# RESPONSIBLE BANKING AND ACCESS TO CREDIT

### *THE PROBLEM*

The state of lending in America is stagnant and low.[1] The number of home purchase loans in 2014 was half the number in 2006. Moreover, Black, Latino, and low- and moderate-income populations are obtaining a smaller share of loans. African Americans took out 8.7% of all home-purchase loans in 2006 but only 5.2% in 2014. Low- and moderate-income borrowers took out 34% of home-purchase loans in 2011 but just 27 percent in 2014.[2]

Racial disparities in access to credit have been particularly severe in cities. For example, in a recent report on lending in **Baltimore**, the National Community Reinvestment Coalition (NCRC) found that race was the most consistently significant predictor of mortgage lending patterns in the city. The percentage of white and black residents of a neighborhood were both significantly correlated – positively and negatively -- with the number of loans approved in Baltimore between 2011 and 2013.[3]

### *THE SOLUTION*

In response to redlining and the denial of banking services to working-class communities and communities of color, advocates worked with and supported concerned lawmakers to pass the Community Reinvestment Act (CRA) in 1977. CRA requires banks to serve all communities, particularly low- and moderate-income neighborhoods, consistent with safety and soundness. The law is implemented through an examination process. CRA examiners scrutinize the level of loans, investments, and services to low- and moderate-income borrowers and communities and then rate banks approximately once every two or three years.[4] CRA has boosted lending to low- and moderate-income communities. Since 1996, banks have issued more than $900 billion small business loans and almost $800 billion in community development loans in low- and moderate-income communities.

While CRA has been tremendously beneficial overall, its reach into inner-city neighborhoods and rural communities has been constrained, especially in terms of reinvestment from large banks. CRA exams for large banks often consider performance in 10 to 20 states. The exams rate performance in lending, investing, and offering services on a statewide level and on a metropolitan-wide level. The exams do not rate performance in individual cities or neighborhoods in the cities. Rural communities also tend to receive little weight on exams.

In order to compensate for the gaps in CRA examination, cities have passed responsible banking ordinances (RBOs). **Cleveland** and **Philadelphia** were among the pioneers in passing RBOs. Depending on their size, cities deposit hundreds of millions or billions of dollars in banks. In return for offering the business opportunity of receiving municipal deposits, cities like **Cleveland** and **Philadelphia** require banks to demonstrate that they are serving low-income neighborhoods and those with high Black and Latino populations. Cities look at the publicly available data on bank lending and use their data analysis as one criteria for determining which banks will receive municipal deposits. **Cleveland** and **Philadelphia** also required banks to submit community reinvestment plans specifying future lending and investment goals in underserved neighborhoods.

The increased accountability for banks receiving municipal deposits improved their performance. A report commissioned by the City of **Philadelphia** found that banks receiving deposits (depositories) often provide more credit to a diverse set of borrowers than other lenders. For example, in 2013, depositories issued 21 percent of their home loans to African Americans compared to 15 percent for other lenders. Likewise, depositories made 56 percent of their loans to low- and moderate-income borrowers, compared to 52 percent for other lenders.[5]

The City of **Cleveland** reports that while more bank branches closed than opened across the United States, the number of bank branches in the City of **Cleveland** has remained stable. In particular, banks that receive municipal deposits have opened branches in low- and moderate-income neighborhoods in recent years.[6]

## *POLICY AND IMPLEMENTATION ISSUES*

Inspired by **Cleveland and Philadelphia, about a dozen cities, including Boston, Los Angeles, Pittsburgh and San Jose, have enacted RBOs**. NCRC developed a model RBO bill that helped advocates and elected officials in the cities design and pass bills. However, momentum has been temporarily stalled as a result of a successful court case challenge to an RBO by banks in New York City. In the summer of 2015, Judge Katherine Polk Failla of the Federal District Court in Manhattan ruled that New York City's RBO was preempted by federal law. The judge decreed that the federal government, not the city, regulates banks. New York City, therefore, cannot compel banks to submit data or have their performance in city neighborhoods scrutinized as a condition of receiving municipal deposits.

NCRC regards the developments in New York City as a challenge that nonetheless can be overcome so that RBOs can continue to serve as a positive accountability tool in cities across the country. In an effort to bring new momentum to RBO efforts, NCRC has created a new model bill, which takes a different approach than the New York City ordinance.

The new NCRC model bill establishes a community reinvestment committee similar to those in Cleveland and Philadelphia. The community reinvestment committee would commission studies using publicly available data on bank performance in neighborhoods. The committee would then invite public comment on bank performance and would hold hearings regarding the extent to which lending institutions are meeting credit and capital needs in neighborhoods. NCRC believes that this additional level of public accountability would increase responsible bank lending, investing, and services in traditionally underserved communities. NCRC also recommends that city treasurers and financial departments use publicly available data to further understand CRA performance of banks interested in receiving municipal deposits.

RBOs are local accountability mechanisms for increasing responsible lending, investing, and services in minority and working-class neighborhoods.

## *LANDSCAPE AND RESOURCES*

**The National Community Reinvestment Coalition** has both a model RBO bill and experience across the country providing technical assistance to local elected officials and community organizations. **The Association for Neighborhood and Housing Development** offers background on New York's experience working on their RBO. The **Pittsburgh Community Reinvestment Group** has experience passing an RBO and also working with school board and other agencies as they consider which banks should receive deposits.

## NOTES

1 According to the Federal Reserve, home purchase originations declined from 6.7 million in 2006 to 3.2 million in 2014, Table 1, page 32, see The 2014 Home Mortgage Disclosure Act Data by Neil Bhutta, Jack Popper, and Daniel R. Ringo via http://www.federalreserve.gov/pubs/bulletin/2015/pdf/2014_HMDA.pdf.

2 Bhutta, et al, Table 2, page 33.

3 See NCRC, Home Mortgage and Small Business Lending in Baltimore and Surrounding Areas, http://www.ncrc.org/images/ncrc_baltimore_lending_analysis_web.pdf

4 Banks with assets above $250 million are examined about once every two or three years; banks with assets under $250 million are examined once every four or five years.

5 Lee Huang, Econsult Solutions, and Marie Frizelle Roberts, MFR Consultants, *Examining the Lending Practices of Authorized Depositories for the City of Philadelphia*, Calendar Year, 2013, May 2015.

6 City of Cleveland, The Department of Finance, Reinvestment Review Committee, Eligible Depository Designation, http://www.city.cleveland.oh.us/sites/default/files/forms_publications/ReinvestmentReviewBook.pdf.

*Co-authored by National Community Reinvestment Coalition*

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