PERSPECTIVE

Economic Democracy in Peril

The Gutting of the Community Reinvestment Act and Its Effects on Rural America

By Helen Vinton

The CRA currently requires the banking industry to lend, serve and invest in our most distressed and marginalized communities and neighborhoods… Proposed changes in the current CRA could require only banks with assets of $1 billion or more to … provide service in… our nation's most marginalized communities.

The Community Reinvestment Act (CRA) was signed into law in 1977 to offset discriminatory redlining[1] by banks who were not making loans to individuals and communities that were seen as too risky because of gender, low income or race. Since its implementation, the CRA has funneled more than a trillion dollars of service, investment and loans to rebuild distressed communities. Now the CRA is being threatened by federal bank regulatory agencies—under proposed changes to the act, fewer banks will be required to comply with the CRA. According to Lorna Bourg, a community organizer and executive director of Southern Mutual Help Association Inc., a rural development organization located in Louisiana, "The proposed changes will gut the CRA. We need to understand these are some of the most serious national changes to come down the pike since the Voting Rights and Civil Rights Acts of the 1960s—only in reverse. It really is about economic democracy. It's about equal economic opportunity for all of our citizens."

The CRA currently requires the banking industry to lend, serve and invest in our most distressed and marginalized communities and neighborhoods. Regulatory agencies like the FDIC monitor banks to make sure that they meet the communities' credit needs and contribute to financial literacy and stability. This requirement has quietly, over the past 30 years, brought about economic equalization in diverse minority, rural and poor communities and neighborhoods. The act, thanks to bank partnerships with experienced community development corporations (CDCs) and community development financial institutions (CDFIs), has alleviated to a great extent the banks' difficulty in reaching distressed neighborhoods and communities. The CDCs and CDFIs do the "grunt work" of developing the emerging market and the reporting on the census tracts for the banks. Proposed changes in the current CRA could require only banks with assets of $1 billion or more to lend to, provide service in and invest in our nation's most marginalized communities. The changes would also loosen the requirements on these particular banks. In rural America, there are few banks having assets of $1 billion. Less than 2 percent of rural banks will meet the FDIC proposed $1 billion threshold and thus, under the proposed rule change, would no longer have an incentive to lend, serve and invest in rural communities.[2] The damage that would be done to economic opportunity by these proposed changes would not be limited to rural communities. In urban America, the number of banks currently investing in communities under CRA would also be greatly reduced.

As banks come under more pressure to produce short-term profits, many banks see the CRA as just additional paperwork and time that can be streamlined and diluted and, for many, discarded. Banks have come under increased pressure to perform and to produce profit, dividends and shareholder value. In this environment, it is important that the CRA exists to provide a balance to the inequities of a capitalistic society that also professes a democracy. The driving force of unbridled capitalism concentrates wealth, and results not only in the consolidation of banks but also in discriminatory and decreased services, lending and investment in communities. Should the CRA be changed to apply only to banks having less than $1 billion in assets, and the billion-dollar banks have a diluted form of CRA, those billion-dollar banks would serve poor neighborhoods and communities only with ATMs. And because any investment in rural America would count for CRA credit, poor rural communities in states like Louisiana could only see investments that served the interests of the banks and their shareholders, such as in oil and gas rigs, instead of loans to make homeownership possible for poor working families.

The proposed changes in the CRA would have a disproportional impact in rural communities. The implementation of these changes would result in the loss of billions of dollars of

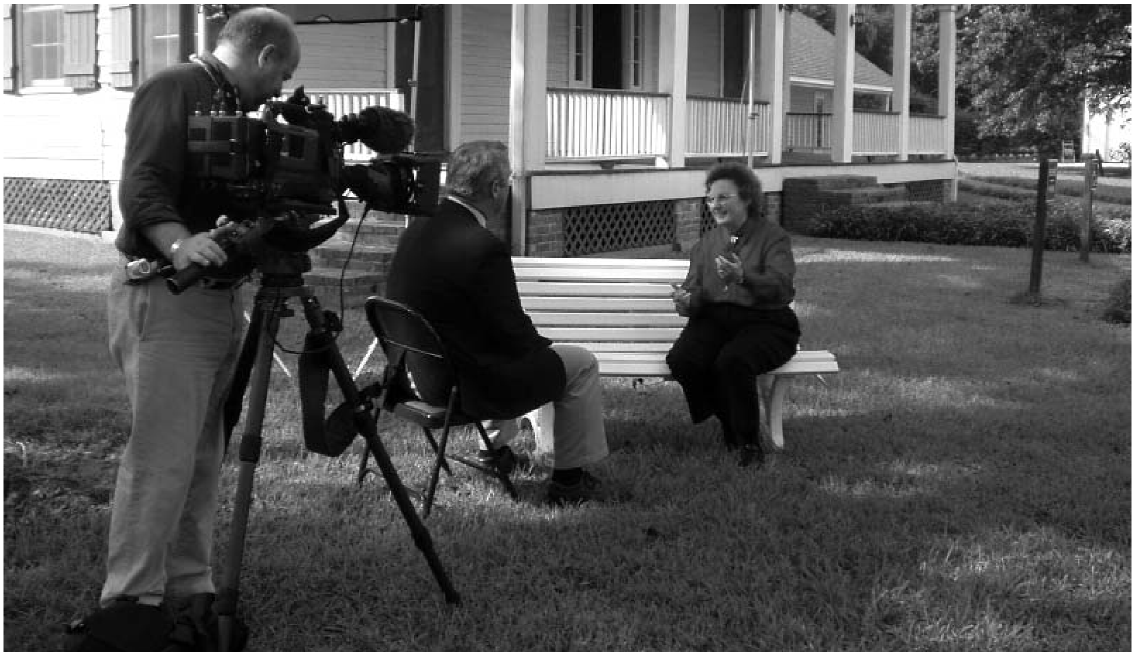

Photo Credit: Southern Mutual Help Association

Tom Bearden from National Public Broadcasting interviews Lorna Bourg, Executive Director of Southern Mutual Help Association, about proposed changes in the Community Reinvestment Act by Federal bank regulatory agencies that could exempt most banks from mandatory investment in the nation's poorest communities.

bank investments in rural America. Governors in states having large rural communities will have to look elsewhere to replace these lost revenues. There are some serious questions: Who will do this? The taxpayers? Which taxpayers? Probably not those in the highest income brackets. Where will the governors get the revenue? Or will they just suffer an increasing wealth gap in their states with its concomitant "underdeveloped world" or "third world" characteristics?

In a recent op-ed piece in the *New York Times*, Robert Rubin, former Treasury Secretary and current Citigroup director and Michael Rubinger, president of the Local Initiatives Support Corporation, maintain that "the capital made available under the act has helped rebuild entire communities."[3]

While bankers may complain that CRA is a burden, they also acknowledge that the CRA has been a needed leverage with their boards and stockholders to encourage the kind of involvement in communities that is good for banks, for communities and for the common good. Despite complaints, the CRA has not solely been a burden for banks. It has, in fact, been profitable and has opened up new and emerging markets to banks. As one rural bank president, who was recently the president of Independent Bankers of America, said of poor rural communities, "If we can make a better community, to put people in better homes, get them better educated, give them a better environment to live in, then I end up making more money. If you don't save the community, guess what—you don't have a community bank."[4] Without the balancing pressure of an intact CRA, how will bankers explain to shareholders that long-term development of economically marginalized communities is worth giving up short-term profits? The caring banks that continue voluntary investments would find themselves at a competitive disadvantage to banks that won't invest.

Banks are feeling besieged by the burden of newly imposed regulations such as the Patriot Act and the Sarbanes-Oxley Act, as well as the long-standing Bank Secrecy Act. While that sentiment is understandable, the banking industry has determined that to attack the burdensome paperwork and accountability of those regulatory requirements is not feasible and could be understood as unpatriotic. The easier target is to seek regulatory relief from the CRA. Yet in a survey within the banking industry itself, the regulatory burden of CRA is not even near the top of its concerns.[5]

Change in the CRA does not even have to pass through Congress. Changing the CRA or even gutting it entirely is in the hands of federal bank regulators, the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), the Office of the Comptroller of the Currency and the Federal Reserve Board. The leaders in pursuit of changing the CRA are the OTS and FDIC. The other two regulators have deferred for now but could be pressured to follow the leaders of this movement. Judy Kennedy, president of the National Association of Affordable Housing Lenders, says, "This whole thing is a charade. … The regulators have figured out they don't even need to go to Capital Hill to gut the entire CRA."

It is ironic that the banking community is attempting to throw off the burden of federal regulation, when federal regulations have for years brought protection, prosperity and position to the banking industry. Banks have benefited from regulations to prevent a run on banks and federal commitments to "bail out" failing banks, as was seen in the multibillion-dollar bailout of the savings and loans in the 1980s. The Federal Reserve helps banks access money at stable rates, makes discount funds available to banks and insures their liquidity.[6] The Federal Reserve is the big brother that guarantees that dollars are available for the banking industry and helps to stabilize the economy. So, in effect, the banks have survived and thrived on the regulatory agencies that the taxpayer has supported through our federal government.

If we, as a nation, can go to Iraq and redevelop towns and villages devastated by war and engage in a long and expensive struggle to bring democracy to that nation, we can do no less for our poorer neighborhoods and communities devastated by the transitioning economies of global trade, the export of jobs, the historic disinvestment due to poverty, gender and race discrimination. Poor communities, low-income women and children, and people of color have suffered for years the disproportionate impact of the effects of cumulative stressors: poor health care, minimum wage, overwork when a parent holds two jobs, poor performing schools, inadequate or no child care for working parents and an accumulation of other stressors. Further disinvestment by gutting the CRA will only exacerbate these problems and is unworthy of this great nation.

Notes

1. Redlining is defined as an an illegal practice in which certain neighborhoods—usually poor, inner-city neighborhoods with run-down housing stock—are defined by lenders and builders as areas in which mortgages will not be issued, or credit or insurance will be denied. From: www.pbs.org/hometime/glossary/buying2.htm
2. National Community Reinvestment Coalition - Source: *FDIC Statistics on Depository Institutions Database*
3. *New York Times* OP-ED, Saturday, December 4, 2004
4. National Public Radio Morning Edition, October 19, 2004
5. Economic Growth and Regulatory Paperwork Reduction Act - http://www.egrpra.gov - *Summary of Top 10 Issues Derived from Banker Outreach Meetings*
6. http://www.federalreserve.gov/generalinfo/faq/faqmpo.htm

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