

ECONOMY

The redlining menace

*A bill before
Congress
would strangle
private
investment in
America's
inner cities.*

By Peter Dreier

Flexing its muscle with the new Republican majority in Congress, the banking industry has launched a full-scale attack on one of the most effective community development programs in recent history. GOP leaders in both houses have filed industry-sponsored legislation that would gut the Community Reinvestment Act (CRA), which since 1977 has been the catalyst for more than \$60 billion in private investment in inner-city neighborhoods.

Congress passed the CRA in an effort to combat redlining—the practice of banks refusing to make loans in older, inner-city and minority neighborhoods. Redlining has devastated urban communities across the country, leading to much of the blight that scars many American cities.

Community development groups now fear that the powerful banking industry—among the most gener-

ous contributors to congressional campaign coffers—will reverse almost two decades of progress. Last January, Senate Republicans put the CRA on its “hit list” of the 10 worst federal regulations. At hearings in March before the House Banking Committee, officials from banking industry trade associations claimed that the CRA requires mountains of paperwork and called it “quota lending.” Rep. Toby Roth (R-WI) called for the total elimination of the CRA, arguing that “it’s not needed, and it’s unworkable.”

As the hearing began, it was interrupted by 75 demonstrators from the Association of Community Organizations for Reform Now (ACORN), a national community activist organization that has been a major force in utilizing the CRA to pressure bankers to make more loans in inner-city neighborhoods. When committee chair Rep. Marge Roukema (R-NJ) turned down ACORN’s request to participate in the hearings, the demonstrators began chanting “Save CRA” until they were escorted from the hearing room by the Capitol Police.

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

At its most basic level, the CRA fight reflects a clash in views over the proper role of government in addressing social and economic disparities. Most bankers view the CRA as government intrusion into business, while community activists say it is needed to stop lenders from engaging in well-documented discriminatory practices.

Under the CRA, federal regulators rate banks according to how well they are meeting the credit needs of inner-city neighborhoods. Banks with poor CRA ratings can be denied permission to merge with other banks, engage in interstate banking, or open new branches. Regulators can also forward cases to the Justice Department, which can sue banks for civil rights violations.

Although CRA enforcement has improved under the Clinton administration, federal regulators under Presidents Reagan and Bush were far from vigilant. During the ’80s, the government was generally asleep at the switch. Despite persistent findings of widespread redlining, more than 90 percent of all banks received CRA ratings of “satisfactory” or “outstanding.” Even banks with poor CRA track records were rarely punished. As a result, community reinvestment activities primarily involved “bottom-up” enforcement. The CRA allows community organizations to file a “challenge” with regulators when banks request approval for mergers or other changes in their business. The banks, fearful that negative publicity might lead regulators to deny their requests, often choose to negotiate with grass-roots organizations in order to avoid noisy protests.

Even during the Reagan-Bush years, this process led many

reluctant lenders to forge "community reinvestment agreements" to expand loans to underserved neighborhoods and groups. In 1990, for example, after yearlong negotiations, Boston community groups reached a \$400 million agreement with the Massachusetts Bankers Association to expand lending, open branches and increase hiring in low-income and minority neighborhoods that had been systematically redlined for more than a decade.

As a check on the performance of regulators, some local governments and community groups draft their own "report cards" on banks' performance. Using data required by the 1975 federal Home Mortgage Disclosure Act (HMDA), they evaluate how well banks are doing in low-income neighborhoods. Some cities have adopted "linked deposit" policies, placing city funds in banks that receive good grades and withdrawing city monies from banks with poor track records.

In the late '80s, thanks to the work of ACORN—as well as the Center for Community Change and National People's Action, two other national community organizing networks—these local efforts became building blocks for a truly national movement that has produced dramatic results in the past few years alone. Now, community groups negotiate with multi-state banks and consortia of lenders.

Community groups regard the CRA as a success. The CRA doesn't require banks to make loans to unqualified customers, but to serve markets that have been previously neglected. Despite the claims of bankers, the act requires little bureaucracy and little paperwork. Federal Reserve Governor Lawrence Lindsey has said that the "CRA accounts for \$4 to \$6 billion annually being invested in low-income areas without employing a large bureaucracy." Thanks to the CRA, lenders have profitably invested at least \$60 billion targeted to working families and poor communities, according to the National Community Reinvestment Coalition, an umbrella group for CRA advocates. In doing so, the act has helped strengthen the tax base and improve the fiscal condition of many cities. These investments, primarily in housing, have created many jobs, expanded homeownership and stabilized troubled neighborhoods.

Many banks now work much more closely with neighborhood groups and nonprofit community development corporations. And most banks now have CRA staffs and special programs designed to satisfy bank regulators that they're complying with federal anti-redlining laws.

The CRA has also been a countervailing influence to the frenzy of bank deregulation and speculation of the '80s. Studies show that banks make a good profit on so-called "CRA loans." The Woodstock Institute, a Chicago-based nonprofit think tank, found that default rates for CRA loans are no higher than the rates for regular loans. And it's hard to find evidence that the CRA is battering banks' bottom lines. In fact, banks have recently posted record-breaking profits. Commercial banks earned more than \$43 billion in profits in 1993 and more than \$34 billion in the first three quarters of 1994. Ninety-six percent of all lenders were profitable last year. Indeed, if lenders (especially those in California) had

been making these kinds of loans during the '80s, instead of engaging in high-risk speculation, the nation may have avoided the costly S&L crisis and the taxpayer-funded bailout.

In fact, many bankers acknowledge that the CRA is good business. It has helped them tap into previously underserved markets and neighborhoods, where they have found good customers.

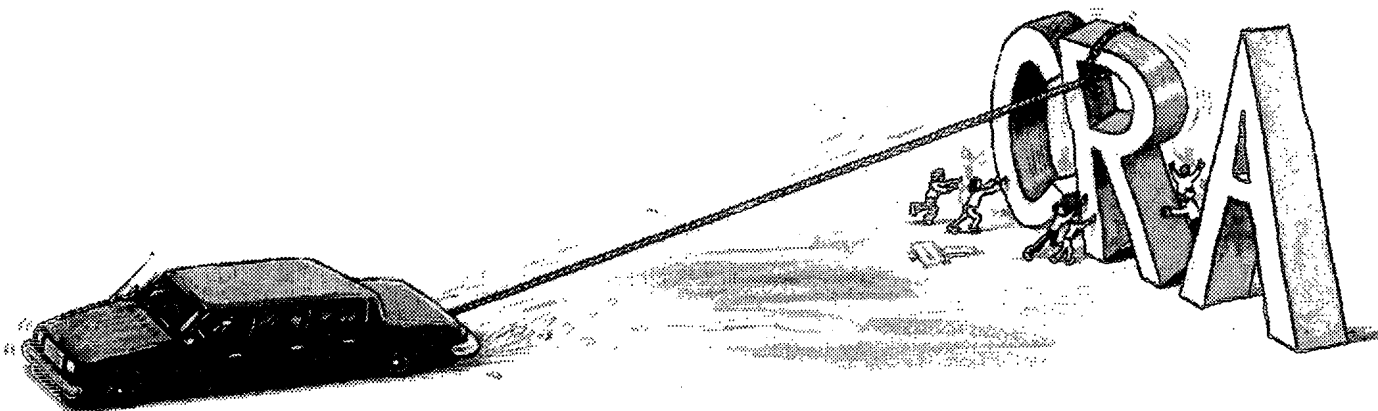
But despite its success, the CRA has not eliminated redlining in America. Studies of local mortgage lending during the past decade show that banks still provide fewer loans to minority neighborhoods than to white neighborhoods with comparable socioeconomic characteristics. Recently ACORN and other groups have exposed widespread redlining by insurance companies, an industry not covered by the CRA. And residential redlining is compounded by commercial redlining, which makes it even more difficult for small businesses to open or expand in inner-city areas. Small businesses, including minority-owned enterprises, continue to face unequal access to credit.

Prior to 1991, it was difficult for mortgage studies to gauge discriminatory lending practices precisely because the federal HMDA law only required banks to provide information disclosing the locations of their loans. However, recent improvements in the law—sponsored by Rep. Joe Kennedy (D-MA) and aggressively supported by community activists—now require banks to provide specific information about the race, income and gender of individuals receiving loans. Studies based on this new information have made some disturbing discoveries.

Using 1990 and 1991 data, the Federal Reserve Board looked at the rates at which banks accept and reject mortgage applications from white, black and Hispanic consumers. The first study examined 5.26 million home loan applications made nationwide in 1990, and also looked at the data for 19 metropolitan areas. The study found that banks rejected blacks and Hispanics for home mortgages more than twice as often as whites with similar incomes. The second study, conducted a year later, found the disparities remained the same. A study by the *Wall Street Journal*, published in February and using 1993 data, found that disparities between whites and blacks had not improved.

Faced with this evidence, the banking lobby argued that the studies failed to examine differences in "credit-worthiness" between black and white applicants. But an October 1992 report by the Federal Reserve Bank of Boston undercut the bankers' claims. It looked at the credit-worthiness of applicants in the Boston area to determine whether racial disparities in rejection rates could be explained by differences in wealth, employment and credit histories, debt burdens, or other factors. It found substantial disparities between white and minority lending patterns, even when personal financial histories were virtually identical.

The banking industry's shortsighted attempts to gut the CRA would only compound these problems. The mechanism for gutting the CRA is a bill sponsored by Sens. Richard Shel-



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by (R-AL) and Connie Mack (R-FL) in the Senate and Rep. Doug Bereuter (R-NE) in the House. One part of their proposal would exempt from the CRA all banks with less than \$250 million in assets. This covers roughly 88 percent of all lenders. Another part would exempt 94 percent of all lenders from challenges by community groups and local governments, thus eliminating public participation and review in the CRA process.

President Clinton has been a much stronger supporter of anti-redlining laws than any of his predecessors have been. Clinton carried out his campaign pledge to strengthen the CRA and to push the nation's four bank regulatory agencies to take the CRA more seriously. The Clinton Justice Department has also upped the ante on CRA enforcement and prosecution. Recently, for example, the Justice Department won a major victory against Chevy Chase Federal Savings Bank, the largest thrift in the Washington, D.C., area. Armed with evidence that the bank had systematically engaged in racial bias in its lending practices, the Clinton administration forced the bank to sign an \$11 million settlement to open more branches in minority neighborhoods and to offer below-market mortgages to black applicants.

Soon after taking office, Clinton asked federal regulators to rewrite the rules to make them less vague and to grade banks on their performances, not promises of new programs. In late April, the Clinton administration unveiled new CRA regulations that would require banks to report all their small business loans, which community activists predict will help their neighborhood economic development efforts the way the CRA has already bolstered affordable housing.

But some bank regulators, including Federal Reserve Chairman Alan Greenspan—no CRA fan—have pressured Clinton to eliminate some of his more aggressive measures. As a result, the administration recently yanked some of its proposals to strengthen the act—dropping proposed fines of \$1 million a day for negligent banks and nixing requirements for banks to report the race, gender and specific location of small business loan recipients.

Although the banking industry is generally opposed to the CRA, it is divided over which strategy to pursue. Giant

lenders, who dominate the American Bankers Association, have learned to live with the CRA and forged working relationships with community organizations. They want to streamline the CRA by loosening the standards for judging compliance, but they don't call for its wholesale elimination. At a Washington news conference late last month, executives from Bank of America, Chemical Bank, Nations Bank and Home Savings of America—flanked by representatives from community activist groups—announced their support for Clinton's new CRA regulations. But small and medium-size banks, represented by the Independent Bankers Association of America, continue to take a harder line: Most of the anti-CRA proposals in Congress would exempt these institutions.

The banking industry's opposition to the CRA is not simply the typical business sector complaint about regulation and paperwork. The industry is undergoing a major restructuring. In the past decade, the banking industry has become increasingly concentrated. By century's end, most banking experts predict that roughly a dozen "super-banks" will dominate the nation's financial industry. Moreover, the Clinton administration recently moved to spur that consolidation by unveiling preliminary plans to eliminate legal barriers that have separated the nation's commercial banks, securities firms and insurance companies since the enactment of the Glass-Steagall Act in 1933. Banking lobbyists do not want civil rights groups and community organizations to use the CRA to obstruct banks' ability to purchase and merge with other banks and financial institutions.

But the CRA is not just a way of fighting racism and urban decay. It is also an antidote to the frenzy of deregulation that brought us the disastrous S&L bailout. Unless Congress learns that lesson, the banking industry may again lead the nation into a financial disaster—one that diverts our resources and energies from the pressing problems facing urban America. ◀

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I N T H E A R T S

After the revolution

S*trawberry and Chocolate*, the latest offering from Cuban director Tomás Gutiérrez Alea (aka Titón), has won popular and critical acclaim on a scale unprecedented for Cuba's film industry. It netted an award at Robert Redford's Sundance Film Festival, an Oscar nomination for Best Foreign Film, and widespread distribution from both Redford and Miramax Films. But while the film is an impressive breakthrough for Cuban cinema, it is also, in less obvious ways, a bittersweet farewell to the tradition of Cuban revolutionary cinema—a movement Titón helped found in the '60s—as well as a pained and largely unresolved meditation on issues of sexual identity under Castro's notoriously repressive polic-

Titón's latest film is a bittersweet farewell to Cuban revolutionary cinema.

By Ilan Stavans

ing of the Cuban gay community.

The film is also important in that it speaks to Titón's recent experience as an exile from Castro's Cuba: His recent bout with cancer forced him to leave the island before the movie's completion, leaving the movie in the hands of Juan Carlos Cabio, a young, irreverent Cuban filmmaker. Titón traveled to the United States for treatment, and now that his health problems have somewhat abated, he has become a Spanish citizen and is working on two new films. Titón's return to Europe—as a young man, he studied film at Italy's Centro Sperimentale—is being greeted as treason by his former compatriots in Cuba and as a triumph of personal will by the Cuban exile community.

But both responses reduce his departure to a political act, ignoring its creative dimensions. To judge by *Strawberry and Chocolate*—especially in the context of Titón's earlier work—the director's exile comes not a moment too soon, at a time when he is wrapping up his major artistic obsessions. Tempted to conceive of freedom in different terms—to perceive the Iron Curtain from the other side—Titón has broken with his formal, cinematic past, even as many of his thematic concerns remain unchanged.

In an interview some 20 years ago, Titón was asked about the advantages he saw in working under a state-owned film production system like Cuba's. Such working conditions were challenging but also incredibly rewarding, he replied. "I imagine that is a very difficult thing for the majority of people living in a non-socialist country to understand," he added. "They find the idea of giving up certain limited bourgeois freedoms to be a very painful one because they are unable to conceive of freedom in any other terms. For me, their point of view has very grave limitations." He went on to explain that artists under communism in Cuba enjoy much greater freedom because they are "in control of what they are doing," whereas under capitalism, the "system based on unequal exercise of power and influence *always* works in the favor of the most powerful."

And yet the Cuban system has always posed grave limitations of its own for Titón's work—notably, limited funding and state censorship that have conspired to make the time between his completed projects very long. Hiatuses of five years and longer have separated one film from the next. Still, ever since his first feature, a documentary-style work on the miserable conditions of mine laborers called *The Charcoal Worker* (done in collaboration with Julio García Espinosa), Titón has always remained loyal to unraveling the enigmas of Cuba.

One of his classic works, *Memories of Underdevelop-*