checking accounts – in New England, dwarfing the nearest competition. Being the proverbial 800-pound gorilla in this market, Fleet Boston will be under less pressure to continue offering an affordable, wide array of services." (Olsen and Washington, 1999.)

In their report, Olsen and Washington detailed evidence of past mergers that resulted in reduced investment in low- and moderate-income areas. In 1994, Fleet Bank and Shawmut Bank made 989 mortgage loans in Massachusetts. After their merger, the new combined institution made only 513 mortgage loans in 1997. With regard to black and Latino borrowers, the combined institution made about half as many mortgage loans compared to the pre-merger institutions. (Id.)

CRA advocates are also worried that the mergers will create institutions that have centralized decision-making, such that the decision makers will have limited contact with local communities. There is fear that decision makers located in headquarters offices of multi-billion dollar institutions will not understand the needs of local communities and therefore will be ineffective in meeting community credit needs. Deborah Goldberg, Director of the Neighborhood Revitalization Project of the Center for Community Change, expressed the concern that banks are not flexible in meeting consumer needs. Mega-banks may expect people at the local level "fit into" a certain profile or mold rather than assess the needs at the local level. Thus, these mega-banks may not provide appropriate products for low- and moderate-income consumers.

While in a number of instances the mergers of large banks have lead to increased funding for community groups to be used for community reinvestment purposes, in other circumstances mergers have unraveled previous CRA agreements with community groups. The recent merger of NationsBank and Bank of America, which created the $152 billion Bank of America, voided the partnership between NationsBank and the NAACP. The new institution, Bank of America, chose not to re-fund the Centers. As a result, the seven Community Development Resource Centers operated by the NAACP (discussed in section IV) and funded by NationsBank have been closed.

Financial Services Modernization Act of 1999

"Communities without insurance are communities without hope."

National Advisory Commission on Civil Disorders, 1968.

Insurance Companies and Securities Firms Exempt from the CRA

The most recent legislative development affecting the CRA, the Financial Services Modernization Act of 1999, will dramatically change the financial industry by permitting banks to merge with insurance companies and securities firms. The new law requires that banks owned by a holding company that want to affiliate with a securities or insurance firm have a satisfactory or better CRA rating. However, attempts to modernize the CRA so that it keeps pace with financial modernization have failed. For example, an attempt to extend the CRA to securities and insurance firms affiliating with banks and to all lending affiliates of bank holding companies was voted down. Under the Modernization Act, insurance companies and securities firms may use their networks of agents to sell their customers products ranging from credit cards and mortgage loans to CDs and deposit services. Thus, even though banking services may now be provided by insurance and securities firms, they are not covered by the CRA.

The exemption of insurance companies and securities firms from the CRA is a bad development. Insurance companies have had a long history of disinvestment. Just as banks refused to provide mortgage loans for the purchase of homes in racially changing neighborhoods, insurance companies refused to provide insurance for these homes. In fact, without insurance, in most instances, it is impossible to obtain financing for a home. Insurance redlining has affected both homeowners and businesses, and has contributed to the plight of our cities.

Discrimination by homeowners' insurance companies has been the subject of numerous studies and lawsuits. American Family Mutual Insurance Co. settled a suit against it for redlining in 1995, agreeing to invest $14.5 million in the inner city. That same year, U.S. News & World Report published a study, "The New Redlining," which examined lending and insurance practices. (Loeb, Cohen and Johnson, 1995.) The article reported that insurance companies refused to provide homeowners insurance in predominantly minority communities or provided inadequate coverage. The U.S. News & World Report article indicated that:

- The number of poor and minority homeowners who cannot obtain full-coverage property insurance is nearly 50 percent greater than that for residents of mostly white, middle class areas.
- In high-minority, low-income areas, residents pay an average of $7.21 per $1,000 of home owners' insurance. Residents in low-minority, middle-income neighborhoods, by contrast, pay an average of $3.53 per $1,000.

U.S. News & World Report also reported that an earlier study by the National Association of Insurance Commissioners concluded that higher prices and unavailability of insurance in poor urban areas "may be driven, at least in part, by incorrect assumptions about the risk characteristics" of those neighborhoods. (Id.)

Most recently, in 1999, a Richmond jury awarded a fair housing organization, Housing Opportunities Made Equal (HOME) and African-American homeowners $600 million for Nationwide Insurance Company's failure to provide homeowners' insurance in Richmond on the basis of the racial composition of neighborhoods. The case was subsequently settled for $17.5 million after the Virginia Supreme Court overturned the jury verdict on the grounds that HOME lacked standing and then vacated its decision and agreed to reconsider the case.

The National Fair Housing Alliance, Toledo Fair Housing Center, Metropolitan Milwaukee Fair Housing Council and HOME of Richmond also settled a lawsuit against Liberty Mutual Group, which charged Liberty Mutual with discriminating against residents in minority neighborhoods by providing inferior policies or by refusing to provide insurance at all. As part of the settlement, Liberty Mutual will provide $15 million to the four fair housing groups for below-market loans, down-payment assistance, and counseling and outreach programs. Similar charges of redlining have been leveled against Allstate, State Farm Insurance and Traveller's Property Causalty Companies.

Insurance and securities companies want to make a profit and want to sell as broad a range of products as possible to their customers. As discussed above, low-income individuals and people of color are not a significant part of their traditional customer base and thus insurance and securities companies typically do not consider their needs.

Clearly, there is a need to ensure that as insurance companies and securities firms expand their roles in the financial industry, they fulfill their responsibility to meet the needs of communities. At this point CRA imposes no such requirement on these companies. The Community Reinvestment Modernization Act would fill this crucial gap by extending the scope of the CRA's coverage to include insurance companies and securities firms.

The CRA Has Not Kept Pace With Financial Modernization

There have been significant changes since the CRA was enacted in 1977. When the CRA became law, banks and savings and loan institutions almost exclusively provided banking services and were not servicing the needs of minority and low-income communities of the cities in which they were located. The CRA focused on "regulated financial institutions" (defined as insured depository institutions) "meet[ing] the credit needs of the local communities in which they are chartered." 12 USC § 2901 (a). As a result, the CRA's jurisdiction is limited to insured depository institutions, which are defined as banks and savings associations whose deposits are insured by the FDIC. 12 U.S.C. § 1813 (c). In addition, with the acquisition of local banks resulting in mega-banks, there are far fewer banks chartered in local communities.

Many banks have become holding companies, which own banks, thrifts, loan companies, mortgage companies and financial institutions. Holding companies are not insured depository institutions and therefore the CRA does not apply to them. To the extent affiliated entities owned by holding companies are not insured depository institutions, the CRA does not apply to them either. To the extent a bank chooses to own a finance company as an operating subsidiary, as opposed to through a bank holding company, the operating subsidiary's activities contribute towards making the bank a larger institution with arguably larger CRA obligations. However, it is within the bank's discretion to decide whether to own the finance company through a holding company or as an operating subsidy. The Community Reinvestment Act of 2001 would amend the Bank Holding Company Act of 1956 to subject to the Community Reinvestment Act of 1977 (CRA) all nonbank affiliates of bank holding companies that engage in lending or offer banking products or services.

Finally, banks and other entities providing bank services are changing the way in which they provide those services. Banks are closing branches and are providing more services through the Internet and automatic teller machines ("ATMs"). Low income individuals are less likely to have access to the Internet. Inasmuch as more institutions are able to provide services historically provided by banks and all institutions are changing the way in which they provide banking services, the CRA needs to be revised to capture these institutions and new mechanisms of providing services.

VII. CONCLUSION

The Civil Rights Movement has had many successes. Civil rights activists from inter-racial and inter-faith communities were able to advance this country towards a more just democracy. The CRA was the economic piece of the civil rights agenda – requiring banks to stop redlining and discriminating, and to reinvest in communities that they had ignored.

The CRA has prompted banks and savings and loans associations to serve the needs of Americans living in low- and moderate-income neighborhoods. Investments made as a result of the CRA have resulted in revitalization of areas that were deteriorating. Once neglected communities now have bank branches, ATMs, loan offices, low-income housing developments, viable businesses, and programs operated by civil rights and community groups, development corporations, and other institutions that assist residents in their quest to achieve safe, stable neighborhoods.

As financial institutions become larger through mergers and acquisitions and interstate banking, and as they move into new lines of financial services, the CRA must be modernized so that it can continue to be an important tool in ensuring that the financial services industry does not neglect the needs of low- and moderate-income communities. It is crucial for civil rights, community and faith-based organizations and labor unions to advocate for necessary improvements to the CRA whether they are accomplished via the Community Reinvestment Act of 2001 or other appropriate legislation. Through continued activism of these organizations and renewed commitment by the financial industry to the ideals of CRA, the strides we have made will reach new heights.

"CRA has been the single most important tool to keep the lifeblood of capital investments flowing into inner-city neighborhoods."

Mayor Michael White, Cleveland, OH.
"Don't Stall Neighborhood Growth,"
Plain Dealer, July 1, 1999.

GLOSSARY OF ACRONYMS

CCC	the Center for Community Change.
CAP	Citizens Action Program - Chicago-based community group.
CDFI	Community Development Financial Institution.
CDRCs	Community Development Resource Centers.
CRA	Community Reinvestment Act - federal law enacted 1977 to combat redlining, banks' practices of disinvestment and refusing to make loans in certain neighborhoods because of their racial composition.
DOJ	U.S. Department of Justice
ECOA	Equal Credit Opportunity Act – federal legislation passed in 1974 to combat lending discrimination.
FDIC	Federal Deposit Insurance Corporation – one of several federal agencies charged with enforcing CRA.
FHA	Federal Housing Administration.
FIRREA	The Financial Institutions Reform, Recovery and Enforcement Act of 1989 - Amended the CRA and required regulators to make CRA ratings and evaluations of financial institutions public
HMDA	Home Mortgage Disclosure Act - federal legislation passed in 1975, requiring banks and savings and loan associations with assets in excess of $10 million to report to federal regulators and subsequently to the public the number and dollar amount of home mortgages (and home improvement loans) by zip code or census tract.
HOLC	Home Owners Loan Corporation - created by the federal government to provide refinancing to homeowners facing foreclosures.
HOME	Housing Opportunities Made Equal – Fair housing organization.
HUD	U.S. Department of Housing and Urban Development

NCRC	National Community Reinvestment Coalition – organization created to build local and national support for the CRA, and to serve as a clearing house for information and coordination on local activities and regulatory policies.
NCLR	National Council of La Raza - the largest constituency-based national Hispanic organization.
NPA	National People's Action – community organization which was headquartered in Chicago
OTS	Office of Thrift Supervision - one of several federal agencies charged with enforcing CRA.
PCRG	Pittsburgh Community Reinvestment Group - a coalition of 27 neighborhood organizations.
VA	Veteran's Administration (federal agency).

BIBLIOGRAPHY

Amparano, Julie. 1986. "Biggest Bank Merger in U.S. History Completed," The Associated Press, (May 30, 1986).

Blosson, Teresa, David Everett and John Gallagher. 1988. "The Race for Money," The Detroit Free Press.

Bostic, Raphael and Patrick Lampani. 1999. "Racial Differences In Patterns of Small Business Finance: The Importance of Geography," in Jackson L. Blanton, Alicia Williams and Sherrie L.W. Rhine, eds. 1999. Business Access to Capital and Credit: A Federal Reserve System Research Conference. Proceedings form Federal Reserve System Research Conference, Arlington, VA (March).

Bradford, Calvin and Gale Cincotta. 1992. "The Legacy, The Promise and The Unfinished Agenda of the Community Reinvestment Act," in Squires, ed., From Redlining to Reinvestment.

Browning, Lynnley. 1999. "Merger plan Cites Big Sale of Branches Fleet, BankBoston Trims Detailed," Boston Globe, (March 17, 1999).

Cavaluzzo, Ken, Linda Cavaluzzo and John D. Wolken. 1999. "Competition, Small Business Financing, and Discrimination: Evidence for a New Survey," in Blanton, et al.

Christiano, Marilyn Rice. 1995. "The Community Reinvestment Act: The Role of Community Groups in the Formulation and Implementation of a Public Policy," (Ph.D. Dissertation, Philosophy, University of Maryland.)

Dedman, Bill. 1988. "The Color of Money," Atlanta Journal-Constitution, (May 1-4).

Hoyt, Homer, 1933. One Hundred Years of Land Values in Chicago (Chicago: University of Chicago Press.)

Immergluck, Daniel. 1999. "Intrametropolitan Patterns of Small-Business Lending," Urban Affairs Review, Vol. 34, No. 6, (July 1999).

Kamasaki, Charles and Laura Arce. 2000. "Financial Services and Hispanic Americans," National Council of La Raza Issues Brief, (August).

Kramer, Farrell. 1996. "Community Group's Effort to Block Chemical, Chase Merger Fails," The Associated Press, (March 26, 1996).

Kuttner, Robert. 1997. "Lessons of the Community Reinvestment Act."

Lavelle, Marianne. 1996. "Advocates for Poor Pounce When Banks Plan Mergers in an Effort to Ward off Problems with Regulators, Banks are Pledging to Invest," National Law Journal, (February 12, 1996).

Litan, Robert, Nicholas P. Retsinas, Eric S. Belsky, and Susan White Haag. 2000. "The Community Reinvestment Act After Financial Modernization: A Baseline Report," (Washington, D.C.: United States Department of Treasury).

Loeb, Penny, Warren Cohen, and Constance Johnson. 1995. "The New Redlining," U.S. News & World Report, (April 17, 1995).

Metzger, John T. 1999. "Social Capitalism in American Cities: Financial Institutions and Community Development," (Ph.D. Dissertation, Graduate School of Arts and Sciences, Columbia University).

Metzger, John T. and Marc A. Weiss. 1988. The Role of Private Lending in Neighborhood Development: The Chicago Experience, (Evanson, IL: Center for Urban Affairs and Policy Research, Northwestern University).

National Advisory Commission on Civil Disorders. 1968. The Report of National Advisory Commission on Civil Disorders, (New York: Bantam Books).

National Council of La Raza. 1996. "National Council of La Raza Home to Own Program," Encuentros.

National Community Reinvestment Coalition. 1999. "CRA Commitments: 1977-1998," (Washington, D.C.).

National Urban League and Center for Community Change. 1970. "The National Survey of Housing Abandonment," (New York, NY).

Olsen, Tamara and Joseph Washington. "Megabank Must Invest in Community," Boston Herald, (April 3, 1999).

Pogge, Jean. 1992. "Reinvestment in Chicago Neighborhoods: A Twenty-Year Struggle," in Squires, ed. From Redlining to Reinvestment.

PolicyLink. 1999. "CRA Success Stories."

Public Justice Center. 2000. "Crisis in Deja Vu: A Profile of the Racial Patterns in Home Purchase Lending in the Baltimore Market," prepared by Dr. Calvin Bradford (Baltimore, Maryland).

Ritter, Richard J. 1995. "Redlining: The Justice Department Cases," Mortgage Banking, (September).

Ritter, Richard J. 1996. "The Decatur Federal Case: A Summary Report," in J. Goering and R. Wienk, eds. Mortgage Lending, Racial Discrimination and Federal Policy. (Washington, D.C.: Urban Institute Press).

Scheesele, Randall, M. 1998. "1998 HMDA Highlights," Housing Finance Working Papers Series, (Washington, D.C.: U.S. Department of Housing and Urban Development).

Schwartz, Alex. 1998. "Bank Lending to Minority and Low-Income Households and Neighborhoods: Do Community Reinvestment Agreements Make A Difference?" Journal of Urban Affairs, Vol. 20, Number 3.

Schwemm, Robert G. 1993. "Housing Discrimination and the Appraisal Industry," paper for U.S. Department of Housing and Urban Development, Home Mortgage Lending and Discrimination Conference.

Shorebank. 1999. "Shorebank at 25: The Neighborhood is our Bottom Line." (Chicago,IL).

Squires, Gregory D. eds. 1992. From Redlining to Reinvestment: Community Responses to Urban Disinvestment, (Philadelphia: Temple Univ. Press).

Squires, Gregory, D. 1992. "Community Reinvestment: An Emerging Social Movement," in Squires, ed. in From Redlining to Reinvestment.

Squires, Gregory, D. 1994. Capital and Communities in Black and White: The Intersection of Race, Class, and Uneven Development, (New York: State University of New York Press).

United States v. Chevy Chase, Complaint, U.S. District Court for the District of Columbia.

The Leadership Conference on Civil Rights was founded in 1950 by three giants of the civil rights movement – A. Philip Randolph, founder of the Brotherhood of Sleeping Car Porters; Roy Wilkins, Executive Secretary of the NAACP; and Arnold Aronson, a leader of the National Jewish Community Relations Advisory Council. Their visionary leadership was grounded in their commitment to social justice and the firm conviction that the struggle for civil rights would be won, not by one group alone, but through coalition.

Over the decades LCCR has remained at the vanguard of critical social and legislative reform. The Leadership Conference has played an intrinsic role in our nation's major civil right legislation. Responding to a changing social climate and evolving definition of civil rights, LCCR continues to grow in numbers, scope and effectiveness, and -- more than ever -- coalition is the key to LCCR's accomplishments. Today the Leadership Conference on Civil Rights is comprised of 180 organizations representing persons of color, women, children, gays and lesbians, individuals with disabilities, older Americans, major religious groups, labor unions and human rights groups.

In the aftermath of the September 11 tragedies, LCCR has had a primary role in safeguarding the constitutional rights of immigrants, ethnic and religious groups and has led the charge for effective legislation and stronger enforcement of existing laws concerning hate crimes. LCCR is also leading campaigns on electoral reform, judicial nominations, criminal justice reform and strengthening hate crimes laws.

Founded in 1969 as the education and research arm of the civil rights coalition, **The Leadership Conference Education Fund** emphasizes the need for national policies that support civil rights and social and economic justice. LCEF initiatives are grounded in the belief that an informed public is more likely to support effective federal civil rights and social justice policies.

Through newsletters, special publications, briefings, tracking of legislation, court decisions and executive branch enforcement in The Civil Rights Monitor, and a comprehensive overview of timely issues available on *civilrights.org*, LCEF accentuates the vital relationship between the movement's storied past and the critical civil rights issues of today. Current public policy education campaigns include criminal justice, immigration, electoral reform, communications and the digital divide, hate crimes, and judicial nominations.

For more than three decades, LCEF has received continuous critical acclaim for its role as the leading clearinghouse on our nation's ongoing civil rights dialogue. Current initiatives include improving inter-group relations through CommUNITY 2000, preventing youth-initiated hate violence through Partners Against Hate, and training the next generation of civil rights leaders through a highly-acclaimed Fellowship program, Civil Rights Summer.

For additional information about LCCR and LCEF and their programs visit *www.civilrights.org*, a collaboration of the two organizations.

LCCR/LCEF
1629 K Street, NW
10th Floor
Washington, DC 20006

www.civilrights.org