Redlining, Not Red Tape

The G.O.P. would let banks ignore inner cities.

By Peter Dreier

LOS ANGELES

Chase Manhattan and the Chemical Bank have announced a plan to invest billions of dollars in inner-city neighborhoods. They fear that community opposition could scuttle their intention to merge and become the nation's largest bank. Rather than wait for neighborhood and consumer groups to protest, they asked numerous community groups what they needed in such areas as branch services, mortgages for new homeowners and loans for small businesses and nonprofit housing.

The banks acknowledge that the reason for their concern is the Federal Community Reinvestment Act, the law designed to combat redlining. Yet Congress, under heavy pressure by the banking industry, is preparing to eviscerate the law, which requires Federal regulators to evaluate banks' records in meeting community credit needs.

Banks with mediocre ratings can be denied permission to buy other banks, engage in interstate banking and open or close branches. The law gives community groups the right to challenge a merger plan if they believe lenders have neglected their neighborhoods.

Congress enacted the law in 1977 to fight bank discrimination against inner-city areas and consumers who are members of minorities. Bankers now often meet with activist organizations to solicit support for proposed mergers and buyouts in exchange for commitments to maintain or expand branches and loans in low-income and minority areas.

The act has been the catalyst for more than $60 billion in private investment in urban neighborhoods. It has many Republican-like qualities. It focuses on private investment rather than giving away Federal dollars. It allows more people to buy homes and start businesses. It requires little Government bureaucracy and rewards community self-help.

Despite banking industry claims, the act requires little paperwork on the part of banks, and it does not require banks to make loans to unqualified customers.

Some bankers acknowledge that the law is good for business, helping them tap underserved markets and neighborhoods. Studies show that banks make substantial profits on these loans. Nonetheless, the industry has embarked on a full-scale attack on the law.

In June, the House Banking Committee passed a bill to exempt 88 percent of the nation's lenders — those with under $250 million in assets — from the act. It would also exempt most banks from challenges by consumer groups and from having to ask regulators to approve mergers. It would eliminate provisions requiring banks to publicly report their mortgage, small business and farm loans.

Senate Republican leaders plan to introduce similar legislation. Congress is expected to vote on the proposal later this year. President Clinton opposes such legislation.

Despite its successes, the act has not wholly eliminated redlining. Banks still reject black and Hispanic applicants for home mortgages more than twice as often as whites with similar incomes, and they provide fewer loans to nonwhite neighborhoods than to comparable white neighborhoods.

Why is the industry so aggressively fighting the law? First, the Clinton Administration's Justice Department, Department of Housing and Urban Development and bank regulators have strengthened enforcement of the law. Second, a wave of bank mergers has made the industry more concentrated and raised public concerns about the loss of jobs, banking services and credit.

By the year 2000, about a dozen superbanks could dominate the financial industry. The industry does not want civil rights, consumer and community groups to use the act to obstruct its ability to consolidate its economic power.

Government protection of consumer, depositor and taxpayer concerns is needed more than ever. Congress should learn a lesson from the banking deregulation in the 1980's that produced the costly savings-and-loan crisis. The banking industry's shortsighted attack on the Community Reinvestment Act is a dagger pointed at the heart of our cities.

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